

# **MEGA Insurance OJSC**

## **Financial statements**

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



# **EY**

**Building a better  
working world**

## Contents

### Independent auditor's report

### Financial statements

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. Summary of changes in accounting policies and disclosures .....	14
5. Significant accounting judgments, estimates and assumptions .....	17
6. Cash and cash equivalents .....	19
7. Amounts due from credit institutions .....	19
8. Investment securities .....	19
9. Insurance receivables .....	19
10. Property, equipment and intangible assets .....	20
11. Other assets and liabilities .....	20
12. Reinsurance assets and insurance contract liabilities .....	21
13. Insurance payables .....	22
14. Deferred expenses and revenue .....	22
15. Taxation .....	22
16. Share capital .....	24
17. Contingencies and commitments .....	24
18. Insurance activity results .....	26
19. Fees and commission expenses, net .....	28
20. Personnel expenses .....	28
21. General and administrative expenses .....	28
22. Investment income .....	28
23. Related party transactions .....	29
24. Risk management .....	29
25. Fair values of financial instruments .....	39
26. Maturity analysis of assets and liabilities .....	40
27. Events after the reporting date .....	41



## Independent auditor's report

To the Shareholders and Management Board of  
MEGA Insurance OJSC

### **Opinion**

We have audited the financial statements of MEGA 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 the Company 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 the 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 the Audit Committee and Board of Directors 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.*

19 June 2019

Baku, Azerbaijan

**Statement of financial position****As at 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

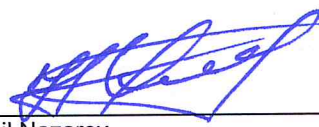
	Notes	31 December 2018	31 December 2017
<b>Assets</b>			
Cash and cash equivalents	6	1,395	1,214
Amounts due from credit institutions	7	9,466	16,378
Investment securities	8	14,443	8,757
Insurance receivables	9	4,716	3,145
Deferred expenses	14	266	199
Reinsurance assets	12	7,481	3,109
Current income tax assets	15	64	119
Deferred income tax assets	15	535	529
Property, equipment and intangible assets	10	533	619
Other assets	11	809	710
<b>Total assets</b>		<b>39,708</b>	<b>34,779</b>
<b>Liabilities</b>			
Insurance contract liabilities	12	14,155	8,957
Insurance payables	13	3,061	1,913
Deferred revenue	14	348	136
Other liabilities	11	491	212
<b>Total liabilities</b>		<b>18,055</b>	<b>11,218</b>
<b>Equity</b>			
Share capital	16	14,500	14,500
Retained earnings		6,976	8,996
Unrealized gains on investment securities available-for-sale		177	65
<b>Total equity</b>		<b>21,653</b>	<b>23,561</b>
<b>Total liabilities and equity</b>		<b>39,708</b>	<b>34,779</b>

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



Sevinc Gulmaliyeva  
Chairman of the Management Board

19 June 2019

Jamil Nazarov  
Deputy Chairman of the Management Board



**Statement of profit or loss and other comprehensive income****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Gross written premiums		24,528	17,110
Premiums ceded to reinsurers		(12,637)	(6,066)
<b>Net written premiums</b>		<b>11,891</b>	<b>11,044</b>
Change in provision for unearned premiums, net of reinsurance		(699)	185
<b>Premiums earned, net of reinsurance</b>		<b>11,192</b>	<b>11,229</b>
Insurance claims paid, net of reinsurance		(3,490)	(3,066)
Change in outstanding claims provision, net of reinsurance		(127)	(299)
Fees and commission expenses, net	19	(44)	(172)
<b>Insurance activity results</b>	18	<b>7,531</b>	<b>7,692</b>
Personnel expenses	20	(2,007)	(1,913)
General and administrative expenses	21	(1,442)	(1,257)
<b>Operating expenses</b>		<b>(3,449)</b>	<b>(3,170)</b>
Investment income	22	1,485	1,653
Impairment gain/(losses)		1	150
Foreign exchanges (losses)/gain, net		(13)	(1,247)
Other income		80	119
<b>Profit before income tax</b>		<b>5,635</b>	<b>5,197</b>
Income tax expense	15	(1,155)	(1,083)
<b>Profit for the year</b>		<b>4,480</b>	<b>4,114</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized gains on investment securities available-for-sale		140	81
Tax effect of gains on investment securities available-for-sale	15	(28)	(16)
<b>Net other comprehensive income to be classified to profit or loss in subsequent periods</b>		<b>112</b>	<b>65</b>
<b>Total comprehensive income</b>		<b>4,592</b>	<b>4,179</b>

**Statement of changes in equity****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net unrealized gains on investment securities available-for-sale</i>	<i>Total equity</i>
<b>1 January 2017</b>		<b>14,500</b>	<b>12,420</b>	–	<b>26,920</b>
Dividends to shareholders	16	–	(7,538)	–	(7,538)
Total comprehensive income for the year		–	4,114	65	4,179
<b>31 December 2017</b>		<b>14,500</b>	<b>8,996</b>	<b>65</b>	<b>23,561</b>
Dividends to shareholders	16	–	(6,500)	–	(6,500)
Total comprehensive income for the year		–	4,480	112	4,592
<b>31 December 2018</b>		<b>14,500</b>	<b>6,976</b>	<b>177</b>	<b>21,653</b>

*The accompanying notes on pages 5 to 41 are an integral part of these financial statements.*



**Statement of cash flows****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Insurance premiums received		18,738	14,938
Reinsurance premiums paid		(6,763)	(3,256)
Gross insurance claims paid		(3,524)	(3,076)
Reinsurer's share of gross insurance claims paid		34	10
Acquisition income received		115	-
Acquisition expenses paid		(527)	(440)
Personnel expenses paid		(1,886)	(1,833)
Net realized losses from currency dealing operations		(7)	(37)
General and administrative expenses paid		(1,042)	(1,279)
Other income received		141	116
<b>Net cash flows from operating activities before changes in operating assets</b>		<b>5,279</b>	<b>5,143</b>
<i>Net (increase)/decrease in operating assets</i>		<i>(266)</i>	<i>207</i>
Loans to employees		(266)	207
<b>Net cash flows from operating activities before income tax</b>		<b>5,013</b>	<b>5,350</b>
Income tax paid		(989)	(528)
<b>Net cash from used in operating activities</b>		<b>4,024</b>	<b>4,822</b>
<b>Cash flows from investing activities</b>			
Interest income received		1,363	1,329
Amounts placed at credit institutions		(2,748)	(9,945)
Amounts repaid by credit institutions		9,561	16,263
Purchase of investment securities		(5,469)	(4,374)
Proceeds from sale and redemption of investment securities		-	-
Purchase of property, equipment and intangible assets		(50)	(167)
<b>Net cash from investing activities</b>		<b>2,657</b>	<b>3,106</b>
<b>Cash flows from financing activities</b>			
Dividends paid	16	(6,500)	(7,538)
<b>Net cash used in financing activities</b>		<b>(6,500)</b>	<b>(7,538)</b>
Effect of exchange rates changes on cash and cash equivalents		-	(38)
<b>Net increase in cash and cash equivalents</b>		<b>181</b>	<b>352</b>
Cash and cash equivalents, beginning	6	1,214	862
<b>Cash and cash equivalents, ending</b>	<b>6</b>	<b>1,395</b>	<b>1,214</b>

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

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		4,182	1,428
Withholding tax on interest income		150	144