

MEGA Insurance OJSC

Financial statements

*Year ended 31 December 2016
together with independent auditor's report*



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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 2016, 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 2016, 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.



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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 2017

Baku, Azerbaijan

Statement of financial position**As at 31 December 2016***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	31 December 2016	31 December 2015	1 January 2015
Assets				
Cash and cash equivalents	7	862	1,823	1,265
Amounts due from credit institutions	8	23,324	23,666	14,130
Investment securities	9	4,483	1,500	1,500
Insurance receivables	10	2,433	2,029	2,843
Deferred expenses	15	210	234	293
Reinsurance assets	13	4,514	5,730	3,387
Current income tax assets	16	723	-	-
Deferred income tax assets	16	352	608	198
Property, equipment and intangible assets	11	578	525	529
Other assets	12	830	594	608
Total assets		38,309	36,709	24,753
Liabilities				
Insurance contract liabilities	13	10,248	11,690	7,689
Insurance payables	14	773	1,382	2,354
Deferred revenue	15	147	77	77
Current income tax liabilities		-	1,463	356
Other liabilities	12	221	196	287
Total liabilities		11,389	14,808	10,763
Equity				
Share capital	17	14,500	14,500	12,000
Retained earnings		12,420	7,401	1,990
Total equity		26,920	21,901	13,990
Total liabilities and equity		38,309	36,709	24,753

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


Sevinc Gulmaliyeva
Chairman of the Management Board



Jamil Nazarov
Deputy Chairman of the Management Board

19 June 2017



The accompanying notes on pages 5 to 47 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income**For the year ended 31 December 2016***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2016	2015
Gross written premiums		19,786	17,756
Premiums ceded to reinsurers		(9,584)	(8,234)
Net written premiums		10,202	9,522
Change in provision for unearned premiums, net of reinsurance		(12)	(1,629)
Premiums earned, net of reinsurance		10,190	7,893
Insurance claims paid, net of reinsurance		(2,966)	(2,285)
Change in outstanding claims provision, net of reinsurance		238	(29)
Fees and commission expenses, net	20	(126)	(204)
Insurance activity results	19	7,336	5,375
Personnel expenses	21	(1,667)	(1,381)
General and administrative expenses	22	(983)	(1,062)
Operating expenses		(2,650)	(2,443)
Investment income	23	1,698	1,455
Impairment losses	8	(401)	(806)
Foreign exchanges gain, net		2,731	6,642
Other income		85	3
Profit before income tax		8,799	10,226
Income tax expense	16	(1,818)	(2,045)
Profit for the year		6,981	8,181
Other comprehensive income		-	-
Total comprehensive income		6,981	8,181

The accompanying notes on pages 5 to 47 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2016***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	Share capital	Retained earnings	Total equity
1 January 2015		12,000	1,990	13,990
Capitalization of retained earnings	17	2,500	(2,500)	-
Dividends to shareholders	17	-	(270)	(270)
Total comprehensive income for the year		-	8,181	8,181
31 December 2015		14,500	7,401	21,901
Dividends to shareholders	17	-	(1,962)	(1,962)
Total comprehensive income for the year		-	6,981	6,981
31 December 2016		14,500	12,420	26,920

The accompanying notes on pages 5 to 47 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2016***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2016	2015
Cash flows from operating activities			
Insurance premiums received		17,573	16,236
Reinsurance premiums paid		(8,778)	(7,041)
Gross insurance claims paid		(3,020)	(2,354)
Reinsurer's share of gross insurance claims paid		54	69
Acquisition income received		83	124
Acquisition expenses paid		(97)	-
Personnel expenses paid		(1,779)	(1,314)
Net realized losses from currency dealing operations		(243)	(104)
General and administrative expenses paid		(852)	(991)
Loans granted to employees		(154)	-
Other income received		85	3
Cash flows from operating activities before changes in operating assets and liabilities		2,872	4,628
<i>Net decrease in operating liabilities:</i>			
Other liabilities		-	(104)
Net cash flows from operating activities before income tax		2,872	4,524
Income tax paid		(3,584)	(1,203)
Net cash (used in) / from operating activities		(712)	3,321
Cash flows from investing activities			
Interest income received		1,501	1,310
Amounts placed at credit institutions		(10,697)	(14,611)
Amounts repaid by credit institutions		13,460	10,773
Purchase of investment securities		(4,225)	-
Proceeds from sale and redemption of investment securities		1,500	-
Purchase of property, equipment and intangible assets		(154)	(107)
Net cash from / (used in) investing activities		1,385	(2,635)
Cash flows from financing activities			
Dividends paid	17	(1,962)	(270)
Net cash used in financing activities		(1,962)	(270)
Effect of exchange rates changes on cash and cash equivalents		328	142
Net (decrease)/increase in cash and cash equivalents		(961)	558
Cash and cash equivalents, beginning	7	1,823	1,265
Cash and cash equivalents, ending	7	862	1,823

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

	Notes	2016	2015
Cash flows from operating activities			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		1,983	2,920
Withholding tax on interest income		164	145

The accompanying notes on pages 5 to 47 are an integral part of these financial statements.