

PASHA Insurance OJSC

Financial statements

*Year ended 31 December 2021
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	23
8. Amounts due from credit institutions.....	25
9. Insurance receivables.....	26
10. Property, equipment and intangible assets	27
11. Right-of-use assets and lease liabilities.....	28
12. Other assets and liabilities	28
13. Insurance contract liabilities	30
14. Insurance payables	31
15. Deferred expenses and revenue.....	31
16. Taxation.....	31
17. Share capital	33
18. Contingencies and commitments.....	33
19. Insurance activity results.....	35
20. Personnel expenses	37
21. General and administrative expenses	37
22. Investment income	37
23. Related party transactions	38
24. Risk management	39
25. Fair values of financial instruments	54
26. Maturity analysis of assets and liabilities.....	56
27. Events after the reporting date	57



Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdings (SiAyEs) Bi.Vi.
Port Baku Towers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Fəks: +994 (12) 490 70 17

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 2021, 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 2021, 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.

2 March 2022

Baku, Azerbaijan

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

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2021	2020
Assets			
Cash and cash equivalents	6	6,336	9,221
Investment securities	7	100,506	101,547
Amounts due from credit institutions	8	46,204	30,534
Insurance receivables	9	18,608	25,743
Deferred expenses	15	4,329	3,449
Reinsurance assets	13	21,206	24,512
Deferred income tax assets	16	945	2,527
Property, equipment and intangible assets	10	4,026	4,693
Right-of-use assets	11	2,927	3,658
Other assets	12	7,574	15,610
Total assets		212,661	221,494
Liabilities			
Insurance contract liabilities	13	90,941	91,655
Insurance payables	14	19,032	24,852
Borrowings		566	–
Deferred revenue	15	1,805	2,629
Current income tax liabilities	16	804	2,730
Lease liabilities	11	3,362	4,009
Other liabilities	12	10,605	13,715
Total liabilities		127,115	139,590
Equity			
Share capital	17	50,000	50,000
Retained earnings		31,444	30,317
Net unrealized gains on investment securities		4,102	1,587
Total equity		85,546	81,904
Total liabilities and equity		212,661	221,494

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



 Ulviyya Jabbarova
 Chief Executive Officer,
 Chairman of the Management Board


 Inara Mirhasanova
 Chief Financial Officer,
 Member of the Management Board

2 March 2022

The accompanying notes on pages 5 to 57 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	2021	2020
Gross written premiums		163,666	156,060
Premiums ceded to reinsurers		(32,912)	(35,372)
Net written premiums		130,754	120,688
Change in provision for unearned premiums, net of reinsurance		(8,456)	(1,376)
Premiums earned, net of reinsurance		122,298	119,312
Claims incurred, net of reinsurance		(67,124)	(59,649)
Fees and commission expense, net		(445)	(663)
Insurance activity results	19	54,729	59,000
Personnel expenses	20	(17,078)	(15,031)
General and administrative expenses	21	(10,502)	(13,572)
Marketing and advertisement expenses		(1,262)	(811)
Depreciation and amortization expenses	10, 11	(2,151)	(1,753)
Operating expenses		(30,993)	(31,167)
Investment income	22	11,602	9,921
Interest expense		(478)	(692)
Impairment loss, net	7, 8, 9	(526)	(465)
Foreign exchanges gain/(loss), net		146	(245)
Other income, net		713	155
Profit before income tax		35,193	36,507
Income tax expense	16	(7,411)	(8,279)
Profit for the year		27,782	28,228
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		(565)	(833)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	7	37	87
Tax effects of losses on investment securities	16	106	150
Net other comprehensive loss to be classified to profit or loss in subsequent periods		(422)	(596)
<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	3,671	276
Tax effects of gain on investment securities	16	(734)	(55)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		2,937	221
Other comprehensive income/(loss), net of tax		2,515	(375)
Total comprehensive income for the year		30,297	27,853

The accompanying notes on pages 5 to 57 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 on investment securities	Total equity
1 January 2020		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
Dividends to shareholder	17	–	(26,655)	–	(26,655)
Total comprehensive income for the year		–	27,782	2,515	30,297
31 December 2021		50,000	31,444	4,102	85,546

The accompanying notes on pages 5 to 57 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	2021	2020
Cash flows from operating activities			
Insurance premiums received		148,581	150,369
Reinsurance premiums paid		(20,492)	(20,687)
Claims paid		(65,669)	(69,776)
Claims received, reinsurers' share of claims paid		2,247	11,531
Fees and commissions paid		(2,955)	(2,108)
Fees and commissions received		721	–
Personnel expenses paid		(17,697)	(13,105)
Cash payments made on behalf of customers		–	(463)
General and administrative expenses paid		(10,657)	(13,089)
Marketing and advertisement expenses paid		(1,005)	(503)
Subrogation income received, net		800	1,041
Net cash flows from operating activities before income tax		33,874	43,210
Income tax paid		(7,415)	(10,943)
Net cash from operating activities		26,459	32,267
Cash flows from investing activities			
Interest income received		7,707	8,034
Return of investment in equity securities		–	2,327
Dividends from investment in preference shares		2,700	373
Purchase of investment securities		(12,435)	(32,624)
Proceeds from sale and redemption of investment securities		21,784	34,800
Amounts placed at credit institutions		(29,692)	(26,500)
Amounts repaid by credit institutions		14,227	27,100
Amounts borrowed from credit institutions		566	–
Purchase of property, equipment and intangible assets		(1,006)	(2,811)
Proceeds from sale of property, equipment and intangible assets		–	127
Net cash from investing activities		3,851	10,826
Cash flows from financing activities			
Dividends paid	17	(26,655)	(28,584)
Sale and repurchase operations		(5,433)	(15,779)
Lease payment	11	(1,028)	(1,028)
Net cash used in financing activities		(33,116)	(45,391)
Effect of exchange rates changes on cash and cash equivalents		(79)	(52)
Net decrease in cash and cash equivalents		(2,885)	(2,350)
Cash and cash equivalents, beginning		9,221	11,571
Cash and cash equivalents, ending	6	6,336	9,221

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

	2021	2020
Cash flows from operating activities		
Gross written premiums and premiums ceded to reinsurers on fronting contracts	4,405	3,595
Cash flows from investing activities		
Purchase of investment securities through sale and repurchase operations	(11,541)	(15,779)
Cash flows from financing activities		
Amounts borrowed through sale and repurchase operations	11,541	15,779
Withholding tax on interest income and dividend income	968	953

The accompanying notes on pages 5 to 57 are an integral part of these financial statements.