

PASHA Insurance OJSC

Financial statements

*Year ended 31 December 2018  
together with independent auditor's report*

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## Independent auditor's report

To the Shareholder and Management Board 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 2018, 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 PASHA Insurance OJSC as at 31 December 2018, 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 (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.*

6 March 2019

Baku, Azerbaijan

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***STATEMENT OF FINANCIAL POSITION****As at 31 December**

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>			
Cash and cash equivalents	6	3,987	6,686
Investment securities	7	78,043	59,191
Amounts due from credit institutions	8	37,731	42,158
Insurance receivables	9	11,706	9,875
Deferred expenses	15	1,950	1,477
Reinsurance assets	12	24,135	20,249
Current income tax assets	16	–	700
Deferred income tax assets	16	–	522
Property, equipment and intangible assets	10	2,813	2,835
Other assets	11	11,241	6,936
<b>Total assets</b>		<b>171,606</b>	<b>150,629</b>
<b>Liabilities</b>			
Insurance contract liabilities	12	72,697	59,193
Insurance payables	13	7,255	8,458
Borrowings	14	5,554	11,015
Deferred revenue	15	1,828	1,397
Current income tax liabilities	16	2,290	–
Deferred income tax liabilities	16	250	–
Other liabilities	11	6,747	4,860
<b>Total liabilities</b>		<b>96,621</b>	<b>84,923</b>
<b>Equity</b>			
Share capital	17	50,000	50,000
Retained earnings		23,561	15,915
Net unrealized gains / (losses) on investment securities		1,424	(209)
<b>Total equity</b>		<b>74,985</b>	<b>65,706</b>
<b>Total liabilities and equity</b>		<b>171,606</b>	<b>150,629</b>

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


Ulviyya Jabbarova  
Chief Executive Officer,  
Chairman of the Management Board




Murad Suleymanov  
Chief Financial Officer,  
Member of the Management Board

6 March 2019

*The accompanying notes on pages 5 to 58 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	2018	2017
Gross written premiums		127,095	106,620
Premiums ceded to reinsurers		(36,056)	(26,016)
Net written premiums		91,039	80,604
Change in provision for unearned premiums, net of reinsurance		(4,036)	149
Premiums earned, net of reinsurance		87,003	80,753
Claims incurred, net of reinsurance	12	(53,313)	(50,587)
Fees and commission income, net	20	167	239
Insurance activity results	19	33,857	30,405
Personnel expenses	21	(9,048)	(7,172)
General and administrative expenses	22	(7,405)	(5,253)
Marketing and advertisement expenses	23	(713)	(2,545)
Depreciation and amortization expenses	10	(745)	(624)
Operating expenses		(17,911)	(15,594)
Investment income	24	12,145	10,225
Interest expense		(636)	(22)
Impairment loss	6, 7, 8, 9, 11	(368)	(5,785)
Foreign exchanges loss, net		(141)	(1,188)
Other income, net		170	131
Profit before income tax		27,116	18,172
Income tax expense	16	(5,644)	(4,023)
Profit for the year		21,472	14,149
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net unrealized losses on investment securities available for-sale		X	(3,093)
Net change in fair value of debt instruments at fair value through other comprehensive income		2,040	X
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	8	(113)	X
Impairment of investment securities reclassified to profit or loss	7	-	3,916
Tax effect of gains on investment securities	16	(385)	(164)
Net other comprehensive income to be classified to profit or loss in subsequent periods		1,542	659
Total comprehensive income for the year		23,014	14,808

The accompanying notes on pages 5 to 58 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
31 December 2016		50,000	20,749	(868)	69,881
Dividends to shareholder	17	–	(18,983)	–	(18,983)
Total comprehensive income for the year		–	14,149	659	14,808
31 December 2017		50,000	15,915	(209)	65,706
IFRS 9 adoption impact	4	–	(254)	91	(163)
Restated opening balance under IFRS 9		50,000	15,661	(118)	65,543
Dividends to shareholder	17	–	(13,572)	–	(13,572)
Total comprehensive income for the year		–	21,472	1,542	23,014
31 December 2018		50,000	23,561	1,424	74,985

*The accompanying notes on pages 5 to 58 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	2018	2017
Cash flows from operating activities			
Insurance premiums received		115,560	105,396
Reinsurance premiums paid		(26,139)	(20,493)
Claims paid		(53,530)	(48,275)
Claims received, reinsurers' share of claims paid		2,037	1,741
Fees and commissions paid		(1,125)	(684)
Fees and commissions received		–	203
Personnel expenses paid		(7,893)	(7,410)
General and administrative expenses paid		(7,069)	(4,905)
Marketing and advertisement expenses paid		(1,078)	(2,641)
Subrogation income received		456	361
Net cash flows from operating activities before income tax		21,219	23,293
Income tax paid		(1,689)	(3,760)
Net cash from operating activities		19,530	19,533
Cash flows from investing activities			
Interest income received		7,262	6,484
Purchase of investment securities		(39,065)	(61,321)
Proceeds from sale and redemption of investment securities		53,008	30,710
Amounts placed at credit institutions		(24,471)	(18,501)
Amounts repaid by credit institutions		28,426	29,565
Purchase of property, equipment and intangible assets	10, 11	(773)	(1,352)
Proceeds from sale of property, equipment and intangible assets		146	29
Net cash from / (used in) investing activities		24,533	(14,386)
Cash flows from financing activities			
Dividends paid	17	(13,572)	(18,983)
Sale and repurchase operations		(33,163)	11,010
Net cash used in financing activities		(46,735)	(7,973)
Effect of exchange rates changes on cash and cash equivalents		(27)	(376)
Net decrease in cash and cash equivalents		(2,699)	(3,202)
Cash and cash equivalents, beginning	6	6,686	9,888
Cash and cash equivalents, ending	6	3,987	6,686

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

	Notes	2018	2017
Cash flows from operating activities			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		9,830	2,225
Cash flows from investing activities			
Purchase of investment securities through sale and repurchase operations		(27,066)	(4,700)
Cash flows from financing activities			
Amounts borrowed through sale and repurchase operations		27,066	4,700
Withholding tax on interest income		1,132	816

The accompanying notes on pages 5 to 58 are an integral part of these financial statements.