

“Mega Insurance” OJSC

Consolidated Financial Statements

*for the year ended 31 December 2019
together with Independent Auditors' Report*

Contents

Independent auditors' report

Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of profit or loss and other comprehensive income.....	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to the consolidated financial statements

1. Principal activities.....	5
2. Basis of preparation.....	5
3. Summary of significant accounting policies	6
4. Significant accounting judgments, estimates and assumptions.....	19
5. Cash and cash equivalents	21
6. Amounts due from credit institutions.....	21
7. Investment securities.....	21
8. Insurance receivables.....	22
9. Property, equipment and intangible assets.....	22
10. Other assets	23
11. Reinsurance assets and insurance contract liabilities	23
12. Insurance payables	24
13. Deferred expenses and income.....	24
14. Taxation.....	25
15. Other liabilities	26
16. Share capital	26
17. Contingencies and commitments.....	26
18. Insurance activity results	28
19. Personnel expenses.....	30
20. General and administrative expenses	30
21. Interest income	30
22. Related party transactions.....	30
23. Risk management.....	32
24. Fair values of financial instruments	42
25. Maturity analysis of assets and liabilities	43
26. Establishment of subsidiary	43
27. Changes in accounting policies and presentations.....	44
28. Events after the reporting date	46



"KPMG Audit Azerbaijan" LLC
Port Baku South Tower, 12th floor
153 Neftchiler Avenue,
Baku, Azerbaijan AZ1010
Telephone: + 994 (12) 404 89 10/11
Fax: + 994 (12) 404 89 14
Website: www.kpmg.az

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 2019, 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 2019, 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.

Emphasis of Matter

We draw attention to the Note 22 to the consolidated financial statements which describes that the comparative information on related party transactions presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

We draw attention to the Note 27 to the consolidated financial statements which describes that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Company as at and for the years ended 31 December 2018 and 31 December 2017 (from which the statement of financial position as at 1 January 2018 has been derived), excluding the adjustments described in the Notes 22 and 27 to the consolidated financial statements were audited by other auditors who expressed an unmodified opinion on those financial statements on 19 June 2019.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in the Notes 22 and 27 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and the statement of financial position as at 1 January 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2018 or 31 December 2017 (not presented herein) or to the statement of financial position as at 1 January 2018, other than with respect to the adjustments described in the Notes 22 and 27 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in the Notes 22 and 27 are appropriate and have been properly applied.

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


17 September 2020

**Consolidated statement of financial position
as at 31 December 2019**
(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

		31 December 2019	31 December 2018 (restated)	1 January 2018 (restated)
	Notes			
Assets				
Cash and cash equivalents	5	869	1,395	1,214
Amounts due from credit institutions	6	7,425	9,466	16,378
Investment securities	7	21,987	14,443	8,757
Insurance receivables	8	2,819	4,743	2,136
Deferred expenses	13	416	266	199
Reinsurance assets	11	6,046	7,481	2,276
Current income tax assets	14	-	64	119
Deferred income tax assets	14	592	535	529
Property, equipment and intangible assets	9	534	533	619
Other assets	10	787	809	710
Total assets		41,475	39,735	32,937
Liabilities				
Insurance contract liabilities	11	13,819	14,031	7,923
Insurance payables	12	1,860	3,224	1,119
Deferred income	13	261	348	136
Current income tax liabilities	14	81	-	-
Other liabilities	15	485	479	198
Total liabilities		16,506	18,082	9,376
Equity				
Share capital	16	23,000	14,500	14,500
Retained earnings		1,866	6,976	8,996
Revaluation reserve for available-for-sale financial assets		103	177	65
Total equity		24,969	21,653	23,561
Total liabilities and equity		41,475	39,735	32,937

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


 Sevinc Gulmaliyeva
 Chairman of the Management Board


 Jamil Nazarov
 Finance Manager

17 September 2020

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

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

	Notes	2019	2018 (restated)
Gross written premiums	18	22,182	25,769
Premiums ceded to reinsurers	18	(7,660)	(13,541)
Cancelled premiums written	18	(277)	(207)
Cancelled premiums ceded	18	64	71
Net written premiums	18	14,309	12,092
Change in provision for unearned premiums, net of reinsurance	18	(931)	(900)
Premiums earned, net of reinsurance	18	13,378	11,192
Insurance claims expense, net of reinsurance	18	(4,940)	(3,614)
Change in outstanding claims provision, net of reinsurance	18	(292)	(3)
Claims incurred, net of reinsurance	18	(5,232)	(3,617)
Fees and commission expenses, net	18	(166)	(44)
Insurance activity results	18	7,980	7,531
Personnel expenses	19	(2,722)	(2,007)
General and administrative expenses	20	(1,682)	(1,442)
Operating expenses		(4,404)	(3,449)
Interest income	21	1,606	1,485
Subrogation income		148	141
Net realized gain on disposal of investment securities available-for-sale		62	-
Impairment gain		-	1
Finance cost		(44)	-
Loss on initial recognition of loans to employees at fair value		(40)	(61)
Foreign exchanges losses, net		(7)	(13)
Other income		14	-
Profit before income tax		5,315	5,635
Income tax expense	14	(1,085)	(1,155)
Profit for the year		4,230	4,480
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized (losses)/gains on investment securities available-for-sale		(30)	140
Gains reclassified to profit or loss upon disposal		(62)	-
Tax effect of losses/(gains) on investment securities available-for-sale	14	18	(28)
Net other comprehensive income to be classified to profit or loss in subsequent periods		(74)	112
Total comprehensive income		4,156	4,592

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

**Consolidated statement of changes in equity
for the year ended 31 December 2019**

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

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings</i>	<i>Revaluation reserve for available-for- sale financial assets</i>	<i>Total equity</i>
1 January 2018		14,500	8,996	65	23,561
Dividends declared and paid	16	–	(6,500)	–	(6,500)
Total comprehensive income for the year		–	4,480	112	4,592
31 December 2018		14,500	6,976	177	21,653
Dividends declared and paid	16	–	(9,340)	–	(9,340)
Shares issued	16	8,500	–	–	8,500
Total comprehensive income for the year		–	4,230	(74)	4,156
31 December 2019		23,000	1,866	103	24,969

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

**Consolidated statement of cash flows
for the year ended 31 December 2019**

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

	Notes	2019	2018
Cash flows from operating activities			
Insurance premiums received		20,463	18,738
Reinsurance premiums paid		(5,332)	(6,763)
Cancelled premiums written paid		(67)	-
Cancelled premiums ceded received		5	-
Gross insurance claims paid		(5,132)	(3,524)
Reinsurer's share of gross insurance claims paid		90	34
Acquisition income received		67	115
Acquisition expenses paid		(583)	(527)
Personnel expenses paid		(2,556)	(1,886)
Net realized losses from currency dealing operations		(4)	(7)
General and administrative expenses paid		(1,603)	(1,042)
Subrogation income received		148	141
Finance cost paid		(44)	-
Other income received		9	-
Net cash flows from operating activities before changes in operating assets		5,461	5,279
<i>Net (increase)/decrease in operating assets</i>			
Loans to employees		1	(266)
Net cash flows from operating activities before income tax		5,462	5,013
Income tax paid		(850)	(989)
Net cash from used in operating activities		4,612	4,024
Cash flows from investing activities			
Interest income received		1,146	1,363
Amounts placed at credit institutions		(3,399)	(2,748)
Amounts repaid by credit institutions		5,359	9,561
Purchase of investment securities		(14,153)	(5,469)
Proceeds from sale and redemption of investment securities		6,870	-
Purchase of property, equipment and intangible assets		(121)	(50)
Net cash (used in)/from investing activities		(4,298)	2,657
Cash flows from financing activities			
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	(9,340)	(6,500)
Net cash used in financing activities		(840)	(6,500)
Net (decrease)/increase in cash and cash equivalents		(526)	181
Cash and cash equivalents, beginning	5	1,395	1,214
Cash and cash equivalents, ending	5	869	1,395

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