Mega Life Insurance OJSC

Financial Statements

For the year ended 31 December 2022
together with Independent Auditor's Report

Contents

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Independent auditor's report

To the Shareholder of Mega Life Insurance OJSC

Opinion

We have audited the financial statements of **Mega Life Insurance OJSC** which comprise the statements of financial position as at 31 December 2022 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2022 and its financial performance and its 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 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). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 have no realistic alternative but to do so.

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

Auditors' 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 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 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 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 auditors' 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 auditors' 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 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.

Grant Thornton

GRANT THORNTON
30 March 2023

Baku, Azerbaijan Republic

Statement of financial position as at 31 December 2022

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

	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	5	**919**	470
Amounts due from credit institutions	6	**3,392**	303
Investment securities for available-for-sale	7	**324**	10,778
Investment securities at held-to-maturity	8	**14,309**	-
Insurance receivables	9	**195**	31
Deferred expenses	14	**100**	-
Reinsurance assets	12	**55**	4
Property, equipment and intangible assets	10	**294**	323
Current income tax asset		**34**	168
Other assets	11	**143**	114
Total assets		**19,765**	12,191
Liabilities			
Insurance contracts liabilities	12	**1,604**	327
Insurance and other payables	13	**423**	122
Deferred tax liabilities	11	**39**	10
Other liabilities	16	**5,451**	76
Total liabilities		**7,517**	535
Equity			
Share capital	17	**11,000**	11,000
Retained earnings		**1,241**	618
Revaluation reserve for available-for-sale financial assets		**7**	38
Total equity		**12,248**	11,656
Total liabilities and equity		**19,765**	12,191

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

Ughur Ibrahimli
Chairman of the Management Board

Jamil Nazarov
Deputy Chairman of the Board

Azərbaycan Respublikası Açıq Səhmdar Cəmiyyəti Meqa Həyat Sığorta Open Joint-Stock Company Azerbaijan Republic

30 March 2023

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

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

	Notes	2022	2021
Gross written premiums	19	**2,402**	443
Premiums ceded to reinsurers	19	**(128)**	(10)
Cancelled premiums written	19	**(86)**	(26)
Net written premiums	19	**2,188**	407
Change in provision for unearned premiums, net of reinsurance	19	**(397)**	(112)
Premiums earned, net of reinsurance	19	**1,791**	295
Change in mathematical reserves	19	**(817)**	(174)
Insurance claims expense, net of reinsurance	19	**(9)**	-
Change in outstanding claims provision, net of reinsurance	19	**(12)**	(38)
Claims incurred, net of reinsurance	19	**953**	83
Fees and commission expenses, net	19	**(104)**	(52)
Insurance activity results	19	**849**	31
Personnel expenses	20	**(846)**	(501)
General and administrative expenses	21	**(390)**	(181)
Operating expenses		**(1,236)**	(681)
Interest income	22	**1,179**	841
Foreign exchanges losses, net		**(1)**	-
Other income		**12**	(9)
Profit before income tax		**803**	182
Income tax expense	15	**(180)**	(45)
Profit for the year		**623**	137
Other comprehensive income			
Unrealized (loss)/gain on investment securities available-for-sale		**(39)**	48
Tax effect of loss/(gain) on investment securities available-for-sale	15	**8**	(10)
Total other comprehensive income		**(31)**	38
Total comprehensive income		**592**	175

Statement of changes in equity for the year ended 31 December 2022

(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
1 January 2021		11,000	481	-	11,481
Total comprehensive income for the year		-	137	38	175
31 December 2021		11,000	618	38	11,656
Total comprehensive income for the year		-	**623**	**(31)**	**592**
31 December 2022		**11,000**	**1,241**	**7**	**12,248**

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2022

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

	Notes	2022	2021
OPERATING ACTIVITIES			
Insurance premiums received		**2,172**	541
Reinsurance premiums paid		**(128)**	(10)
Cancelled premiums written paid		**(17)**	(26)
Gross insurance claims paid		**(9)**	-
Acquisition expenses paid		**(165)**	(52)
Personnel expenses paid		**(534)**	(512)
General and administrative expenses paid		**(343)**	(300)
Net realized gain on investment securities measured at fair value through other comprehensive income		**238**	(9)
Foreign exchange loss		**(1)**	-
Other income received		**12**	-
Net cash flows from operating activities before income tax		**1,225**	(368)
Income tax paid		**(10)**	(50)
Net cash flows generated from/(used in) operating activities		**1,215**	(418)
INVESTING ACTIVITIES			
Interest income received		**801**	841
Amounts placed at credit institutions		**(3,151)**	(303)
Amounts repaid by credit institutions		**200**	-
Purchase of investment securities		**(2,329)**	60
Proceeds from sale and redemption of investment securities		**3,727**	-
Purchase of property, equipment and intangible assets		**(14)**	(70)
Proceed from disposal of property, equipment and intangible assets		**-**	-
Net cash flows (used in)/generated from investing activities		**(766)**	528
Net increase in cash and cash equivalents		**449**	110
Cash and cash equivalents, beginning		**470**	360
Cash and cash equivalents, ending	5	**919**	470

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

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

1. Principal activities

"Mega Life Insurance" Open Joint Stock Company ("Company") was established on December 31, 2020, according to the legislation of the Republic of Azerbaijan. On 19.02.2021, the Central Bank of the Republic of Azerbaijan issued license No. SF-0003, which allows "Mega Life Insurance" Open Joint-Stock Company to provide life insurance activities. The company was included in the register of participating insurers of the Compulsory Insurance Bureau on 09.03.2021, and on 12.03.2021 it was approved by the Central Bank of the Republic of Azerbaijan for the type of "compulsory insurance against loss of professional capacity due to industrial accidents and occupational diseases" permission granted. On 26.05.2021, "Mega Life" insurance company was included in the list of authorized insurers for mortgage lending of the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan.
The life insurance products they offer: Compulsory industrial accident insurance, credit life insurance, mortgage life insurance, endowment life insurance, term life insurance, terminal illness insurance.

The authorized capital of "Mega Life Insurance" Open Joint Stock Company is 11,000 thousand AZN, and the founder of the company is "Mega Insurance" OJSC with a 100% share.

The official registered address of the company is A. Rajabli Street 19 A, Baku city, Republic of Azerbaijan.

As of December 31, 2022, the number of employees was 36 (December 31, 2021: 24).

As at 31 December 2022 and 31 December 2021 the Company is owned by:

	31 December 2022,%	31 December 2021, %
Mega Insurance OJSC	**100**	100
Total	**100**	100

The Company has no ultimate controlling party as at 31 December 2022 and 2021.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and on the assumption that the Company is going concern and will continue in operation for the foreseeable future.

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities available-for-sale have been measured at fair value.

These financial statements are presented in thousands of Azerbaijani manat ("AZN"), unless otherwise indicated. AZN is the Company's functional currency as the majority of the Company's transactions are denominated, measured, or founded in AZN. Transactions in other currencies are treated as transactions in foreign currencies.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 26.

The Company has applied the temporary exemption from IFRS 9 *Financial Instruments* as permitted by IFRS 4 *Insurance Contracts* and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated as at FVTPL for annual periods beginning before 1 January 2018. Consequently, the Company plans to have a single date of initial application of 1 January 2023 for IFRS 9 in its entirety.

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

3. Summary of significant accounting policies

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

Insurance product classification

Insurance contracts are defined as those containing significant insurance risk at inception of contract, or those where at the inception of contract there is scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premiums, mathematical reserve provision and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have commenced but not yet expired at the reporting date. The provision is recognized when contracts are entered into, insurance coverage commenced and premiums are charged, and is brought to account as earned premium over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance contract liabilities. If these estimates show that the carrying amount of the provision for unearned premiums is inadequate, the deficiency is recognized in the statement of profit or loss and other comprehensive income by setting up a provision for premium deficiency.

The provision for mathematical reserves in life insurance represents liabilities (excluding liabilities which have fallen due) arising in connection with contracts for long term insurance business. Mathematical reserves are calculated as an amount equal to present value of future liabilities of an insurance company decreased by the present value of future obligations of a policyholder (insurance premium) and are calculated separately for each insurance contract.

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances recoverable from reinsurance companies and reinsurers' share in provision for unearned premiums. Balances recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Premiums ceded to reinsurers and reinsurers' share in provision for unearned premiums are accounted for in the same way as the gross written premiums and provision for unearned premiums, respectively, for the related business being insured.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in statement of profit or loss account.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance payables represent balances due to reinsurance companies and are recorded in the statement of financial position in insurance payables. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Revenue and expense recognition

Gross written premiums

Gross premiums written comprise premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. They are recognized on the date on which the policy is signed.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Policy cancellations

Policies are cancelled if there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Cancellations therefore affect mostly those policies where policy premiums are paid in instalments over the term of the policy. Cancellations are reported separately from gross written premiums.

Reinsurance premiums

Gross reinsurance premiums comprise the total premiums receivable for the whole cover provided by inward reinsurance contracts entered into the period and accounted for in the same way as the gross written premiums.

Fees and commission income

Insurance contract policyholders and reinsurers are charged for policy administration services, intermediary and other contract fees. These fees are recognized as revenue over the period in which the related services are performed over the contract. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

Interest income

Interest income is recognized in profit or loss as it accrues and is calculated by using the effective interest rate. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

Subrogation income

Subrogation income is recognized as received.

Other income and expenses

Other income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount can be reliably measured. Expenses are recognized when incurred.

Premiums ceded to reinsurers

Premiums ceded to reinsurers comprise all contract ceded to reinsurers. They are recognized on the date on which the slip is signed.

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

Claims expenses

Gross claims

General insurance claims expenses include all claims occurring during the year. Claim expenses are recognised when the claim act is approved.

Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

Deferred expenses

Deferred expenses consist of deferred acquisition costs ("DAC") and premiums ceded in advance for the reinsurance contracts that are not effective as at the end of reporting period.

Commissions on direct insurance and inward reinsurance contracts, identifiable and quantifiable direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred within DAC to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, DAC is amortized over the period in which the related premiums are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in profit or loss. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognized when the related contracts are either settled or disposed of.

Deferred income

Deferred income consists of fees and commission income from outward reinsurance and intermediary activities (e.g., fronting transaction) that are deferred and amortized on a straight-line basis over the term of underlying contract.

Insurance receivables and payables

Insurance receivables are recognized when underlying insurance contract is effective and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Insurance receivables are derecognized in a manner as financial assets.

Insurance payables are recognized in a manner consistent with insurance receivables and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Insurance payables are derecognized when the obligation under the liability is settled, cancelled, or expired.

Financial assets and liabilities

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting period.

All regular way purchases and sales of financial assets are recognized on the trade date i.e., the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as fair value through profit or loss or in any of the two preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Determination of fair value

The Company measures financial instruments, such as investment securities available-for-sale at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Reclassification of financial assets

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Company either has transferred substantially all the risks and rewards of the asset or has neither transferred not retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans and receivables

For amounts due from credit institutions and loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Held-to-maturity financial investments

For held-to-maturity investments the Company assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an asset or a Company of assets is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settled the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business.
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of current accounts with credit institutions, amount due from credit institutions and highly liquid money market instruments that mature within ninety days of the date of acquisition and are free from contractual encumbrances.

Amounts due from credit institutions

In the normal course of business, the Company maintains deposits for various periods of time with credit institutions. Amounts due from credit institutions are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowances for impairment.

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Computers and other equipment	4
Furniture and fixtures	5
Motor vehicles	4
Office equipment	5

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognized in profit or loss as an expense.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses category of profit or loss unless they qualify for capitalization.

Intangible assets

Intangible assets consist of licenses, computer software and membership fee. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life up to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income within general and administrative expenses category.

Intangible assets with indefinite useful lives are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Intangible assets with indefinite useful lives are tested for impairment annually at 31 December, either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Retirement and other personnel obligations

The Company does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits.

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

Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Unused vacations

Provision for unused vacations is recognized in the period when these vacations are earned by employees. Provision amount is recognized as an expense at each reporting date.

Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the Republic of Azerbaijan.

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the liability method and profit or loss method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

The Company also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of general and administrative expenses.

Equity

Share capital

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are shown as a deduction from the proceeds in equity.

Dividends

The share capital of the Company was contributed by the shareholder in AZN and is entitled to dividends and any capital distribution in AZN. Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue. According to the Tax Code of the Republic of Azerbaijan, shareholders of the Company are exempt from 10% withholding tax for 7 consecutive years effective from 1 February 2016.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee, and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

Foreign currency translation

The financial statements are presented in AZN. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognized in profit or loss as foreign exchange and translation gains and losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.
The Company used the following official exchange rates at 31 December 2022 and 31 December 2021 in the preparation of these financial statements:

	31 December 2022	31 December 2021
1 USD	**AZN 1.7000**	AZN 1.7000
1 EUR	**AZN 1.8114**	AZN 1.9265

Standards, interpretations, and amendments to existing standards that are effective in 2022.

In the current year the Company has applied the amendments to IFRS 3, IAS 16, IAS 37 and annual improvements to IFRS Standards 2018–2020 issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2022.

The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Company's future transactions or arrangements. Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2022.

Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

A number of new standards and amendments to standards (except for IFRS 9 Financial instrument, which is effective from 1 January 2018, but the Company has opted for deferral approach) are effective for annual periods beginning after 1 January 2023 with earlier application permitted; however, the Company has not early adopted them in preparing these financial statements.

New and revised IFRS	**Effective for annual period beginning on or after**
Amendments to IAS 1 'Presentation of Financial Statements' to address the classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	1 January 2023
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.	1 January 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges identified after IFRS 17 was published in 2017.	1 January 2023
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) which require that an entity discloses its material accounting policies, instead of its significant accounting policies.	1 January 2023
The IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023
The amendments replace the definition of Accounting Estimates (Amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".	1 January 2023

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

Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

IFRS 17 'Insurance Contracts'

IFRS 17, the new accounting standard for insurance contracts, was issued by the International Accounting Standards Board (IASB) in May 2017. Since the standard was first issued, various implementation matters have been raised by stakeholders. Subsequently, the IASB issued further amendments to the standard in June 2020 and December 2021, including delaying its effective date, which for the Company means the standard is applicable to reporting periods from 1 January 2023.

For the Company, IFRS 17 replaces IFRS 4 Insurance Contracts. The first applicable reporting period for the Company is for the year ending 31 December 2023, with a restated comparative period for the year ending 31 December 2022.

The Company continues to assess the impact of the application of IFRS 17, with the relevant key areas of consideration set out below and it will also depend on the applicability date decided by the regulator.

Measurement models

IFRS 17 introduces the general measurement model, also known as the building block approach, which consists of fulfilment cash flows and a contractual service margin. The fulfilment cash flows represent the risk adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period. The contractual service margin is earned based on a pattern of coverage units, reflecting the quantity of benefits provided. For contracts measured under the general measurement model, IFRS 17 is expected to have a significant impact on actuarial modelling as more granular cash flow projections and regular updates of assumptions will be required.

The premium allocation approach is a simplified approach an entity may choose to adopt when certain criteria are met, either where the liability for remaining coverage under the premium allocation approach is not expected to differ materially from that under the general measurement model or the coverage period of contracts are less than one year. However, the general measurement model remains applicable for the measurement of the liability for incurred claims, whereby all incurred claims are subject to discounting and risk adjustment. In determining the cash flows used in the measurement of the liability for incurred claims, The Company intends to consistently maintain the reserving approach currently adopted under IFRS 4. The simplification relates to the measurement of the liability for remaining coverage, which is not disaggregated into fulfilment cash flows and a contractual service margin, but rather is largely based on premium received. In this regard, the premium allocation approach has similarities to the current accounting requirements for general insurance contracts under IFRS 4.

The Company plans to apply the premium allocation approach ("PAA") to all the insurance and reinsurance contracts. Companys of contracts with coverage period of one year or less automatically qualify for PAA. For Companys of contracts with coverage period greater than one year, we assessed that there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore, these qualify for PAA.

For Companys of contracts that apply the premium allocation approach and have a coverage period of one year or less, IFRS 17 provides an option to recognise any insurance acquisition costs as expenses when incurred.

Level of aggregation and onerous contract losses (loss component)

Under IFRS 17, measurement is not considered at the individual contract level, but on the basis of portfolios which comprise contracts subject to similar risk and managed together. These portfolios are further subdivided into specified measurement Company based on contracts concluded in annual cohorts and on their profitability. To determine if the contracts are onerous, the standard permits measurement of a Company of contracts. All fulfilment cash flows resulting from the rights and obligations under the insurance contracts must be considered and determined on a gross basis, excluding the effect of reinsurance.

Risk adjustment

Under IFRS 17, the measurement of insurance contract liabilities will include a risk adjustment for nonfinancial risk to reflect the compensation that the entity requires for bearing the uncertainty relating to the amount and timing of future cash flows. For insurance contracts, this is the compensation required to be indifferent between either fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts. The risk adjustment replaces the concept of a risk margin under IFRS 4, which reflects the inherent uncertainty in the central estimate of the present value of the expected future payments. Similar to the risk margin, the risk adjustment includes the benefit of diversification.

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The Standard does not prescribe techniques for estimating the risk adjustment but does offer guidance. The technique used, and the corresponding confidence level associated with the methodology selected, will need to be disclosed. The finalisation of the methodology for determining the risk adjustment, and the corresponding confidence level, is ongoing and subject to further refinement and review.

Discount rates

IFRS 17 requires that the estimates of expected cash flows that are used to measure either the liability for remaining coverage, for contracts measured under the general measure model, or incurred claims are to be discounted to reflect the time value of money and the financial risks related to those cash flows. In addition, the standard also requires the discount rate to reflect the liquidity characters of the underlying insurance contracts. The standard does not prescribe a methodology to determine either the discount rate or illiquidity premium. The bottom-up approach will be used to derive the discount rate. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The risk-free rate was derived using swap rates available in the market denominated in the same currency as the product being measured. When swap rates are not available, highly liquid sovereign bonds with a AAA credit rating were used. Management uses judgment to assess liquidity characteristics of the liability cash flows. Management is currently assessing illiquidity within discount rates. The methodology and impact of reflecting illiquidity within discount rates is currently being determined.

Presentation and disclosure

IFRS 17 will impact the Company's financial statements compared with existing reporting requirements, introducing substantial changes in both presentation of the statement of income and statement of financial position, as well as more granular disclosure requirements.

In the statement of income, IFRS 17 will require the presentation of the insurance revenue and insurance service expenses gross of reinsurance. For the Company, insurance revenue replaces gross earned premium and insurance service expenses largely reflects the combination of claims expense, non-reinsurance related recoveries, commission expense and underwriting expenses. Additionally, all changes in value because of either the effect of or change in the time value of money or financial risk, will no longer form part of the insurance service result but will be recognised separately as either insurance finance income or expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

On statement of financial position, as all cash flows resulting from the rights and obligations under insurance and reinsurance contracts must be taken into account under IFRS 17, the related existing statement of financial position items will no longer be presented separately. Alternatively, the standard requires these associated balances to be combined into single line items for portfolios of insurance or reinsurance contracts that are either in an asset or liability position.

IFRS 17 has introduced additional disclosures which would need to be provided. The Company will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17.
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

Transition

On transition, the Company expects to apply the full retrospective approach to all insurance contracts, except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied under IFRS 17. In practical terms, the Company currently anticipates adopting a full retrospective approach to contracts measured using the premium allocation approach.

The Company has committed appropriate resources and effort into the implementation of IFRS 17 since its issuance. The implementation of the standard involves changes and enhancements in technology, systems, and processes, particularly across IT, finance and actuarial. The requirements of IFRS 17 are complex and the Company's expectations noted above are subject to change as it continues to assess the impact of the standard and interpretation developments. However, ultimately IFRS 17 is not expected to change the underlying economics or cash flows of the Company's business but has the potential to impact profit emergence profiles. Alongside the qualitative effects outlined above, the Company continues to assess the quantitative impact of the application of IFRS 17, with the opening balances on 1 January 2023 currently being compiled in accordance with the standard.

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

Impact assessment

Although the premium allocation approach is similar to the Company's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting.

Changes from IFRS 4	Expected impact on equity on transition to IFRS 17
Under IFRS 17, the Company will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Company does not currently discount such future cash flows.	Increase
IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non-financial risk. This is not explicitly allowed for currently.	Decrease
The Company's accounting policy under IFRS 17 to expense eligible insurance acquisition cash flows when they are incurred differs from the current practice under which these amounts are recognised separately as deferred acquisition costs.	Decrease

The Company is still assessing the estimated impact that the initial application of IFRS 17 will have on its financial statements. Based on assessments undertaken to date, opening equity is expected to move predominantly due to the following:

- impact of risk adjustments.
- accounting for onerous contracts in the business.
- impact of discounting.
- non-performance risk on reinsurance recoverable balances.

The assessment of the impacts on the Company's financial statements is in progress. Although the work is well advanced as of the date of the publication of these financial statements, it is not yet practicable to reliably quantify the transition impact.

IFRS 9 *Financial instruments*

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Company will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information that will be considered includes:

— the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

— how the performance of the portfolio is evaluated and reported to the Company's management.

— the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

— how managers of the business are compensated – e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

— the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considered the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considered:

— contingent events that would change the amount and timing of cash flows.

— leverage features.

— prepayment and extension terms.

— terms that limit the Company's claim to cash flows from specified assets – e.g., non-recourse asset arrangements, and

— features that modify consideration for the time value of money – e.g., periodic reset of interest rates.

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

Impact assessment

For the purpose of preparation of the additional disclosure required by IFRS 4 for insures applying temporary exemption from IFRS 9 the Company finalised the assessment of SPPI criteria. Based on assessment performed SPPI criteria is met for all debt financial assets not measured at FVTPL. The Company has not finalised the assessment of business models for managing the financial assets. Based on its preliminary assessment, the Company does not believe that the new classification requirements will have a material impact on its financial statements.

Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Insurance receivables are not within the scope of IFRS 9 impairment requirements.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs.* These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs.* These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas:

— assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

— incorporating forward-looking information into the measurement of ECLs.

Impact assessment

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Company has not finalised its methodology over ECL assessment.

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL, and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities on the day of initial application of IFRS 9

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

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

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2023.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

4. Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below: Actual results may significantly differ.

Insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date ("IBNR"). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornhuetter-Ferguson, and independent increments methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, pending levels of unpaid claims, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, by business lines, as well as by claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

Instead, the assumptions used are those implicit in the historical claim's development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law, results of litigation, changes in medical costs, as well as costs of repair materials and labour rates can substantially impact ultimate settlement costs.

Accordingly, the Company reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses can vary significantly from the level of reserves originally set.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortization of unearned premium on a basis other than time apportionment.

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

5. Cash and cash equivalents

	31 December 2022	31 December 2021
Cash at banks	**919**	470
Total cash and cash equivalents	**919**	470

Cash and cash equivalents for consolidated statement of cash flows are same as above.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise the following:

	31 December 2022	31 December 2021
Accrued interest on time deposits in banks	**3,392**	303
Total amounts from credit institutions, net	**3,392**	303

As at 31 December 2022, AZN 2,700 thousand or 83.5% of total time deposit balances (31 December 2021: AZN 100 thousands or 33%) are placed in 1 resident bank (31 December 2021: 1 resident bank).

As at 31 December 2022, deposits bore annual fixed interest rate in the range of 5%-9.5% p.a. (31 December 2021: 5.5%-9.5%) and maturing throughout January 2023 – July 2025 (31 December 2021: December 2022 – December 2024).

See note 2424 on credit risk of amounts due from credit institutions to understand how the Company manages and measures credit quality of amounts due from credit institutions that are neither past due nor impaired.

7. Investment securities at available- for-sale

	31 December 2022	31 December 2021
Investment in available-for-sale debt securities		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	**110**	10,557
Bonds of the State Oil Company of the Republic of Azerbaijan	**214**	221
Total investment in available-for-sale debt securities	**324**	10,778

As at 31 December 2022 investment securities comprise available-for-sale debt securities (31 December 2021: available-for-sale) in the total amount of AZN 324 thousand (31 December 2021: AZN 10,778 thousand) with the annual interest rate range of 4.5%-7.9% (31 December 2021: 2.6%-9.35%) that mature throughout April 30, 2024 – November 2026 (31 December 2021: October 17 2021 – November 2026) The management believes it is unlikely that the fair value at the year-end would differ significantly from the carrying amount.

8. Investment securities at held-to- maturity

	31 December 2022	31 December 2021
Investment in held-to-maturity debt securities		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	**12,681**	-
Partner Finance LTD Company	**1,628**	-
Total investment in held-to-maturity debt securities	**14,309**	-

As at 31 December 2022 investment securities comprise held-to-maturity debt securities in the total amount of AZN 14,309 thousand (31 December 2021: AZN Nil) with the annual interest rate range of 4.5%-10% that mature throughout October 2023 – October 2028.

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

9. Insurance receivables

Insurance receivables comprise the following:

	31 December 2022	31 December 2021
Due from policyholders	**202**	31
Provision for impairment	**(7)**	-
Total insurance receivables	**195**	31

As at 31 December 2022 AZN 129 thousand or 64% (31 December 2021:16 thousand AZN or 52%) of gross insurance receivables are due from 1 (31 December 2021: 10) policyholders.

The following table shows reconciliations from the opening to the closing balance of the provision for receivables.

	31 December 2022	31 December 2021
Opening balance	**-**	-
Charge for the year	**7**	-
Closing balance	**7**	-

See note 24 on credit risk of insurance receivables to understand how the Company manages and measures credit quality of insurance receivables that are neither past due nor impaired or past due but not impaired.

10. Property, equipment, and intangible assets

The movements in property, equipment and intangible assets comprise the following:

	Motor vehicles	Furniture and fixtures	Computers and other equipment	Office equipment	Intangible assets	Total
Cost						
At 1 January 2021	72	-	1	-	-	73
Additions	41	3	45	4	212	305
At 31 December 2021	113	3	46	4	212	378
Additions	**-**	**-**	**12**	**2**	**-**	**14**
At 31 December 2022	**113**	**3**	**58**	**6**	**212**	**392**
Accumulated depreciation and amortization						
At 1 January 2021	(31)	-	(1)	-	-	(32)
Charge for the year (note 21)	(13)	-	(8)	(1)	(1)	(23)
At 31 December 2021	(44)	-	(9)	(1)	(1)	(55)
Charge for the year (note 21)	(27)	(1)	(13)	(1)	(1)	(43)
At 31 December 2022	**(71)**	**(1)**	**(22)**	**(2)**	**(2)**	**(98)**
Carrying amount						
At 31 December 2021	69	3	37	3	211	323
At 31 December 2022	**42**	**2**	**36**	**4**	**210**	**294**

As at 31 December 2022 intangible assets include AZN 200 thousand (31 December 2021: AZN 200 thousand) that are represented by participation fee paid for the membership in the Bureau and fees paid for the insurance (including life insurance) and reinsurance licenses, respectively. Since there are no foreseeable limits to the period over which above assets are expected to generate net cash inflows for the Company, management determined these assets have an indefinite useful life. As at 31 December 2022 and 31 December 2021 management did not identify impairment for these assets.

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

11. Other assets

	31 December 2022	31 December 2021
Deposits at Compulsory Insurance Bureau	**100**	100
Total other financial assets	**100**	100
Deferred charges	**18**	14
Receivables from investment broker	**19**	-
Due from agents	**5**	-
Other	**1**	-
Total other non-financial assets	**43**	14
Total other assets	**143**	114

As per applicable law, the Company paid AZN 100 thousand as security deposits to provide life insurance services.

12. Reinsurance assets and insurance contract liabilities

Reinsurance assets and insurance contract liabilities comprise the following:

	31 December 2022		31 December 2021	
	Insurance contract liabilities	***Reinsurance share in liabilities***	*Insurance contract liabilities*	*Reinsurance share in liabilities*
Provision for claims reported, but not settled RBNS	**3**	**-**	-	-
Provision for claims incurred, but not reported IBNR	**51**	**(4)**	39	(1)
Outstanding claims provision	**54**	**(4)**	39	(1)
Provision for unearned premiums	**559**	**(51)**	114	(3)
Mathematical Reserve	**991**	**-**	174	-
Total insurance contract liabilities / (reinsurance assets)	**1,604**	**(55)**	327	(4)

The movements in outstanding claims provision comprise the following:

	2022		2021	
	Outstanding claims provision	***Reinsurance share in outstanding claims provision***	*Outstanding claims provision*	*Reinsurance share in outstanding claims provision*
At 1 January	**39**	**(1)**	-	-
Claims settled during the year	**(8)**	**(1)**	39	(1)
Claim expense for the year (note 1919)	**23**	**(2)**	-	-
At 31 December	**54**	**(4)**	39	(1)

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

Reinsurance assets and insurance contract liabilities (continued)

The movements in provision for unearned premiums comprise the following:

	2022		2021	
	Provision for unearned premiums	***Reinsurance share in provision for unearned premiums***	*Provision for unearned premiums*	*Reinsurance share in provision for unearned premiums*
At 1 January	**288**	**(3)**	-	-
Premiums written/(ceded) during the year (note 19)	**2,402**	**(128)**	443	(10)
Premiums earned during the year	**(1,140)**	**80**	(155)	7
At 31 December	**1,550**	**(51)**	288	(3)

As at 31 December 2022 and 31 December 2021, the Company did not identify impairment of reinsurance assets.

13. Insurance and other payables

Insurance payables comprise the following:

	31 December 2022	31 December 2021
Payables arising from mortgage	**304**	88
Payables due to insurers	**69**	33
Due to agents	**46**	-
Payables related to pending clarification	**4**	1
Total insurance payables	**423**	122

14. Deferred expenses and income

Movements in deferred expenses during 2022 and 2021 comprise the following:

	2022	2021
At 1 January	**-**	-
Acquisition costs,	**204**	52
Utilized to profit or loss	**(104)**	(52)
At 31 December	**100**	-

Acquisition costs are represented by commission expenses on direct insurance and inward reinsurance.

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

15. Taxation

The corporate income tax expense comprises the following:

	2022	2021
Current tax charge	**(143)**	(45)
Deferred tax expense in P & L	**(37)**	-
Income tax expense	**(180)**	(45)

Deferred tax related to items classified to other comprehensive income during the year is as follows:

	2022	2021
Net charge on investment securities available-for-sale	**8**	(10)
Income tax charge to other comprehensive income	**8**	(10)

Standard profit tax rate comprises 20% for 2022 and 2021 and payers have to file profit tax returns. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	31 December 2022	31 December 2021
Profit before income tax expense	**803**	182
Statutory tax rate	**20%**	20%
Theoretical income tax expense at the statutory rate	**(161)**	(36)
Tax effect of non-deductible expenses	**18**	(9)
Deferred tax expense	**(37)**	-
Income tax expense	**(180)**	(45)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	Balance at 1 January 2022	Recognised in profit or loss	Recognised in other compre-hensive income	Balance at 31 December 2022	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**Balance at 31 December 2021**
Insurance receivables	-	-	-	-	**1**	-	**1**
Insurance and other payables	-	-	-	-	**18**	-	**18**
Reinsurance asset	-	-	-	-	**1**	-	**1**
Property and equipment and intangible assets	-	-	-	-	**(7)**	-	**(7)**
Investment securities	-	-	(10)	(10)	-	**8**	**(2)**
Deferred acquisition costs	-	-	-	-	**(20)**	-	**(20)**
Insurance contract liabilities	-	-	-	-	**(24)**	-	**(24)**
Other liabilities	-	-	-	-	**(6)**	-	**(6)**
Net deferred tax liability	-	-	(10)	(10)	**(37)**	**8**	**(39)**

As at 31 December 2022 the Company has current income tax liability of AZN 34 thousand (31 December 2021: AZN 168 thousand).

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

16. Other liabilities

Other liabilities comprise the following:

	31 December 2022	31 December 2021
Provision for unused vacation	**90**	50
Due to regulatory	**33**	4
Due to suppliers	**16**	1
Other	**5,302**	7
Total financial liabilities	**5,441**	62
Reserves for future expenses and payments	**8**	5
Tax payable	**1**	-
Other	**1**	9
Total other non-financial liabilities	**10**	14
Total other liabilities	**5,451**	76

17. Share capital

As at 31 December 2022 the Company's authorised, issued and fully paid share capital amounted to AZN 11,000 thousand (31 December 2021: AZN 11,000 thousand). The founder of the Company is Mega Insurance OJSC with a 100% shareholding.

18. Contingencies and commitments

Operating environment

The Company's operations are primarily located in Azerbaijan. Consequently, the Company is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan. The volatility in the global oil prices has increased the level of uncertainty in the business environment. The financial statements reflect management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Taxation

The taxation system in Azerbaijan is prone to frequent changes in legislation and some tax law provisions are open to various interpretations. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements, and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Capital commitments

The Company has no capital commitments as at 31 December 2022 and 31 December 2021.

Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business, while pursue of third parties for payment of some or all costs incurred in particular claims. While it is not practicable to forecast or determine the final results of all potential or threatened legal proceedings against the Company, management does not believe that such proceedings (including litigation), if any, will have a material effect on its financial position and performance. The Company is also subject to insurance solvency regulations set and controlled by the Central Bank of the Republic of Azerbaijan and has complied with all these solvency regulations as at 31 December 2022, see also note 24.

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

19. Insurance activity results

The following table presents premiums and claims regarding the Company's major business lines for the year ended 31 December 2022:

	Endowment	Credit Life	Compulsory	Mortgage	Group +Individual Life	Total
Gross written premiums (note 12)	699	378	945	221	159	2,402
- on direct insurance	699	378	945	221	159	2,402
- on inward reinsurance						
Premiums ceded to reinsurers (note 12)	(3)	-	(18)	(38)	(69)	(128)
Cancelled premiums written	(16)	(2)	(65)	-	(3)	(86)
Net written premiums	680	376	862	183	87	2,188
Change in provision for unearned premiums, net of reinsurance	-	-	(335)	-	(62)	(397)
- gross change	-	-	(335)	-	(110)	(445)
- reinsurers' share of change	-	-	-	-	48	48
Premiums earned, net of reinsurance	680	376	527	183	25	1,791
Claim expenses, net of reinsurance	-	(9)	-	-	-	(9)
- gross claim expenses (note 12)	-	(9)	-	-	-	(9)
- claims ceded to reinsurers (note 1212)	-	-	-	-	-	-
Change in outstanding claims provision, net of reinsurance	-	(12)	11	(8)	(3)	(12)
- gross change	-	(12)	13	(8)	(7)	(14)
- reinsurers' share of change	-	-	(2)	-	4	2
Change in mathematical reserve	(687)	(117)	-	(13)	-	(817)
Claims incurred, net of reinsurance	(7)	238	538	162	22	953
Fees and commission income	-	-	-	-	-	-
Fees and commission expense	-	(10)	(70)	(23)	(1)	(104)
Insurance activity results	(7)	228	468	139	21	849

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

The following table presents premiums and claims regarding the Company's major business lines for the year ended 31 December 2021

	Endowment	**Credit Life**	**Compulsory**	**Mortgage**	**Individual+ Group Life**	**Total**
Gross written premiums (note 12)	66	21	326	30	-	443
- on direct insurance	66	21	326	30	-	443
- on inward reinsurance	-	-	-	-	-	-
Premiums ceded to reinsurers (note 12)	-	-	(8)	(2)	-	(10)
Cancelled premiums written	-	-	(26)	-	-	(26)
Net written premiums	66	21	292	28	-	407
Change in provision for unearned premiums, net of reinsurance	-	-	(112)	-	-	(112)
- gross change	-	-	(114)	-	-	(114)
- reinsurers' share of change	-	-	2	-		2
Premiums earned, net of reinsurance	66	21	180	28	-	295
Claim expenses, net of reinsurance						
- gross claim expenses (note 12)	-	-	-	-	-	-
- claims ceded to reinsurers (note 12)	-	-	-	-	-	-
Change in outstanding claims provision, net of reinsurance	-	-	(38)	-	-	(38)
- gross change	-	-	(39)	-	-	(39)
- reinsurers' share of change	-	-	1	-	-	1
Change in mathematical reserve	(61)	(8)	-	(105)		(174)
Claims incurred, net of reinsurance	5	13	142	(77)	-	83
Fees and commission income						
Fees and commission expense	-	(3)	(45)	(4)	-	(52)
Insurance activity results	5	10	97	(81)	-	31

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

20. Personnel expenses

Personnel expenses comprise the following:

	2022	2021
Salaries and bonuses	**(719)**	(428)
Social security costs	**(127)**	(73)
Total personnel expenses	**(846)**	(501)

21. General and administrative expenses

General and administrative expenses comprise the following:

	2022	2021
Compulsory Insurance Bureau fee	**(1)**	(1)
Fees to State authorities	**(114)**	(15)
Rental expense	**(53)**	(48)
Depreciation and amortization (Note 9)	**(43)**	(23)
Marketing and advertising	**(6)**	(2)
Professional services	**(94)**	(26)
Vehicle running costs	**(9)**	(8)
Communications	**(10)**	(13)
Travel expenses	**(4)**	-
Office supplies	**(12)**	(13)
Bank charges	**(5)**	(3)
Insurance receivables provision	**(7)**	-
Others	**(32)**	(28)
Total general and administrative expenses	**(390)**	(180)

In accordance with the *Law on Compulsory Insurance of the Republic of Azerbaijan*, insurance companies are required to pay 5% of written compulsory premiums, to state authorities.

22. Interest income

Interest income comprises the following:

	2022	2021
Investment securities	**948**	826
Amounts due from credit institutions	**231**	15
Total interest income	**1,179**	841

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

23. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions and balances with related parties

Total remuneration included in personnel expenses for the years ended 31 December 2022 and 2021 is as follows:

	2022	2021
Salaries and other benefits	**181**	143
Social security costs	**32**	24
	213	167

Related parties include entities under control of the common shareholders. The outstanding balances as at 31 December 2022 and 2021 and related profit or loss amounts of transactions for the years ended 31 December 2022 and 2021 with other related parties are as follows:

	2022	2021
Statement of financial position		
LIABILITIES		
Payable to policyholders	**11**	13
Profit (loss)		
Gross written premiums	**16**	6

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

24. Risk management

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholder from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit, liquidity, and operating risks. The independent risk control process does not include business risks such as changes in the environment, technology, and industry. They are monitored through the Company's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Company.

Risk Management

The Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Internal Audit

Risk management processes throughout the Company are audited periodically by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Objectives

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders;
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholder value.

Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to the shareholder and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholder.

The source of capital used by the Company is equity shareholder's funds.

The Company manages its capital and capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholder or return capital to shareholder. The process is ultimately subject to approval by shareholders.

Capital management

Regulatory framework

The operations of the Company are also subject to regulatory requirements within the jurisdictions of the Republic of Azerbaijan in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy, solvency) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the regulator.

These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

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

The table below summarizes the regulatory capital and the minimum required capital of the Company:

	31 December 2022 (unaudited)	31 December 2021 (unaudited)
Regulatory capital	**12,102**	11,637
Minimum required capital	**10,000**	10,000

These requirements are calculated based on balances derived from statutory financial statements of the Company and compliance with these is monitored quarterly.

Asset liability management framework

Financial risks arise from open positions in interest rate, currency and equity products, which all are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk. The Company manages these positions within an asset liability management ("ALM") framework that has been developed to meet its obligations under insurance contracts and to achieve higher long-term investment returns. ALM process supports ability to maintain financial position by ensuring sufficient cash flow and liquid assets are available to cover potential funding requirements. The Company manages and monitors its capital and assets, diversification, and credit quality of investments.

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities. The exposures can be noted in the liquidity risk table.

Insurance risk

The major classes of insurance contracts issued by the Company include endowment, credit, compulsory, mortgage, individual, group life. Risks under these contracts usually cover twelve months duration and policies are not guaranteed as renewable.

The risk under an insurance contract is the risk that insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For medical insurance contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., earthquakes, flood damages, etc.) based on the Company's risk appetite as decided by management.

Reinsurance arrangements used also due to statutory requirements that risk retained under each insurance contract should not exceed 10% of regulatory capital.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts and are presented in the statement of financial position as reinsurance assets. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

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

The geographical concentration of the Company's financial assets and liabilities is set out below:

31 December 2022	**Republic of Azerbaijan**	**OECD countries**	**CIS and non-OECD countries**	**Total**
Cash and cash equivalents	919	–	–	919
Amounts due from credit institutions	3,392	–	–	3,392
Investment securities	14,633	–	–	14,633
Insurance receivables	195	–	-	195
Reinsurance assets	55	-	-	55
Other financial assets	100	-	-	100
Total financial and insurance assets	**19,294**	**-**	**-**	**19,294**
Insurance contract liabilities	1,604	-	-	1,604
Insurance and other payables	423	-	-	423
Other financial liabilities	5,441	-	-	5,441
Total financial and insurance liabilities	**7,468**	**-**	**-**	**7,468**
Net assets	**11,826**	**-**	**-**	**11,826**

31 December 2021	Republic of Azerbaijan	OECD countries	CIS and non-OECD countries	Total
Cash and cash equivalents	470	–	–	470
Amounts due from credit institutions	303	–	–	303
Investment securities	10,778	–	-	10,778
Insurance receivables	31	–	-	31
Reinsurance assets	4	-	-	4
Other financial assets	100	-	-	100
Total financial and insurance assets	11,686	-	-	11,686
Insurance contract liabilities	327	-	-	327
Insurance and other payables	122	-	-	122
Other financial liabilities	62	-	-	62
Total financial and insurance liabilities	511	-	-	511
Net assets	11,175	-	-	11,175

Geographical concentration of reinsurers' share of liabilities is based on the country where reinsurance business is written.

Terms and conditions

Claims provisions (comprising provisions for claims reported, but not settled and claims incurred, but not yet reported) are established by lines of business to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the statement of financial position date.

Company's Actuary unit refine provision on a monthly basis as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money due to short period of settlement.

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

Change in outstanding claims provisions of the Company by lines of business comprise the following:

	31 December 2022		31 December 2021	
	Insurance contract liabilities	**Reinsurance share in liabilities**	Insurance contract liabilities	Reinsurance share in liabilities
Endowment	**-**	**-**	-	-
Credit	**(12)**	**-**	-	-
Mortgage	**(8)**	**-**	-	-
Compulsory	**13**	**(2)**	(39)	1
Individual + Company	**(7)**	**4**	-	-
Total outstanding claims provision	**(14)**	**2**	(39)	1

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques like the Chain Ladder, Bornhuetter-Ferguson and Independent increments methods. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analysed by business lines. In addition, larger claims are usually either separately assessed by loss adjusters or separately projected by actuaries. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of pending levels of unpaid claims, average claim costs, claims handling costs, claims inflation factors, claim numbers for each accident year, premium rate change, loss ratios and anticipated market experience. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The estimation of provision for claims incurred, but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Sensitivities

The outstanding claims provision is sensitive to the above key assumptions. It has not been possible to quantify sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the statement of financial position date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent financial statements.

Essential influence on capacity, periods and power of ambiguity of future flows of monetary aggregates is rendered by an assumption based on evenness of payments of claims from claim reserve, stability of the average cost of claims and their number. General insurance and claim liabilities are estimated by using standard actuarial claims projection techniques for each major business line of the Company. These methods depend on fluctuations in the timing, frequency and severity of claims and claim settlements and extrapolate the claims development for each accident year based on the observed development of earlier years.

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

Claims development table

The following table show the estimates of cumulative incurred claims, including for claims reported, but not settled and claims incurred, but not yet reported for each successive accident year at each reporting date, together with cumulative payments to date. Outstanding claims (excluding claims handling costs) before the effect of reinsurance provision:

	2019	2020	2021	2022	Total
At the end of accident year	-	-	-	12	12
One year later	-	-	-		-
Two years later	-	-			-
Three years later	-				-
Four years later					-
Five years later					-
Current estimate of cumulative claims incurred	-	-	-	12	12

	2019	2020	2021	2022	Total
At the end of accident year	-	-	-	9	9
One year later	-	-	-		-
Two years later	-	-			-
Three years later	-				-
Four years later					-
Five years later					-
Cumulative payments to date	-	-	-	9	9
Outstanding claims provision				3	3

The tables above present the development of claim payments and the estimated ultimate cost of claims for the accident years 2016 to 2022. The upper half of the tables shows the current estimate of cumulative incurred claims, whereas lower half of tables shows cumulative amounts paid during successive years related to each accident year. In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions, adequacy is relatively at its highest.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity. The Company aims to maintain strong reserves in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims become more certain, the relative level of margin maintained should decrease and the absence of adverse claims experience will result in a release of reserves from earlier accident years. However, in order to maintain overall reserve adequacy, the Company establishes strong reserves in respect of the current accident year where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Overall, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company's credit risk policy sets out the determination and assessment of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Management Board. The policy is regularly reviewed for pertinence and for changes in the risk environment.

The carrying amount of financial assets included on the statement of financial position represents the maximum credit risk exposure on these assets.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

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

Insurance receivables

The credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document which is generally up to 30 days starting from the billing date. However, these terms may differ for certain customers, who have a good prior history with the Company. These customers are granted with the right of payment of premiums in several instalments. On expiry of the grace period the policy is either paid up or terminated, which is also regulated in accordance with the Law on Insurance Activity of the Republic of Azerbaijan.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

Reinsurance assets

The Company is exposed to concentrations of risk with individual reinsurance, due to the nature of reinsurance market and the restricted range of reinsurers with acceptable credit ratings. The Company operates a policy to manage its reinsurance counterparty exposures and the impact from reinsurer default is measured regularly. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

Others

With respect to credit risk arising from other financial assets of the Company, which generally comprise of cash and cash equivalents, investment securities and amounts due from credit institutions and loans to employees the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit quality per class of financial assets

The Company determines credit risk exposure of its financial assets by classifying them according to the Company's credit ratings of counterparties and international rating agencies, where available. The internal rating procedure is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating procedure.

- High credit quality – counterparties with excellent financial performance and characterized by remote possibility of credit loss;
- Standard credit quality – counterparties with stable financial performance and characterized by normal creditworthiness;
- Substandard credit quality – counterparties with satisfactory financial performance and characterized by lower credit quality than standard and by possibility of credit loss.

Assets classified past due or impaired have all the weaknesses inherent in one classified substandard with the added characteristic the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Unrated financial assets are allocated to credit quality categories on an individual basis, taking into account the Sovereign rating of a country, where these assets are located, and other information which the management of the Company possesses.

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

Information regarding the credit risk exposure of financial assets that are neither past due nor impaired according to the Company's categorization of counterparties is provided in the table below based on gross amount due from counterparties:

31 December 2022	**Notes**	**Neither Past due but not impaired** Standard	**Past due but not impaired**	**Individually impaired**	**Total**
Cash and cash equivalents	5	**919**	**-**	**-**	**919**
Amounts due from credit institutions	6	**3,392**	**-**	**-**	**3,392**
Investment securities available-for-sale	7	**324**	**-**	**-**	**324**
Investment securities held-to-maturity	8	**14,309**	**-**	**-**	**14,309**
Insurance receivables	9		**195**	**7**	**202**
Reinsurance assets	10	**55**	**-**	**-**	**55**
Other financial assets	11	**100**	**-**	**-**	**100**
Total financial and insurance assets		**19,099**	**195**	**7**	**19,301**

31 December 2021	Notes	Neither Past due but not impaired Standard	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents	5	470	-	-	470
Amounts due from credit institutions	6	303	-	-	303
Investment securities available-for-sale	7	10,778	-	-	10,778
Investment securities held-to-maturity	8	-			-
Insurance receivables	9	31	-	-	31
Reinsurance assets	10	4	-	-	4
Other financial assets	11	100	-	-	100
Total financial and insurance assets		11,586	-	-	11,586

Aging analysis of financial assets past due but not impaired is as follows:

	31 December 2022				31 December 2021			
	<30 days	**31 to 90 days**	**>90 days**	**Total**	<30 days	31 to 90 days	>90 days	Total
Insurance receivables	**193**	**2**	**-**	**195**	11	20	-	31

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, a counterparty failing to meet contractual obligations, an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity through a Company liquidity risk policy which determines what constitutes liquidity risk for the Company, and it specifies minimum proportion of funds to meet emergency calls, establishes contingency funding plans, specifies the sources of funding and the events that would trigger the plan, assesses concentration of funding sources, reports liquidity risk exposures and breaches of the monitoring authority, monitors compliance with the liquidity risk policy and reviews the liquidity risk policy for changes in the risk environment.

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

Liabilities of the Company classified into relevant maturity Company based on the remaining term at the end of the reporting period to their contractual maturities or expected repayment dates on undiscounted basis is as follows:

31 December 2022	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Financial and insurance contracts liabilities				
Insurance contract liabilities	**54**	**570**	**980**	**1,604**
Insurance and other payables	**-**	**-**	**423**	**423**
Other financial liabilities	**5,441**	**-**	**-**	**5,441**
Total financial liabilities	**5,495**	**570**	**1,403**	**7,468**

31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial and insurance contracts liabilities				
Insurance contract liabilities	39	118	170	327
Insurance and other payables	-	-	122	122
Other financial liabilities	62	-	-	62
Total financial liabilities	101	118	292	511

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables such as market interest rates (interest rate risk), foreign exchange rates (currency risk) and market prices (price risk). The Company has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments.

The Company does not have floating interest rate instruments thus is not exposed to cash flow interest risk; interest rate fluctuations also does not affect the Company's equity.

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

Currency risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company's principal transactions are carried out in Azerbaijani manats and its exposure to foreign exchange risk arise primarily with respect to USD and EUR, as the operations denominated in USD form significant part of the Company's reinsurance operations and has inflationary effect on the Company's expenses.

The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance contract liabilities are expected to be settled.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2022 and 31 December 2021 on its financial assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Azerbaijani manats, with all other variables held constant on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in the statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

31 December 2022	**AZN**	**USD**	**EUR**	**Others**	**Total**
Cash and cash equivalents	**917**	**2**	**-**	**-**	**919**
Amounts due from credit institutions	**3,392**	**-**	**-**	**-**	**3,392**
Investment securities available-for-sale	**110**	**214**	**-**	**-**	**324**
Investment securities held-to-maturity	**14,309**	**-**	**-**	**-**	**14,309**
Insurance receivables	**195**	**-**	**-**	**-**	**195**
Reinsurance assets	**55**	**-**	**-**	**-**	**55**
Other financial assets	**100**	**-**	**-**	**-**	**100**
Total financial and insurance assets	**19,078**	**216**	**-**	**-**	**19,294**
Insurance contract liabilities	**1,604**	**-**	**-**	**-**	**1,604**
Insurance and other payables	**423**	**-**	**-**	**-**	**423**
Other financial liabilities	**5,441**	**-**	**-**	**-**	**5,441**
Total financial and insurance liabilities	**7,468**	**-**	**-**	**-**	**7,468**
Net position	**11,610**	**216**	**-**	**-**	**11,610**
Increase in exchange rate in %		**5%**	**5%**	**5%**	
Impact on net profit		**9**	**-**	**-**	
Decrease in exchange rate in %		**5%**	**5%**	**5%**	
Impact on net profit		**(9)**	**-**	**-**	

31 December 2021	AZN	USD	EUR	Others	Total
Cash and cash equivalents	344	126	-	-	470
Amounts due from credit institutions	303	-	-	-	303
Investment securities available-for-sale	10,564	214	-	-	10,778
Insurance receivables	31	-	-	-	31
Reinsurance assets	4	-	-	-	4
Other financial assets	100	-	-	-	100
Total financial and insurance assets	11,345	340	-	-	11,685
Insurance contract liabilities	327	-	-	-	327
Insurance and other payables	122	-	-	-	122
Other financial liabilities	62	-	-	-	62
Total financial and insurance liabilities	511	-	-	-	511
Net position	10,834	340	-	-	11,174
Increase in exchange rate in %		14%	14%	14%	
Impact on net profit		38	-	-	
Decrease in exchange rate in %		3%	3%	3%	
Impact on net profit		(8)	-	-	

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

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit and risk management functions. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning, budgeting and risk management processes.

The regulator regularly considers whether the Company is meeting the requirement to treat customers fairly and the Company makes use of various metrics to assess its own performance, including customer advocacy, retention and complaints.

25. Fair values of financial instruments

Fair value of financial assets and liabilities carried at fair value

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment securities available-for-sale	**324**			**324**

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities available-for-sale	10,778			10,778

Set out below is a comparison by class of the carrying amounts and fair values of the Company`s financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

Financial and insurance assets and liabilities carried at amortized cost

Fair value of unquoted instruments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Rates for fair value calculation of amounts due from credit institutions are taken as the average rates per Central Bank of the Republic of Azerbaijan for similar assets:

	31 December 2022		31 December 2021	
	Carrying Value	**Fair value**	Carrying value	Fair Value
Financial and insurance assets				
Cash and cash equivalents	**919**	-	470	470
Amounts due from credit institutions	**3,392**	-	303	303
Insurance securities at held-to-maturity	**14,309**	**14,309**	-	-
Insurance receivables	**195**	-	31	-
Reinsurance assets	**55**	-	4	-
Other financial assets	**100**	-	100	-
Financial and insurance liabilities				
Insurance contract liabilities	**1,604**	-	327	-
Insurance and other payables	**423**	-	122	-
Other financial liabilities	**5,441**	-	62	-

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

Assets for which fair value approximates carrying value

For financial assets and liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

26. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	31 December 2022			31 December 2021		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Cash and cash equivalents	**919**	**-**	**919**	470	-	470
Amounts due from credit institutions	**542**	**2,850**	**3,392**	303	-	303
Investment securities available-for-sales	**-**	**324**	**324**	214	10,564	10,778
Investment securities at held-to-maturity	**153**	**14,156**	**14,309**	-	-	-
Insurance receivables	**195**	**-**	**195**	31	-	31
Deferred expenses	**100**	**-**	**100**	-	-	-
Reinsurance assets	**-**	**55**	**55**	-	4	4
Property, equipment and intangible assets	**-**	**294**	**294**	-	323	323
Current income tax asset	**34**	**-**	**34**	168	-	168
Other assets	**143**	**-**	**143**	114	-	114
Total assets	**2,086**	**17,679**	**19,765**	1,300	10,891	12,191
Insurance contract liabilities	**624**	**980**	**1,604**	157	170	327
Insurance and other payables	**-**	**423**	**423**	-	122	122
Deferred tax liabilities	**-**	**39**	**39**	-	10	10
Other liabilities	**5,451**	**-**	**5,451**	76	-	76
Total liabilities	**6,075**	**1,442**	**7,517**	233	302	535
Net	**(3,989)**	**16,237**	**12,248**	1,067	10,589	11,656

27. Subsequent events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of these financial statements.