

PASHA Insurance OJSC

Financial statements

*Year ended 31 December 2020
together with independent auditor's report*

CONTENTS**INDEPENDENT AUDITOR'S REPORT**

Statement of financial position	1
Statement of profit or loss and other comprehensive income	2
Statement of changes in equity	3
Statement of cash flows.....	4

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities	5
2. Basis of preparation	5
3. Summary of significant accounting policies	6
4. Changes in accounting policies and disclosures	19
5. Significant accounting judgments, estimates and assumptions	20
6. Cash and cash equivalents.....	22
7. Investment securities	22
8. Amounts due from credit institutions	23
9. Insurance receivables.....	25
10. Property, equipment and intangible assets	26
11. Right-of-use assets and Lease liabilities.....	26
12. Other assets and liabilities	27
13. Insurance contract liabilities	28
14. Insurance payables	29
15. Deferred expenses and revenue.....	30
16. Taxation.....	30
17. Share capital	31
18. Contingencies and commitments.....	32
19. Insurance activity results.....	34
20. Personnel expenses	36
21. General and administrative expenses	36
22. Investment income	36
23. Related party transactions	37
24. Risk management	38
25. Fair values of financial instruments	53
26. Maturity analysis of assets and liabilities.....	56

Independent auditor's report

To the Shareholder and Board of Directors of
PASHA Insurance OJSC

Opinion

We have audited the financial statements of PASHA Insurance OJSC (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Holdings (CIS) B.V.

3 March 2021

Baku, Azerbaijan

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

STATEMENT OF FINANCIAL POSITION


As at 31 December

	Notes	2020	2019
Assets			
Cash and cash equivalents	6	9,221	11,571
Investment securities	7	101,547	90,594
Amounts due from credit institutions	8	30,534	31,060
Insurance receivables	9	25,743	18,107
Deferred expenses	15	3,449	2,498
Reinsurance assets	13	24,512	23,505
Deferred income tax assets	16	2,527	267
Property, equipment and intangible assets	10	4,693	2,565
Right-of-use assets	11	3,658	4,389
Other assets	12	15,610	17,105
Total assets		221,494	201,661
Liabilities			
Insurance contract liabilities	13	91,655	88,105
Insurance payables	14	24,852	11,586
Deferred revenue	15	2,629	2,178
Current income tax liabilities	16	2,730	3,689
Lease liabilities	11	4,009	4,593
Other liabilities	12	13,715	8,875
Total liabilities		139,590	119,026
Equity			
Share capital	17	50,000	50,000
Retained earnings		30,317	30,673
Net unrealized gains on investment securities		1,587	1,962
Total equity		81,904	82,635
Total liabilities and equity		221,494	201,661

Signed and authorized for release on behalf of the Management Board of the Company:


 Ulviyya Jabbarova
 Chief Executive Officer,
 Chairman of the Management Board




 Ulviyya Abbasova
 Chief Financial Officer,
 Member of the Management Board

3 March 2021

The accompanying notes on pages 5 to 56 are an integral part of these financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	2020	2019
Gross written premiums		156,060	147,952
Premiums ceded to reinsurers		(35,372)	(33,945)
Net written premiums		120,688	114,007
Change in provision for unearned premiums, net of reinsurance		(1,376)	(8,721)
Premiums earned, net of reinsurance		119,312	105,286
Claims incurred, net of reinsurance		(59,649)	(57,508)
Fees and commission (expense)/income, net		(663)	3
Insurance activity results	19	59,000	47,781
Personnel expenses	20	(15,031)	(12,335)
General and administrative expenses	21	(13,572)	(7,643)
Marketing and advertisement expenses		(811)	(847)
Depreciation and amortization expenses	10, 11	(1,753)	(1,497)
Operating expenses		(31,167)	(22,322)
Investment income	22	9,921	10,775
Interest expense		(692)	(641)
Impairment (loss)/gain	7, 8, 9	(465)	120
Foreign exchanges loss, net		(245)	(34)
Other income, net		155	440
Profit before income tax		36,507	36,119
Income tax expense	16	(8,279)	(7,535)
Profit for the year		28,228	28,584
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(833)	684
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	7	87	(11)
Tax effects of (losses)/gains on investment securities	16	150	(135)
Net other comprehensive (loss)/income to be classified to profit or loss in subsequent periods		(596)	538
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of equity instruments at fair value through other comprehensive income	25	276	–
Tax effects of gain on investment securities	16	(55)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		221	–
Other comprehensive (loss)/income, net of tax		(375)	538
Total comprehensive income for the period		27,853	29,122

The accompanying notes on pages 5 to 56 are an integral part of these financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Notes	Share capital	Retained earnings	Net unrealized gains/ (losses) on investment securities	Total equity
1 January 2019		50,000	23,561	1,424	74,985
Dividends to shareholder	17	–	(21,472)	–	(21,472)
Total comprehensive income for the year		–	28,584	538	29,122
31 December 2019		50,000	30,673	1,962	82,635
Dividends to shareholder	17	–	(28,584)	–	(28,584)
Total comprehensive income for the year		–	28,228	(375)	27,853
31 December 2020		50,000	30,317	1,587	81,904

The accompanying notes on pages 5 to 56 are an integral part of these financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

STATEMENT OF CASH FLOWS

For the year ended 31 December

	Notes	2020	2019
Cash flows from operating activities			
Insurance premiums received		150,369	139,785
Reinsurance premiums paid		(20,687)	(27,447)
Claims paid		(69,776)	(57,826)
Claims received, reinsurers' share of claims paid		11,531	1,016
Fees and commissions paid		(2,108)	(1,077)
Fees and commissions received		–	51
Personnel expenses paid		(13,105)	(10,671)
Cash payments made on behalf on customers		(463)	–
General and administrative expenses paid		(13,089)	(7,077)
Marketing and advertisement expenses paid		(503)	(773)
Subrogation income received, net		1,041	1,137
Net cash flows from operating activities before income tax		43,210	37,118
Income tax paid		(10,943)	(5,445)
Net cash from operating activities		32,267	31,673
Cash flows from investing activities			
Interest income received		8,034	8,281
Return of investment in equity securities		2,327	–
Dividend received		373	–
Purchase of investment securities		(32,624)	(41,349)
Proceeds from sale and redemption of investment securities		34,800	45,737
Amounts placed at credit institutions		(26,500)	(24,755)
Amounts repaid by credit institutions		27,100	27,644
Amounts borrowed from credit institutions		–	3,400
Purchase of property, equipment and intangible assets		(2,811)	(731)
Proceeds from sale of property, equipment and intangible assets		127	121
Net cash from investing activities		10,826	18,348
Cash flows from financing activities			
Dividends paid	17	(28,584)	(21,472)
Sale and repurchase operations		(15,779)	(19,886)
Lease payment	11	(1,028)	(1,028)
Net cash used in financing activities		(45,391)	(42,386)
Effect of exchange rates changes on cash and cash equivalents		(52)	(51)
Net (decrease)/increase in cash and cash equivalents		(2,350)	7,584
Cash and cash equivalents, beginning		11,571	3,987
Cash and cash equivalents, ending	6	9,221	11,571

Non-cash transactions performed by the Company comprise the following:

	Notes	2020	2019
Cash flows from operating activities			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		3,595	4,619
Cash flows from investing activities			
Purchase of investment securities through sale and repurchase operations		(15,779)	(14,332)
Cash flows from financing activities			
Amounts borrowed through sale and repurchase operations		15,779	14,332
Withholding tax on interest income		953	930

The accompanying notes on pages 5 to 56 are an integral part of these financial statements.