

**“Mega Insurance” OJSC**

**Consolidated Financial Statements**

*for the year ended 31 December 2020  
together with Independent Auditors' Report*

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# Independent Auditors' Report

## To the Shareholders of "Mega Insurance" OJSC

### Opinion

We have audited the consolidated financial statements of "Mega Insurance" OJSC (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Matter

Financial statements of the Company as at and for the year ended 31 December 2015, which were used to assess eligibility of IFRS 9 *Financial Instruments* deferred application, were audited by other auditors who expressed an unmodified opinion on those financial statements on 19 June 2017.





### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

The engagement partner on the audit resulting in this independent auditors' report is:



Nasiba Muradkhanova  
KPMG Audit Azerbaijan LLC  
Baku, The Republic of Azerbaijan  
16 July 2021




## Consolidated statement of financial position as at 31 December 2020

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

	Notes	31 December 2020	31 December 2019
<b>Assets</b>			
Cash and cash equivalents	5	3,099	869
Amounts due from credit institutions	6	6,815	7,425
Investment securities	7	22,755	21,987
Insurance receivables	8	1,865	2,819
Deferred expenses	13	608	416
Reinsurance assets	11	10,160	6,046
Deferred income tax assets	14	603	592
Property, equipment and intangible assets	9	452	534
Other assets	10	766	787
<b>Total assets</b>		<b>47,123</b>	<b>41,475</b>
<b>Liabilities</b>			
Insurance contract liabilities	11	17,186	13,819
Insurance payables	12	983	1,860
Deferred income	13	990	261
Current income tax liabilities	14	123	81
Other liabilities	15	602	485
<b>Total liabilities</b>		<b>19,884</b>	<b>16,506</b>
<b>Equity</b>			
Share capital	16	23,000	23,000
Retained earnings		3,986	1,866
Revaluation reserve for available-for-sale financial assets		253	103
<b>Total equity</b>		<b>27,239</b>	<b>24,969</b>
<b>Total liabilities and equity</b>		<b>47,123</b>	<b>41,475</b>

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

  
 Sevinj Gulmaliyeva  
 Chairman of the Management Board

  
 Hokmudar Mamishov  
 Deputy Chairman of the Board

16 July 2021

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended 31 December 2020**

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

	Notes	2020	2019
Gross written premiums	18	28,615	22,182
Premiums ceded to reinsurers	18	(15,286)	(7,660)
Cancelled premiums written	18	(311)	(277)
Cancelled premiums ceded	18	84	64
<b>Net written premiums</b>	18	<b>13,102</b>	<b>14,309</b>
Change in provision for unearned premiums, net of reinsurance	18	691	(931)
<b>Premiums earned, net of reinsurance</b>	18	<b>13,793</b>	<b>13,378</b>
Insurance claims expense, net of reinsurance	18	(4,757)	(4,940)
Change in outstanding claims provision, net of reinsurance	18	56	(292)
<b>Claims incurred, net of reinsurance</b>	18	<b>4,701</b>	<b>(5,232)</b>
Fees and commission expenses, net	18	(49)	(166)
<b>Insurance activity results</b>	18	<b>9,043</b>	<b>7,980</b>
Personnel expenses	19	(3,035)	(2,722)
General and administrative expenses	20	(1,576)	(1,682)
<b>Operating expenses</b>		<b>(4,611)</b>	<b>(4,404)</b>
Interest income	21	2,034	1,606
Subrogation income		128	148
Net realized gain on disposal of investment securities available-for-sale		-	62
Finance cost		-	(44)
Loss on initial recognition of loans to employees at fair value		-	(40)
Foreign exchanges losses, net		(1)	(7)
Other income		5	14
<b>Profit before income tax</b>		<b>6,598</b>	<b>5,315</b>
Income tax expense	14	(1,298)	(1,085)
<b>Profit for the year</b>		<b>5,300</b>	<b>4,230</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized gains/(losses) on investment securities available-for-sale		188	(30)
Gains reclassified to profit or loss upon disposal		-	(62)
Tax effect of (gains)/losses on investment securities available-for-sale	14	(38)	18
<b>Net other comprehensive income to be classified to profit or loss in subsequent periods</b>		<b>150</b>	<b>(74)</b>
<b>Total comprehensive income</b>		<b>5,450</b>	<b>4,156</b>

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity  
for the year ended 31 December 2020**

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

	Notes	Share capital	Retained earnings	Revaluation reserve for available-for-sale financial assets	Total equity
<b>1 January 2019</b>		<b>14,500</b>	<b>6,976</b>	<b>177</b>	<b>21,653</b>
Dividends declared and paid	16		(9,340)	-	(9,340)
Shares issued		8,500	-	-	8,500
Total comprehensive income for the year		-	4,230	(74)	4,156
<b>31 December 2019</b>		<b>23,000</b>	<b>1,866</b>	<b>103</b>	<b>24,969</b>
Dividends declared and paid	16	-	(3,180)	-	(3,180)
Total comprehensive income for the year		-	5,300	150	5,450
<b>31 December 2020</b>		<b>23,000</b>	<b>3,986</b>	<b>253</b>	<b>27,239</b>

*The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.*



**Consolidated statement of cash flows  
for the year ended 31 December 2020**

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

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
Insurance premiums received		25,905	20,463
Reinsurance premiums paid		(11,365)	(5,332)
Cancelled premiums written paid		(147)	(67)
Cancelled premiums ceded received		62	5
Gross insurance claims paid		(4,841)	(5,132)
Reinsurer's share of gross insurance claims paid		32	90
Acquisition income received		88	67
Acquisition expenses paid		(822)	(583)
Personnel expenses paid		(2,880)	(2,556)
Net realized losses from currency dealing operations		-	(4)
General and administrative expenses paid		(1,438)	(1,603)
Subrogation income received		128	148
Finance cost paid		-	(44)
Other income received		5	9
<b>Net cash flows from operating activities before changes in operating assets</b>		<b>4,727</b>	<b>5,461</b>
<i>Net decrease in operating assets</i>			
Loans to employees		-	1
<b>Net cash flows from operating activities before income tax</b>		<b>4,727</b>	<b>5,462</b>
Income tax paid		(1,101)	(850)
<b>Net cash flows from operating activities</b>		<b>3,626</b>	<b>4,612</b>
<b>Cash flows from investing activities</b>			
Interest income received		1,841	1,146
Amounts placed at credit institutions		(750)	(3,399)
Amounts repaid by credit institutions		1,350	5,359
Purchase of investment securities		(615)	(14,153)
Proceeds from sale and redemption of investment securities		-	6,870
Purchase of property, equipment and intangible assets		(42)	(121)
<b>Net cash flows from/(used in) investing activities</b>		<b>1,784</b>	<b>(4,298)</b>
<b>Cash flows from financing activities</b>			
Receipts of other borrowed funds		-	4,000
Repayment of other borrowed funds		-	(4,000)
Proceeds from issuance of share capital	16	-	8,500
Dividends paid	16	(3,180)	(9,340)
<b>Net cash used in financing activities</b>		<b>(3,180)</b>	<b>(840)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,230</b>	<b>(526)</b>
Cash and cash equivalents, beginning	5	869	1,395
<b>Cash and cash equivalents, ending</b>	<b>5</b>	<b>3,099</b>	<b>869</b>

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.