

“CUBE INVEST” CJSC

Financial statements
and Independent Auditor’s Report
For the year ended 31 December 2022

Disclaimer

The attached report was originally prepared in Armenian and then translated into English for the convenience of readers. In the event of any differences between the English and Armenian versions, the Armenian will prevail.

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Location:	Republic of Armenia
Legal form:	Closed join stock company
Principal activities:	The nature of the Company's activity is presented in Note 1
Executive Director:	Armen Ter-Hakobyan

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of "Cube Invest" Closed Joint Stock Company

Opinion

We have audited the financial statements of "Cube Invest" CJSC (the Company), which comprise the statements of financial position as at 31 December 2022, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Company as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter - scope of audit

The Company's financial statements for the year ended 31 December 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on 28 February 2022.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as 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 operation, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is 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 arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the obtained audit evidence, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

In addition to other matters, the management is communicated about the planned scope and timing of the audit engagement, issues identified during the audit, including significant deficiencies in internal controls.

"BDO Armenia" CJSC

Vahagn Sahakyan, FCCA
Managing Partner



Sergey Yakovlev, FCCA
Engagement Partner

28 April 2023
Yerevan

“CUBE INVEST” CJSC
Statement of comprehensive income
For the year ended 31 December 2022

	Note	2022 AMD'000	2021 AMD'000
Interest income calculated using the effective interest method	5	277,931	540,913
Other interest income	5	91,696	68,938
Interest expense	5	(360,378)	(469,939)
Net interest income	5	9,249	139,912
Expenses in the form of commissions and other fees		(3,149)	(461)
Net loss on sale of financial instruments at amortized cost		-	(146,343)
Net loss from financial instruments at fair value through profit or loss	6	(71,855)	(124,716)
Net profit from the sale of foreign currency	7	127,385	-
Net gain/(loss) from exchange rate difference	8	19,182	(1)
Operating profit/(loss)		80,812	(131,609)
Net (loss from impairment of financial assets)/gain from reversal of impairment	9	(15,382)	41,528
Personnel expenses		(28,282)	(10,332)
Other general administrative expenses	10	(43,307)	(28,240)
Loss before tax		(6,159)	(128,653)
Income tax (expense)/recovery	11	(5,504)	21,448
Loss for the year		(11,663)	(107,205)
<i>Other comprehensive income</i>			
Total comprehensive loss for the year		(11,663)	(107,205)

The financial statements were approved and signed by the Company's management in on 28 April 2023. Notes to the financial statements are an integral part of the financial statements.

Armen Ter-Hakobyan
 Executive Director



Representative of the company providing
 accounting services
 Gayane Vardanyan

“CUBE INVEST” CJSC
Statement of financial position
For the year ended 31 December 2022

	Note	2022 AMD'000	2021 AMD'000
ASSETS			
Cash	12	617,927	452
Bank deposits		565	72,455
Amounts due from financial institutions, organizations and individuals	13	693,255	-
Income tax prepayment		-	111,775
<i>Investment securities at fair value through profit or loss</i>			
- Pledged against sale and repurchase	14	808,083	929,166
<i>Investment securities measured at amortized cost</i>			
- Held by the company		-	-
- Pledged against sale and repurchase	14	3,102,792	3,124,386
Loans issued	15	152,825	85,892
Deferred tax assets	11	38,000	43,504
Property, plant and equipment		3,325	892
Right-of-use asset	16	18,453	-
Other assets		59	420
TOTAL ASSETS		<u>5,435,284</u>	<u>4,368,942</u>
LIABILITIES			
Amounts payable to financial institutions	17	3,515,560	3,490,789
Financial liabilities measured at fair value through profit or loss	18	851,630	-
Loans received	19	197,575	26,132
Lease liability	16	17,505	-
Other liabilities		16,306	3,650
TOTAL LIABILITIES		<u>4,598,576</u>	<u>3,520,571</u>
EQUITY			
Share capital	20	640,000	640,000
General reserve		71,479	71,479
Retained earnings		125,229	136,892
TOTAL EQUITY		<u>836,708</u>	<u>848,371</u>
TOTAL LIABILITIES AND EQUITY		<u>5,435,284</u>	<u>4,368,942</u>

“CUBE INVEST” CJSC
Statement of cash flows
For the year ended 31 December 2022

	2022 AMD'000	2021 AMD'000
Cash flows from operating activities		
Interest earned	428,576	582,953
Interest paid	(353,396)	(480,070)
Commissions paid	(4,522)	(792)
Receipts from purchase and sale of foreign currency	119,977	-
Net payments on financial instruments at fair value through profit or loss	-	(1,121,974)
Other income received from operating activities and other expenses paid	(64,673)	(42,215)
Decrease in operating assets		
Investment securities	(148,088)	-
Other assets	195,693	-
Increase/(decrease) in operating liabilities		
Amounts payable under repurchase agreements	(254,777)	(7,050,414)
Other liabilities	24,468	-
Net cash from operating activities before profit tax	(56,742)	(8,112,512)
Income tax compensation/(payment)	111,775	(246,057)
Net cash flows from operating activities	55,033	(8,358,569)
Cash flows from investing activities		
Acquisition of investment securities	-	(1,106,393)
Proceeds from sale and repayment of investment securities	-	9,765,010
Invested deposits	(1,150,048)	(8,013,874)
Repayment of deposits	1,190,070	8,079,289
Acquisition of PPE	(4,136)	(386)
Net cash flows from investing activities	35,886	8,723,646
Cash flows from financing activities		
Investments in authorized capital	-	20,000
Loans issued	(288,008)	(815,800)
Repayment of issued loans	160,391	471,273
Loans and borrowings received	10,704,151	473,227
Repayment of received loans and borrowings	(10,036,095)	(462,400)
Repayment of lease liability	(4,200)	-
Payment of dividends	-	(53,405)
Net cash flows from financing activities	536,239	(367,105)
Total net flows of cash and cash equivalents	627,158	(2,028)
Cash and cash equivalents at the beginning of the year	452	2,481
Exchange rate differences on cash	(9,683)	(1)
Cash and cash equivalents at the end of the year	617,927	452

“CUBE INVEST” CJSC
Statement of changes in equity
For the year ended 31 December 2022

	Share capital AMD'000	General reserve AMD'000	Retained earnings AMD'000	Total AMD'000
As of December 31, 2021	640,000	71,479	136,892	848,371
Profit for the reporting year	-	-	(11,663)	(11,663)
As of December 31, 2022	<u>640,000</u>	<u>71,479</u>	<u>125,229</u>	<u>836,708</u>

	Share capital AMD'000	General reserve AMD'000	Retained earnings AMD'000	Total AMD'000
As of December 31, 2020	620,000	58,479	557,097	1,235,576
Loss for the reporting year	-	-	(107,205)	(107,205)
Increase of share capital	20,000	-	-	20,000
Dividends	-	-	(300,000)	(300,000)
Transfer to the general reserve	-	13,000	(13,000)	-
As of December 31, 2021	<u>640,000</u>	<u>71,479</u>	<u>136,892</u>	<u>848,371</u>

“CUBE INVEST” CJSC
Index to notes forming part of the financial statements
For the year ended 31 December 2022

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1. About the Company

Cube Invest CJSC (“the Company”) was established in the Republic of Armenia as a closed joint-stock company on 3 February 2017. The Company received an Investment Services License from the Central Bank of Armenia on 3 February 2017. The Company’s principal activities are transactions in securities on its behalf and on its own account. The Company’s activities are regulated by the Central Bank of Armenia (“the CBA”).

The Company’s registered office is 64 Aram Street, office 143, Yerevan 0002, Republic of Armenia. The Company is equally owned and ultimately controlled by Armen Ter-Hakobyan and Armine Najaryan. Related party transactions are described in detail in Note 22.

Armenian business environment

The Company’s operations are primarily located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia 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 the Armenia.

In addition, in 2020 the war unleashed by Azerbaijan against the Artsakh Republic on 27 September 2020, created significant preconditions for political and economic crises, which in turn led to a decrease in the general mood of investors against the dram, an increase in volatility and fluctuations in financial markets.

The level of business activity in the Russian Federation also has a significant impact on the economic environment of the Republic of Armenia, as there are significant flows of funds from the Russian Federation to the Republic of Armenia. Therefore, the political tension in the region, international sanctions, stock market instability, acute inflation and other risks that the Russian Federation has faced may have a negative impact on the economy of Armenia.

Such business environment has a significant impact on the Company’s operations and financial position. The Company takes the necessary measures to ensure the stability of the Company’s operations, however, due to the unpredictability of developments, the Management does not have the opportunity to give a credible assessment of how such circumstances will affect the financial condition of the Company in the coming years.

COVID-19. In March, 2020 the World Health Organization classified the COVID-19 epidemic as a global pandemic. In response to the epidemic, the RA authorities took a number of measures aimed at curbing the spread and impact of COVID-19, such as: travel bans and restrictions, quarantine, self-isolation, restrictions on business activities. Some of the above-mentioned measures were later softened, and as of December 31, 2022 there were almost no restrictions. However, there was a risk that additional restrictions could be applied in future periods due to the emergence of new types of the virus.

The future effects of the current economic situation and the actions to be taken by the Government are difficult to predict, and the Company’s management’s current expectations and estimates may differ from actual results.

2. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out in Note 24. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in Armenian Drams (AMD), which is also the Company’s functional currency.

Amounts are rounded to the nearest thousand (AMD’000), unless otherwise stated.

“CUBE INVEST” CJSC
Notes forming part of the financial statements
For the year ended 31 December 2022 (continued)

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs).

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates and judgments. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

Basis of measurement

The financial statements have been prepared on a historical cost basis.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2022

Annual improvements to IFRS standards (2018-2020). In May 2020, the IASB issued minor amendments to the illustrative examples of IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture” and IFRS 16 “Leases”.

IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” (Amendment - Unfavorable Contracts - Contract Performance Costs). In May 2020, the IASB issued amendments to IAS 37, adding paragraph 68A to specify the costs to be included in the assessment when recognizing a contract as an unfavorable contract. As a result of these changes, it is expected that a greater number of contracts will be considered unfavorable, as the changes expand the scope of costs that are included in the evaluation of unfavorable contracts.

IAS 16 PPE (Amendment - Proceeds before intended use). In May 2020, the IASB issued amendments to IAS 16, which prohibit companies from deducting proceeds received in the course of preparing the asset for use from the original cost of the relevant property, plant and equipment. Instead, companies should recognize the relevant proceeds from sales and related expenses in income and expenses and not as a deduction from the original cost of the property.

The new standards, interpretations and amendments effective from 01 January 2022 do not have a significant impact on the Company's financial statements.

b) New standards and amendments to IFRSs issued but not yet effective

IFRS 17 “Insurance contracts”. IFRS 17 introduced an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there were significant differences around the world related to the accounting and disclosures of insurance contracts, as IFRS 4 allowed the continuation of many of the previously used (non-IFRS) approaches. The application of IFRS 17 will require significant changes for many insurance companies, requiring adjustments to existing systems and procedures. The new standard considers insurance contracts as a combination of a financial instrument and a service contract, a significant portion of which generates income that varies significantly over time. Thus, it adopts the following approaches:

- Combines the present measurement of future cash flows with the recognition of revenue over the period in which the contracted services are rendered;
- Represents the separation of the results of insurance services (including insurance income) from financial income and expenses of insurance, and
- Requires the company to choose an accounting policy for each portfolio as to whether to recognize all insurance finance income and expenses in income and expenses or to recognize some of them in other comprehensive income.

After the issuance of IFRS 17, amendments and delays in the application period were made.

Accounting policy disclosures (Amendment to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued an amendment to IAS 1, which changed the disclosure requirements relating to accounting policies from “significant accounting policies” to “material information about accounting policies”. The amendments contain guidance on the circumstances in which accounting information is likely to be considered material. The amendments to IAS 1 are effective for periods beginning on or after 1 January 2023. Early application is also allowed. As IFRS Practice Statements are non-mandatory guidance, there is no mandatory effective date for IFRS Practice Statement 2.

Definition of accounting estimates (IAS 8 amendment). In February 2021, the IASB issued an amendment to IAS 8, according to which the definition of accounting estimates was added to IAS 8. The amendments also clarified that changes in input data and measurement methods are also considered changes in accounting estimates, unless they are the result of correcting an error of prior years.

Lease liability in case of "Sale and sublease" (IFRS 16 amendment). In June 2020, the IFRS Interpretations Committee issued an agenda decision regarding the sale and sublease in case of variable payments. This problem has been addressed by the IASB in several ways. The IASB issued the final amendments in September 2022. The amendments require the seller-lessee to determine "lease payments" or "revised lease payments" so that the seller-lessee does not recognize any gain/loss related to the right of use it retains.

IAS 1 "Presentation of Financial Statements" (Amendment - Presentation of liabilities as current or non-current). In January 2020, the IASB issued IAS 1, the amendment to the classification of liabilities as current or non-current, which was subsequently partially amended by the amendment "Non-current liabilities with covenants" issued in October 2022. The amendments require that the company's right to defer repayment of the liability for at least 12 months after the reporting period must be meaningful and exist at the reporting date. The classification of the liability is not affected by the possibility of the company to use the right to postpone the repayment of the liability for at least 12 months after the reporting period. As a result of the COVID-19 pandemic, the Board has delayed application of the amendment for one year for annual reporting periods beginning on or after January 1, 2024.

IAS 1 "Presentation of Financial Statements" (Amendment - Non-current liabilities with restrictive provisions (covenants)). Following the amendment regarding presentation of liabilities as current or non-current, the IASB issued additional amendments to IAS 1 in October 2022. If the company's right to defer repayment is linked to compliance with certain conditions, such conditions affect the existence of the right to defer at the reporting date, if the company should have ensured compliance with those conditions before or on the reporting date, and do not affect if compliance with the conditions must be ensured after the reporting date. The amendments also clarify the meaning of the term "repayment" for the purpose of classifying liabilities as current or non-current.

None of the above has a significant impact on the Company's financial statements.

3. Critical accounting estimates and judgments

The Company makes several estimates and assumptions about the future periods. The estimates and assumptions are constantly reviewed based on the historical experience and other factors, as well as reasonable expectations of future events. However, the actual experience can be different from the estimates and assumptions. Attached are represented the estimates and assumptions, which contain significant risk, as they could be a cause of significant adjustments to the carrying amounts of assets and liabilities in the next fiscal year.

Estimates and assumptions

*Management of liquidity position by re-signing repurchase agreements -
Note 4*

classification of financial assets - Note 24

- assessment of the business model, under which the assets are held, and
- assessment of the contractual provisions to determine whether the cash flows arising at certain dates are only payments of principal and interest calculated on the outstanding principal.

Lease - Note 16

- *Determination of the lease term for certain leases where the Company acts as the lessee,*
- *The determination of the discount rate of the lease liability.*

The Company accounts for leases by recognizing the right-of-use asset and the lease liability, except for:

- ✓ Lease of low-value assets, and
- ✓ Lease for up to 12 months or less.

Measurement of borrowings - Notes 15, 19

The Company receives interest-free loans from persons having control over the Company and also provides interest-free loans to persons having control over the Company as a cash flow management system.

The Company does not control the terms, amounts and maturities of loans and does not have the unconditional right to postpone the repayment of loans up to twelve months after the reporting date. Thus, the above loans are essentially demand loans.

Fair value measurement

Certain assets and liabilities included in Company’s financial statements require fair value measurement and/ or fair value disclosure.

The measurement of fair value of company’s financial and non-financial assets and liabilities is based to the extent of possibility on the baseline data obtained from the observable market. The inputs used to define fair value measurements are classified into different levels depending on the extent to which the outputs used in valuation method are observable. (“fair value hierarchy”):

- Level 1. Prices quoted in active markets for the same assets and liabilities(unadjusted).
- Level 2. Observable direct or indirect level data other than Level 1 data.
- Level 3. Non-observable baseline data (not based on observable market).

In the fair value hierarchy, the level at which a fair value measurement is assigned should be determined based on the lowest level of input that is significant to the fair value measurement as a whole. Transfers of fair value from one level to another are recognized in the period in which these transfers occur.

The fair value of the financial assets and liabilities owned by the organization is equal to their book value because the effect of discounting is insignificant.

4. Financial instruments

Throughout its experience, the company can be exposed to the following financial risks:

- Credit risk
- Fair value or cash flow interest risk
- Foreign exchange risk
- Liquidity risk.

The company may be exposed to risks arising from its use of financial instruments, as it’s inherent in all other business activities. This note presents the Company’s objectives, policy, risk management processes and their measurement methods. Quantitative methods on the mentioned risks are presented in these financial statements.

Compared to the previous periods, there were no significant changes related to the risks arising from financial instruments, Company’s objectives, policy, risk management processes and their measurement methods.

“CUBE INVEST” CJSC
Notes forming part of the financial statements
For the year ended 31 December 2022 (continued)

(a) Main financial instruments

The company’s main financial instruments which give rise to financial instrument risks, are presented below:

- Amounts due from financial institutions, organizations and individuals,,
- Cash,
- Deposits,
- Investment securities,
- Loans issued,
- Amounts payable to financial organizations,
- Financial liabilities measured at fair value,
- Loans received,
- Lease liability

(b) Financial instruments by categories

The balances presented in the financial statements relate to the following groups of assets and liabilities:

Financial assets

	Financial assets measured at amortized cost		At fair value through profit or loss	
	2022 AMD’000	2021 AMD’000	2022 AMD’000	2021 AMD’000
Cash	617,927	452	-	-
Bank deposits	565	72,455	-	-
Amounts due from financial institutions, organizations and individuals	693,255	-	-	-
Investment securities	3,102,792	3,124,386	808,083	929,166
Loans issued	152,825	85,892	-	-
Total financial assets	4,567,364	3,283,185	808,083	929,166

Financial liabilities

	Financial liabilities measured at amortized cost		At fair value through profit or loss	
	2022 AMD’000	2021 AMD’000	2022 AMD’000	2021 AMD’000
Amounts payable to financial institutions	3,515,560	3,490,789	-	-
Financial liabilities measured at fair value through profit or loss	-	-	851,630	-
Loans received	197,575	26,132	-	-
Lease liability	17,505	-	-	-
Total financial liabilities	3,730,640	3,516,921	851,630	-

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include: cash; amounts due from financial institutions, organizations and individuals; deposits; investment securities measured at amortized cost; loans granted and received; amounts payable to financial institutions and lease obligations, the carrying amount of which is equal to their fair value due to their short-term nature.

Note 23 details the fair value hierarchy and significant unobservable inputs relating to valuation techniques that are included in Level 2 of the fair value hierarchy.

Common objectives, policies and processes

The Company’s objective is to define a policy that will reduce the risk to the extent possible, without affecting its competitiveness and flexibility. Details of this policy are presented below.

Credit risk

Credit risk is the risk of financial loss due to non-performance of contractual obligations by the customer or the parties to the financial instrument.

Credit risk is primarily related to securities and foreign exchange transactions, and investment activities that add investment securities to the Company’s asset portfolio.

The main activity of the company is the purchase and sale of securities and foreign currency. In order to avoid significant financial losses, the Company uses various methods to determine and effectively manage credit risks.

The carrying amounts of the company’s financial assets best represent the maximum exposure to credit risk associated with them.

For baseline data, assumptions and methods used for impairment assessment refer to accounting policies in Note 24.8.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and expert credit assessment and including forward-looking information.

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD) estimated with reference to S&P and Moody’s rating migration matrixes;
- qualitative indicators; and
- backstop of 30 days past due for borrowings given and 5 days for other financial instruments, including cash and cash equivalents.

Credit risk grades

The Company allocates exposures from financial asset to a credit risk grades based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default and are aligned with rating grades as published by S&P and Moody’s rating agencies. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, overdue days, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Requests for and granting of forbearance.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. The Company sets the floor PDs equal to PD of the country’s rating grade where the borrower operates. For Government bonds the PDs equals to PD of the country’s rating grade.

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company’s quantitative and qualitative modelling:

- The borrower’s credit risk grade has deteriorated by 2 notches since initial recognition.
- The borrower has an exposure overdue more than 30 days for borrowings given and 5 days for other financial instruments, including cash and cash equivalents.
- The borrower is restructured due to credit event which does not lead to default.
- Management discretion based on qualitative information obtained about the client (e.g. included in watch list, adverse macro-economic factors on the financial performance, etc.) through standard monitoring process and other sources.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for borrowings given and 5 days for other financial instruments, including cash and cash equivalents. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

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For the year ended 31 December 2022 (continued)

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Managements assesses the impact of incorporation of forward-looking information to be immaterial.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Company estimates LGD parameters based on data published by S&P and Moody’s rating agencies. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate guarantee.

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

AMD’000	Exposure as at 31 December 2021	External benchmarks used	
		PD	LGD
Investment securities at amortized cost	3,102,792	S&P default study	Moody’s recovery studies
Borrowings provided	152,825	S&P default study	Moody’s recovery studies

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Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments:

AMD'000	2022		2021	
	Stage 1	Total	Stage 1	Total
<i>Borrowings provided</i>				
Balance at 1 January	258	258	665	665
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	2,227	2,227	(407)	(407)
Balance at 31 December	2,485	2,485	258	258

AMD'000	2022		2021	
	Stage 1	Total	Stage 1	Total
<i>Investment securities at amortized cost</i>				
Balance at 1 January	16,648	16,648	57,769	57,769
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(114)	(114)	(41,121)	(41,121)
Balance at 31 December	16,534	16,534	16,648	16,648

AMD'000	2022		2021	
	Stage 1	Total	Stage 1	Total
<i>Receivables measured at amortized cost</i>				
Balance at 1 January	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	13,269	13,269	-	-
Balance at 31 December	13,269	13,269	-	-

The following tables provide a reconciliation between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument for 2022 and 2021:

AMD'000	Borrowings provided	Investment securities at amortized cost	2022	Total
			Amounts due from financial institutions, organizations and individuals	
Net remeasurement of loss allowance	2,227	(114)	13,269	15,382
Total	2,227	(114)	13,269	15,382

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AMD'000	2021			Total
	Borrowings provided	Investment securities at amortized cost	Amounts due from financial institutions, organizations and individuals	
Net remeasurement of loss allowance	(407)	(41,121)	-	(41,528)
Total	(407)	(41,121)	-	(41,528)

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost as at 31 December 2022. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms: Stage 1, Stage 2, Stage 3 are included in Note 24.8.

AMD'000	31 December 2022		31 December 2021	
	Stage 1	Total	Stage 1	Total
<i>Borrowings provided</i>				
Not rated	-	-	-	-
Not overdue	155,310	155,310	86,150	86,150
	155,310	155,310	86,150	86,150
Loss allowance	(2,485)	(2,485)	(258)	(258)
Carrying amount	152,825	152,825	85,892	85,892

AMD'000	31 December 2022		31 December 2021	
	Stage 1	Total	Stage 1	Total
<i>Investment securities at amortized cost</i>				
Rated BB-	-	-	-	-
Rated B+	3,119,326	3,119,326	3,141,034	3,141,034
Not rated	-	-	-	-
	3,119,326	3,119,326	3,141,034	3,141,034
Loss allowance	(16,534)	(16,534)	(16,648)	(16,648)
Carrying amount	3,102,792	3,102,792	3,124,386	3,124,386

AMD'000	31 December 2022		31 December 2021	
	Stage 1	Total	Stage 1	Total
<i>Receivables measured at amortized cost</i>				
Not rated	-	-	-	-
Not overdue	706,524	706,524	-	-
	706,524	706,524	-	-
Loss allowance	(13,269)	(13,269)	-	-
Carrying amount	693,255	693,255	-	-

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Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company’s statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include global master repurchase agreements. Similar financial instruments include sales and repurchase agreements. The Company receives and accepts collateral in the form of marketable securities in respect of sale and repurchase agreements. Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2022:

Types of financial assets/liabilities	Gross amounts of recognized financial liability	Net amount of financial liability/asset presented in the statement of financial position	Amounts not offset in the statement of financial position Financial instruments	Cash collateral received	Net amount
Sale and repurchase agreements	(3,515,560)	(3,515,560)	(3,515,560)	-	-
Total	(3,515,560)	(3,515,560)	(3,515,560)	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2021:

Types of financial assets/liabilities	Gross amounts of recognized financial liability	Net amount of financial liability/asset presented in the statement of financial position	Amounts not offset in the statement of financial position Financial instruments	Cash collateral received	Net amount
Sale and repurchase agreements	(3,490,789)	(3,490,789)	(3,490,789)	-	-
Total	(3,490,789)	(3,490,789)	(3,490,789)	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

Market risk

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

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The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Executive Director.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

Average effective interest rate

The table below shows the average effective interest rates for the Company's interest-bearing assets and liabilities as of December 31, 2022 and 2021. These interest rates represent the approximate return on assets and liabilities at maturity.

	2022	2021
	average effective interest rate, % AMD	average effective interest rate, % AMD
Interest-bearing assets		
Current accounts in banks	1.00%	1.00%
Deposits	9.00%	9.00%
Investment securities at fair value through profit or loss	9.80%	9.80%
Investment securities at amortized cost	9.20%	9.20%
Interest bearing liabilities		
Amounts due to financial institutions	11.45%	8.80%
Borrowings received	5.00%	-

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of changes in foreign currency exchange rates. The Company's exposure to foreign exchange risk is related to commercial transactions, recognized assets and liabilities denominated in currencies other than the functional currency.

As of December 31, the Company's net exposure to foreign exchange risk is presented below:

	2022 AMD'000	2021 AMD'000
Net foreign currency financial assets / (liabilities)		
USD	412,320	14
EUR	442,502	-
RUB	(5,804)	-
Total net exposure	849,018	14

As of the reporting date, a 5% appreciation of US dollar against the AMD, provided that other variables remain stable, will lead to an increase in the Company's net asset and financial result for the year in the amount of 20,616 thousand AMD (2021: one thousand AMD), while 5% devaluation will lead to decrease in the Company's net asset and financial result for the year in the same amount.

As of the reporting date, a 5% appreciation of EUR against the AMD, provided that other variables remain stable, will lead to an increase in the Company's net asset and financial result for the year in the amount of 79,650 thousand AMD (2021: 0 AMD), while 5% devaluation will lead to decrease in the Company's net asset and financial result for the year in the same amount.

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Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto,
- managing the concentration and profile of debts,
- maintaining debt financing plans,
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow,
- maintaining liquidity and funding contingency plans,
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on financial assets and liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

The maturity analysis for financial assets and liabilities as at 31 December 2022 and 2021 is as follows:

31 December 2022	Up to 3 months AMD'000	From 3 to 12 months AMD'000	From 1 to 2 years AMD'000	From 2 to 5 years AMD'000
Amounts payable to financial institutions	3,515,560	-	-	-
Financial liabilities measured at fair value through profit or loss	851,630	-	-	-
Loans received	197,575	-	-	-
Lease liability	2,100	6,300	8,400	2,800
Total	4,566,865	6,300	8,400	2,800
31 December 2021	Up to 3 months AMD'000	From 3 to 12 months AMD'000	From 1 to 2 years AMD'000	From 2 to 5 years AMD'000
Amounts payable to financial institutions	3,490,789	-	-	-
Loans received	26,132	-	-	-
Total	3,516,921	-	-	-

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The table below shows the analysis of amounts recognized in the statement of financial position as of December 31, 2022 by expected maturity dates:

	On demand and up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No maturit y	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS:						
Cash	617,927	-	-	-	-	617,927
Bank deposits	-	565	-	-	-	565
Amounts due from financial institutions, organizations and individuals	693,255	-	-	-	-	693,255
Investment securities at fair value through profit or loss	-	103,875	415,500	288,708	-	808,083
Investment securities measured at amortized cost	-	297,189	959,479	1,846,124	-	3,102,792
Loans issued	152,825	-	-	-	-	152,825
Deferred tax assets	-	-	-	-	38,000	38,000
PPE	-	-	-	-	3,325	3,325
Right-of-use asset	-	-	-	-	18,453	18,453
Other assets	-	-	-	-	59	59
TOTAL ASSETS	1,464,007	401,629	1,374,979	2,134,832	59,837	5,435,284
LIABILITIES						
Amounts payable to financial institutions	3,515,560	-	-	-	-	3,515,560
Financial liabilities measured at fair value through profit or loss	851,630	-	-	-	-	851,630
Loans received	197,575	-	-	-	-	197,575
Lease liability	1,700	5,329	7,730	2,746	-	17,505
Other liabilities	-	-	-	-	16,306	16,306
TOTAL LIABILITIES	4,566,465	5,329	7,730	2,746	16,306	4,598,576
Net position	6,030,472	406,958	1,382,709	2,137,578	76,143	10,033,860

The table below shows the analysis of amounts recognized in the statement of financial position as of 31 December 2021 by expected maturity dates:

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	On demand and up to 3 months AMD'000	From 3 to 12 months AMD'000	From 1 to 5 years AMD'000	Over 5 years AMD'000	No maturity AMD'000	Total AMD'000
ASSETS:						
Cash	452	-	-	-	-	452
Bank deposits	-	72,455	-	-	-	72,455
Investment securities at fair value through profit or loss	-	82,780	268,350	578,036	-	929,166
Investment securities measured at amortized cost	-	306,950	936,322	1,881,115	-	3,124,387
Loans issued	85,892	-	-	-	-	85,892
Deferred tax assets	-	-	-	-	43,504	43,504
PPE	-	-	-	-	892	892
Other assets	-	-	-	-	420	420
TOTAL ASSETS	86,344	462,185	1,204,672	2,459,151	44,816	4,257,168
LIABILITIES						
Amounts payable to financial institutions	3,490,789	-	-	-	-	3,490,789
Loans received	26,132	-	-	-	-	26,132
Other liabilities	-	-	-	-	3,650	3,650
TOTAL LIABILITIES	3,516,921	-	-	-	3,650	3,520,571
Net position	3,603,265	462,185	1,204,672	2,459,151	48,466	7,777,739

The Company believes that the negative liquidity position is manageable by re-signing the repurchase agreements, as the latter are secured by highly liquid financial instruments, as well as through the sale of debt securities, if necessary.

Capital disclosures

The Company manages its capital to ensure the continued operation of the Company and the profits of the participants.

The company's capital size requirements are defined and controlled by the RA Central Bank.

The company defines as capital the items defined as capital for credit organizations by legislation. According to the current requirements of the Central Bank of Armenia, which meet the requirements of the Basel Agreement, the ratio of investment companies' capital and risk-weighted assets (capital adequacy ratio) must exceed the specified minimum index.

As of December 31, 2022 and 2021 the minimum amount of capital was 300,000 AMD'000 and the minimum ratio of capital to risk-weighted assets was 12%. As of December 31, 2022 and 2021 the Company ensured compliance with the capital adequacy ratio.

5.

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Net interest income

	2022 AMD'000	2021 AMD'000
<i>Interest income calculated using the effective interest method</i>		
Investment securities measured at amortized cost	276,042	521,863
Cash	99	57
Deposits	1,782	18,991
	8	-
	<u>277,931</u>	<u>540,911</u>
<i>Other interest income</i>		
Investment securities measured at FVTPL	91,696	68,938
	<u>91,696</u>	<u>68,938</u>
<i>Interest expense</i>		
Amounts due to financial institutions	(360,378)	(469,939)
Total interest expense	<u>(360,378)</u>	<u>(469,939)</u>
Net interest income	<u>9,249</u>	<u>139,910</u>

6. Net loss on financial instruments at fair value through profit or loss

	2022 AMD'000	2021 AMD'000
<i>Net loss on changes in fair value</i>		
Government securities	(115,709)	(31,747)
Non-government securities	-	1,076
	<u>(115,709)</u>	<u>(30,671)</u>
<i>Net gain / (loss) from dealing operations in securities</i>		
Government securities	39,206	(92,947)
Non-government securities	4,648	(1,098)
	<u>43,854</u>	<u>(94,045)</u>
	<u>(71,855)</u>	<u>(124,716)</u>

7. Net gain on sale of foreign currency

	2022 AMD'000	2021 AMD'000
Gains from buying and selling foreign currency	193,570	-
Losses from buying and selling foreign currency	(66,185)	-
	<u>127,385</u>	<u>-</u>

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8. Net loss from exchange differences

	2022 AMD'000	2021 AMD'000
Cash	(9,683)	3
Investment securities at fair value through profit or loss	(1,768)	-
Amounts due from financial institutions, organizations and individuals	24,414	(4)
Amounts payable to financial institutions	2,153	-
Loans received	6,953	-
Other liabilities	(2,887)	-
Net gain/(loss) from exchange rate differences	19,182	(1)

9. Net (losses) / reversals of losses from impairment of financial assets

	2022 AMD'000	2021 AMD'000
Borrowings provided	(2,227)	407
Investment securities	114	41,121
Amounts due from financial institutions, organizations and individuals	(13,269)	-
Total	(15,382)	41,528

10. Other general administrative expenses

	2022 AMD'000	2021 AMD'000
Utilities and rent	16,501	14,484
Professional services	12,560	6,720
Depreciation	5,418	384
Security service	672	749
Other	8,156	5,902
Total	43,307	28,239

11. Profit tax expenses

	2022 AMD'000	2021 AMD'000
Deferred tax expense/(recovery)	5,504	(21,448)
	5,504	(21,448)

The applicable tax rate for current and deferred taxes in 2022 was 18% (2021: 18%).

A reconciliation of the effective tax rate is presented below:

	2022 AMD'000	%	2021 AMD'000	%
Profit before tax according to IFRS	7,110		(128,653)	
Calculation of profit tax at the specified tax rate	1,280	18.00%	23,158	18.00%
Other non-deductible expenses/(taxable income) consequence	(6,784)	(95.41)%	(1,710)	1.33%
Profit tax expense and effective tax rate	(5,504)	(77.41)%	21,448	16.67%

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Details of deferred tax liabilities, amounts recognized in profit or loss and amounts recognized in other comprehensive income are provided below:

	Assets	Liabilities	Net	(Accounted) /reduced to profit or loss	(Accounted) / reduced to equity
	2022 AMD'000	2022 AMD'000	2022 AMD'000	2022 AMD'000	2022 AMD'000
PPE	-	(75)	(75)	(82)	-
Investment securities measured FVPL	-	-	-	(6,536)	-
Tax loss	33,443	-	33,443	-	-
Reserves	4,803	-	4,803	1,285	-
Other assets	-	(171)	(171)	(171)	-
Net tax assets/ (liabilities)	38,246	(246)	38,000	(5,504)	-
	2021 AMD'000	2021 AMD'000	2021 AMD'000	2021 AMD'000	2021 AMD'000
PPE	7	-	7	(7)	-
Investment securities measured FVPL	6,536	-	6,536	(4,535)	-
Tax loss	33,443	-	33,443	33,443	-
Reserves	3,518	-	3,518	(7,453)	-
Net tax assets/ (liabilities)	43,504	-	43,504	21,448	-

12. Cash

	2022 AMD'000	2021 AMD'000
Current accounts in bank	617,927	452
	617,927	452

Cash and cash equivalents are neither impaired nor overdue.

13. Amounts due from financial institutions, organizations and individuals

	2022 AMD'000	2021 AMD'000
Receivables from the sale of the bond	269,414	-
Foreign currency sales receivables	437,110	-
Allowance for receivables	(13,269)	-
	693,255	-

14. Investment securities

	2022 AMD'000	2021 AMD'000
Investment securities measured at amortized cost	3,102,792	3,124,386
Financial assets at fair value remeasured through profit or loss	808,083	929,166
	3,910,875	4,053,552

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Investment securities measured at amortized cost

	2022 AMD'000	2021 AMD'000
<i>Pledged against sale and repurchase agreements</i>		
Government securities	3,119,326	3,141,034
Loss reserve	(16,534)	(16,648)
Total	<u>3,102,792</u>	<u>3,124,386</u>
Carrying value	<u><u>3,102,792</u></u>	<u><u>3,124,386</u></u>

Investment securities at fair value through profit or loss

	2022 AMD'000	2021 AMD'000
<i>Pledged against sale and repurchase agreements</i>		
Government securities	808,083	929,166
Non-government securities	-	-
Total	<u>808,083</u>	<u>929,166</u>
Carrying value	<u><u>808,083</u></u>	<u><u>929,166</u></u>

The investment securities are not overdue.

15. Loans granted

	2022 AMD'000	2021 AMD'000
Loans to shareholders	155,310	86,150
Allowance for credit losses	(2,485)	(258)
	<u>152,825</u>	<u>85,892</u>

The loans granted are not interest-bearing. The expected repayment terms of the granted loans are presented in Note 4. The granted loans are not overdue.

16. Right-of-use asset and lease liability

Right-of-use asset

<i>Office space</i>	2022 AMD'000	2021 AMD'000
Opening balance	-	-
Addition	22,168	-
Amortization	(3,715)	-
Final balance	<u><u>18,453</u></u>	<u><u>-</u></u>

Lease liability

<i>Office space</i>	2022 AMD'000	2021 AMD'000
Opening balance	-	-
Addition	20,768	-
Interest expense	937	-
Payments	(4,200)	-
Final balance	<u><u>17,505</u></u>	<u><u>-</u></u>

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17. Amounts payable to financial institutions

	2022	2021
	AMD'000	AMD'000
Principal amounts payable on repurchase agreements	3,079,007	3,486,949
Interest payable on repurchase agreements	3,510	3,840
Credit line from banks	429,022	-
Amounts accrued against credit lines received from banks	3,988	-
Other	33	-
	<u><u>3,515,560</u></u>	<u><u>3,490,789</u></u>

As of 31 December 2022 the Company had 5 banks as contracting parties (2021: 5 banks), whose liability balances exceeded 10% of the Company's equity.

As at 31 December 2022 and 31 December 2021 the Company's shares were pledged against loans.

There is a shareholder guarantee against the company's credit line.

18. Financial liabilities measured at fair value through profit or loss

On 30 December 2022, the Company sold securities that were pledged as at the end of the year and were to be delivered on 4 January 2023 according to the contract. The company has recognized a liability in the amount of the fair value of the securities.

19. Loans received

	2022	2021
	AMD'000	AMD'000
Loan from shareholder	5,692	26,132
Loans from related parties	41,376	-
Loans received from other persons	150,507	-
	<u><u>197,575</u></u>	<u><u>26,132</u></u>

Loans have been received in the following currencies:

	2022	2021
	AMD'000	AMD'000
AMD	5,692	26,132
USD	183,029	-
EUR	8,854	-
	<u><u>197,575</u></u>	<u><u>26,132</u></u>

Loans received in AMD are interest-free, loans in US dollars are received at 5.5% per annum, and loans in Euro - at 3%.

20. Share capital and reserves

(a) Issued capital and share premium

As of December 31, 2022, the Company's share capital amounted to AMD 640,000 thousand, which consisted of 64,000 ordinary shares (2022: 64,000 shares). The nominal value of all shares is AMD 10,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

(b) Dividends

In accordance with the Armenian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

(c) General reserve

According to legal requirements and the Company's charter the Company is required to create a minimum non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses.

21. Contingencies

Insurance

The Company does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the Company.

The company has given guarantees in the amount of 179 million drams.

Taxation contingencies

The taxation system in Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

Since January 1, 2020, transfer pricing legislation has been in effect in the Republic of Armenia. The legislation is valid for 2020 and subsequent years. Local transfer pricing rules are similar to OECD guidelines, but in certain circumstances there is uncertainty regarding the practical application of the tax law.

The transfer pricing rules oblige taxpayers to prepare transfer pricing documents for controlled transactions and transactions differ from market prices.

The transfer pricing rules apply to the transactions presented below if the total value of the controlled transaction exceeds AMD 200 million in the tax year:

- cross-border transactions between related parties;
- cross-border transactions with companies registered in offshore zones, regardless of the fact of being a related party,
- certain transactions carried out within the country between related parties, which are defined by the Tax Code of the Republic of Armenia.

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Because tax authorities and courts do not have experience in applying transfer pricing rules, it is difficult to predict the impact of new transfer pricing rules on these financial statements.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management has implemented a system of internal controls to ensure compliance with current transfer pricing legislation. 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.

Environment Protection

Currently, the Republic of Armenia is imposing stricter rules on the legislation regulating the environmental sphere, and the position of the RA state bodies regarding the provision of its requirements is continuously changing. The company regularly evaluates its obligations according to the legislation regulating the environmental sphere. Liabilities are recognized as incurred. Potential liabilities that may arise as a result of changes in existing regulations, the civil legal system or legislation, as well as as a result of legal practice cannot be estimated, but may be material. Management believes that there are no significant environmental liabilities under the current application of existing environmental legislation.

22. Related party transactions

The Company is equally owned by Armen Ter-Hakobyan and Armine Najaryan, who are the parties with ultimate control over the Company.

22.1. Commercial transactions

During the reporting year, the Company carried out the following transactions with related parties:

	Car rental fees		Car rental balance	
	2022	2021	2022	2021
Interconnection with the parties	AMD'000	AMD'000	AMD'000	AMD'000
Shareholder	10,800	10,800	-	-
	<u>10,800</u>	<u>10,800</u>	<u>-</u>	<u>-</u>

22.2. Loans

	Loans received		Interest expense		Loans granted	
	2022	2021	2022	2021	2022	2021
Relatedness to the parties	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Shareholder	-	26,132	-	-	152,825	85,892
Key management personnel	41,376	-	347	-	-	-
	<u>41,376</u>	<u>26,132</u>	<u>338,709</u>	<u>319,390</u>	<u>152,825</u>	<u>85,892</u>

22.3. Compensation of key management personnel

The company's key management personnel includes the CEO, CFO.

During the reporting period, the remunerations given to the key management personnel of the Company are as follows:

	2022	2021
	AMD'000	AMD'000
Salary and other short-term compensation	<u>4,961</u>	<u>8,272</u>

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23. Fair value measurement disclosures

Fair value is the amount for which a financial instrument can be exchanged between knowledgeable and willing parties in an ordinary transaction, except in the event of a forced sale or liquidation, and is best evidenced by a quoted price in an active market.

The following table presents the assets and liabilities whose fair values are disclosed in the notes:

Item	Fair value AMD'000	Fair value hierarchy level	Significant unobservable input data
Amounts due from financial institutions, organizations and individuals	693,255	Level 2	N/A
Investment securities at fair value through profit or loss	808,083	Level 2	N/A
Investment securities measured at amortized cost	3,102,792	Level 2	N/A
Loans granted	152,825	Level 2	N/A
Amounts payable to financial institutions	3,515,560	Level 2	N/A
Financial liabilities measured at fair value through profit or loss	851,630	Level 2	N/A
Loans received	197,575	Level 2	N/A

24. Summary of accounting policies

24.1 Going concern

The financial statements have been prepared on going concern basis.

24.2 Property and equipment

Property and equipment stated at cost

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes purchase price, import duties, non-refundable taxes and directly attributable costs. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Initial cost includes directly attributable costs, site preparation, installation costs, professional fees and, in the case of a qualifying asset, capitalized borrowing costs in accordance with the Company's accounting policies. Buildings that are rental properties are also included in PPE if they are obtained under long-term leases. Depreciation of such assets is calculated over the shorter of the expected useful life of the asset or the lease term.

The gain or loss resulting from the disposal or writeoff of a fixed asset is determined by the difference between the proceeds from the sale and the carrying amount of the asset and is recognized in profit or loss.

The cost of replacing a component of an item of property, plant and equipment accounted for as a separate asset is capitalized with the carrying amount of the written-off component. Other subsequent costs are capitalized only when they add to the future economic benefits associated with the item of property, plant and equipment. All other costs, including maintenance and repair costs, are recognized in the statement of profit or loss and other comprehensive income in the period incurred.

Depreciation is recognized in the statement of profit or loss and other financial results using the straight-line method over the estimated useful life of the PPE. Depreciation begins when the asset becomes available for use for its intended purpose.

The estimated useful lives of property and equipment are as follows:

Communication devices, computer equipment	- 3-5 years
Economic property, equipment	- 3-8 years

24.3 Lease

The Company assesses whether a contract is a lease or contains a lease based on the definition of a lease.

At the beginning of the contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if the contract transfers, in exchange for consideration, the right to control the use of a specified asset for a specified period of time.

To assess whether a contract transfers control over the use of a specified asset, the Company uses the definition of a lease set by IFRS 16.

The company leases property and vehicles for administrative purposes.

Company, as a lessee, at the commencement date, recognises a right-of-use asset and a lease liability except for low-value and short-term leases, with the exceptions provided for in IFRS 16.

Initial recognition

At the commencement date, the Company measures the right-of-use asset at cost which comprises:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee; and
- an estimate of the cost of vacating, restoring or dismantling the leased asset.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Subsequent measurement

After the commencement date, the Company measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment,
- adjusted for any remeasurement of the lease liability.

The basis for the depreciation of the right of use assets is the Company's depreciation policy. After the commencement date, the Company measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

24.4 Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

24.5 Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate for financial instruments other than measured at fair value through profit or loss, includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

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For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, see Note 24.8 (d).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost. Interest on debt instruments measured at FVTPL is presented as other interest income in the statement of profit or loss and other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at FVTPL.

24.6 Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 24.8).

24.7 Taxation

Profit tax comprises current and deferred tax. Profit tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

24.8 Financial assets and financial liabilities

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method,
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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 other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss (see Note 3(g)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as 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 amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an 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 considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, 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 realizing cash flows through the sale of the 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;

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- 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;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its 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 realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are 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 and 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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers 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 considers:

- 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 of the time value of money - e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees as measured at amortized cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(b) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Company enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(c) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the CBA key rate, if the loan agreement entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities. The Company concludes that the modification is substantial as a result of the following qualitative factors.

- change in the currency of the financial asset;
- change in collateral or other credit enhancement,
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

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If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial liability,
- change in collateral or other credit enhancement,
- inclusion of conversion option,
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss.

For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(d) Impairment

See also Note 4.

The Company recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; an
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “investment grade”.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as “Stage 1” financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as “Stage 2” financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows,
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Company expects to recover.

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see Note 24.8 (c)) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt financial assets carried at FVTPL are credit-impaired (referred to as “Stage 3 financial assets”).

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment during the last six months. In addition, a loan that is overdue for 30 days or more, an investment security and cash and cash equivalents that are overdue for 5 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as “lender of last resort” to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms.

This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets,
- financial guarantee contracts: generally, as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Other debt collection measures may still be applied to financial assets written off to ensure compliance with the Company’s procedures for recovering amounts due.

24.9 Cash and cash equivalents

Cash and cash equivalents include local bank accounts.

For the purpose of the statement of cash flows, cash and cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

24.10 Borrowings provided to non-financial companies

“Borrowings provided to non-financial companies” caption in the statement of financial position include provided borrowings measured at amortized cost (see Note 24 (24.8)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

24.11 Investment securities

The “investment securities” caption in the statement of financial position includes:

- debt investment securities measured at amortized cost (see Note 24.8 (a)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt investment securities measured at FVTPL (see Note 24.8 (a)); these are measured at fair value with changes recognized immediately in profit or loss.

24.12 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of legislation of the Republic of Armenia. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

25. Events after the reporting period

After the reporting period, there were no events that could lead to the adjustment or additional disclosure of the information reflected in the Company's financial statements as at December 31, 2022.