

MEGA Insurance OJSC

Financial statements

*Year ended 31 December 2017
together with independent auditor's report*



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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	17
5. Significant accounting judgments, estimates and assumptions	21
6. Cash and cash equivalents	22
7. Amounts due from credit institutions	23
8. Investment securities	23
9. Insurance receivables	23
10. Property, equipment and intangible assets	24
11. Other assets and liabilities	25
12. Reinsurance assets and insurance contract liabilities	26
13. Insurance payables	26
14. Deferred expenses and revenue	27
15. Taxation	27
16. Share capital	28
17. Contingencies and commitments	29
18. Insurance activity results	31
19. Fees and commission expenses, net	33
20. Personnel expenses	33
21. General and administrative expenses	33
22. Investment income	33
23. Related party transactions	34
24. Risk management	34
25. Fair values of financial instruments	45
26. Maturity analysis of assets and liabilities	46
27. Events after the reporting date	46

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 2017, 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 2017, 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.

20 June 2018

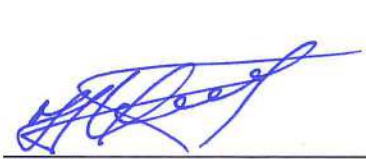
Baku, Azerbaijan

Statement of financial position**As at 31 December 2017***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	6	1,214	862
Amounts due from credit institutions	7	16,378	23,324
Investment securities	8	8,757	4,483
Insurance receivables	9	3,145	2,433
Deferred expenses	14	199	210
Reinsurance assets	12	3,109	4,514
Current income tax assets	15	119	723
Deferred income tax assets	15	529	352
Property, equipment and intangible assets	10	619	578
Other assets	11	710	830
Total assets		34,779	38,309
Liabilities			
Insurance contract liabilities	12	8,957	10,248
Insurance payables	13	1,913	773
Deferred revenue	14	136	147
Other liabilities	11	212	221
Total liabilities		11,218	11,389
Equity			
Share capital	16	14,500	14,500
Retained earnings		8,996	12,420
Unrealized gains on investment securities available-for-sale		65	-
Total equity		23,561	26,920
Total liabilities and equity		34,779	38,309

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

20 June 2018

Statement of profit or loss and other comprehensive income**For the year ended 31 December 2017***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2017	2016
Gross written premiums		17,110	19,786
Premiums ceded to reinsurers		(6,066)	(9,584)
Net written premiums		11,044	10,202
Change in provision for unearned premiums, net of reinsurance		185	(12)
Premiums earned, net of reinsurance		11,229	10,190
Insurance claims paid, net of reinsurance		(3,066)	(2,966)
Change in outstanding claims provision, net of reinsurance		(299)	238
Fees and commission expenses, net	19	(172)	(126)
Insurance activity results	18	7,692	7,336
Personnel expenses	20	(1,913)	(1,667)
General and administrative expenses	21	(1,257)	(983)
Operating expenses		(3,170)	(2,650)
Investment income	22	1,653	1,698
Impairment gain/(losses)		150	(401)
Foreign exchanges (losses)/gain, net		(1,247)	2,731
Other income		119	85
Profit before income tax		5,197	8,799
Income tax expense	15	(1,083)	(1,818)
Profit for the year		4,114	6,981
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized gains on investment securities available-for-sale		81	-
Tax effect of gains on investment securities available-for-sale	15	(16)	-
Net other comprehensive income to be classified to profit or loss in subsequent periods		65	-
Total comprehensive income		4,179	6,981

The accompanying notes on pages 5 to 46 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2017***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	Share capital	Retained earnings	Net unrealized gains on investment securities available-for-sale	Total equity
1 January 2016		14,500	7,401	–	21,901
Dividends to shareholders	16	–	(1,962)	–	(1,962)
Total comprehensive income for the year		–	6,981	–	6,981
31 December 2016		14,500	12,420	–	26,920
Dividends to shareholders	16	–	(7,538)	–	(7,538)
Total comprehensive income for the year		–	4,114	65	4,179
31 December 2017		14,500	8,996	65	23,561

The accompanying notes on pages 5 to 46 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2017***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2017	2016
Cash flows from operating activities			
Insurance premiums received		14,938	17,573
Reinsurance premiums paid		(3,256)	(8,778)
Gross insurance claims paid		(3,076)	(3,020)
Reinsurer's share of gross insurance claims paid		10	54
Acquisition income received		–	83
Acquisition expenses paid		(440)	(97)
Personnel expenses paid		(1,833)	(1,779)
Net realized losses from currency dealing operations		(37)	(243)
General and administrative expenses paid		(1,279)	(852)
Other income received		116	85
Net cash flows from operating activities before changes in operating assets		5,143	3,026
<i>Net decrease/(increase) in operating assets</i>		<i>207</i>	<i>(154)</i>
Loans to employees			
Net cash flows from operating activities before income tax		5,350	2,872
Income tax paid		(528)	(3,584)
Net cash from / (used in) operating activities		4,822	(712)
Cash flows from investing activities			
Interest income received		1,329	1,501
Amounts placed at credit institutions		(9,945)	(10,697)
Amounts repaid by credit institutions		16,263	13,460
Purchase of investment securities		(4,374)	(4,225)
Proceeds from sale and redemption of investment securities		–	1,500
Purchase of property, equipment and intangible assets		(167)	(154)
Net cash from investing activities		3,106	1,385
Cash flows from financing activities			
Dividends paid	16	(7,538)	(1,962)
Net cash used in financing activities		(7,538)	(1,962)
Effect of exchange rates changes on cash and cash equivalents		(38)	328
Net increase/(decrease) in cash and cash equivalents		352	(961)
Cash and cash equivalents, beginning	6	862	1,823
Cash and cash equivalents, ending	6	1,214	862

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

	Notes	2017	2016
Cash flows from operating activities			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		1,428	1,983
Withholding tax on interest income		144	164

The accompanying notes on pages 5 to 46 are an integral part of these financial statements.