CUBE INVEST CJSC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

AND INDEPENDENT AUDITORS' REPORT

CONTENTS

	page
Independent Auditors' Report	3
Statement of profit or loss and other comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements.	9

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CUBE INVEST CJSC

Opinion

We have audited the financial statements of CUBE INVEST CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

«Trust Audit» CJSC
Director Hayk Margaryan

February 28, 2022
Yerevan

Audit manager
Lilit Katoyan

CUBE INVEST CJSC

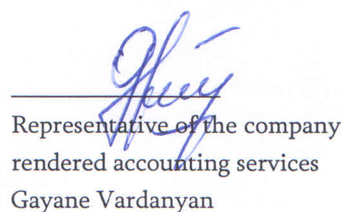
Statement of profit or loss and other comprehensive income

For the year ended December 31, 2021

In thousand drams	Note	Year ended December 31, 2021	Year ended December 31, 2020
Interest income calculated using the effective interest method	5	540,913	450,544
Oher interest income	5	68,938	156,604
Interest expense	5	(469,939)	(327,471)
Net interest income	5	**139,912**	**279,677**
Fee and commission expense		(461)	(584)
Net (loss) / gain on sale of financial instruments at amortized cost	6	(146,343)	291,929
Net loss on financial instruments at fair value through profit or loss	7	(124,716)	(216,624)
Operating (expense) / income		**(131,608)**	**354,398**
Net (loss) / loss reversal from impairment of financial assets	8	41,528	(48,385)
Net loss from dealing operations in foreign currency		-	(594)
Net loss on foreign exchange revaluation	9	(1)	(26,802)
Personnel expenses		(10,332)	(9,050)
Other general administrative expenses	10	(28,240)	(35,667)
Profit / (loss) before income tax		**(128,653)**	**233,900**
Income tax reimbursement / (expense)	11	21,448	(50,834)
Profit / (loss) for the year		**(107,205)**	**183,066**
Other comprehensive income			
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**(107,205)**	**183,066**

The financial statements were approved on February 28, 2022 by:

Executive Director
Arsen Simonyan



Representative of the company
rendered accounting services
Gayane Vardanyan

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 9 to 35.

In thousand drams	Note	As of December 31, 2021	As of December 31, 2020
ASSETS			
Cash and cash equivalents	12	452	2,481
Amounts due from banks	13	72,455	132,824
Prepaid income taxes		111,775	-
Investment securities at fair value through profit or loss			
- Held by the Company	14	-	129,872
- Pledged under sale and repurchase agreements	14	929,166	1,235,937
Investment securities at amortised cost			
- Held by the Company	14	-	-
- Pledged under sale and repurchase agreements	14	3,124,386	10,178,297
Borrowings provided	15	85,892	221,145
Deferred tax assets	11	43,504	22,056
Property and equipment		892	991
Other assets		420	169
TOTAL ASSETS		**4,368,942**	**11,923,772**
LIABILITIES			
Amounts due to financial institutions	16	3,490,789	10,551,334
Borrowings received	17	26,132	-
Current income tax liability		-	134,281
Other liabilities		3,650	2,581
TOTAL LIABILITIES		**3,520,571**	**10,688,196**
EQUITY	18		
Share capital		640,000	620,000
General reserve		71,479	58,479
Retained earnings		136,892	557,097
TOTAL EQUITY		**848,371**	**1,235,576**
TOTAL LIABILITIES AND EQUITY		**4,368,942**	**11,923,772**

The Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 9 to 35.

In thousand drams	Share capital	General reserve	Retained earnings	Total
As of January 01, 2020	**600,000**	**26,450**	**676,060**	**1,302,510**
Profit for the year	-	-	183,066	183,066
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	183,066	183,066
Issue of share capital	20,000	-	-	20,000
Dividends declared	-	-	(270,000)	(270,000)
Contribution to general reserve	-	32,029	(32,029)	-
As of December 31, 2020	**620,000**	**58,479**	**557,097**	**1,235,576**
Profit for the year	-		(107,205)	(107,205)
Other comprehensive income	-		-	-
Total comprehensive income for the year	-	-	(107,205)	(107,205)
Issue of share capital	20,000		-	20,000
Dividends declared	-		(300,000)	(300,000)
Contribution to general reserve	-	13,000	(13,000)	-
As of December 31, 2021	**640,000**	**71,479**	**136,892**	**848,371**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 9 to 35.

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Cash flows from operating activities		
Interest receipts	582,953	444,457
Interest payments	(480,070)	(321,256)
Fee and commission payments	(792)	(791)
Net payments for financial instruments at fair value through profit or loss	(1,121,974)	(2,063,480)
Other operating receipts and expenses paid	(42,215)	(35,877)
Decrease in operating assets		
Other assets	-	-
Increase / (decrease) in operating liabilities		
Amounts payable under repurchase agreements	(7,050,414)	4,704,508
Other liabilities	-	-
Net cash provided from operating activities before income tax paid	**(8,112,512)**	**2,727,561**
Income tax paid	(246,057)	(66,205)
Net cash (used in) / from operating activities	**(8,358,569)**	**2,661,356**
Cash flows from investing activities		
Acquisition of investment securities	(1,106,393)	(9,369,245)
Proceeds from sale and repayment of investment securities	9,765,010	7,060,268
Placed deposits	(8,013,874)	(2,847,362)
Repayment of placed deposits	8,079,289	2,739,579
Purchases of property and equipment	(386)	(873)
Cash flows from / (used in) investing activities	**8,723,646**	**(2,417,633)**
Cash flows from financing activities		
Proceeds from issue of share capital	20,000	20,000
Borrowings provided	(815,800)	(435,542)
Repayment of provided borrowings	471,273	233,760
Loans and borrowings received	473,227	-
Repayment of received loans and borrowings	(462,400)	-
Dividends paid	(53,405)	(66,943)
Cash flows used in financing activities	**(367,105)**	**(248,725)**
Net cash flows of cash and cash equivalents	**(2,028)**	**(5,002)**
Cash and cash equivalents at the beginning of the year	2,481	34,285
Foreign exchange effect on cash	(1)	(26,802)
Cash and cash equivalents at the end of the year	**452**	**2,481**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 9 to 35.

1. Background

(a) Organisation and operations

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 Licence 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.

(b) 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.

The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

Further, starting from early 2020 a coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in the announcement of the pandemic status by the World Health Organization in March 2020. Measures put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. The Company may face increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Company's business largely depends on the duration and the incidence of the pandemic effects on the world and Armenian economy.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The measurement basis adopted by the Company for the preparation of financial statements is the historical cost, which is usually combined with other measurement bases. When applying other measurement bases, the Company discloses in relevant notes.

(c) Functional and presentation currency

The national currency of RA is the Armenian Dram (AMD), which is the Company's functional and presentation currency. All financial information presented in AMD has been rounded to the nearest thousand.

(d) Going concern

A company shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

(e) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.
Although these estimates are based on the best knowledge of management on current events and actions, the actual results may differ from those estimates.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

- management of liquidity position by means of rolling over repurchase– Note 19 (d).

3. Significant accounting policies

(a) Property and equipment

Property and equipment stated at cost

Property and equipment (the PPE) are initially stated at their initial cost. The cost of an item of property and equipment includes: purchase price including import duties, non-refundable taxes and other mandatory, transportation expenses, as well as all the expenses incurred for bringing the assets to the working state and location needed for their purposeful use. Exploitation and preproduction expenses are not included in the cost of PPE.

Subsequent expenditure on the PPE is capitalized when it is probable that future economic benefits associated with the item will flow to the entity at more amount than anticipated. Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

Depreciation is calculated on a straight line basis using the following annual rates:

Communication devices and computers	- 3-5 years
Fixtures and fittings	- 3-8 years

(b) Leases

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, an 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 costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

- less any accumulated depreciation and any accumulated impairment losses; and
- 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, an 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

(c) 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 recognised in profit or loss.

(d) Interest

Effective interest rate

Interest income and expense are recognised 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 amortised 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.

Amortised cost and gross carrying amount

The amortised 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 amortisation 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 amortised cost is the amortised 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 creditimpaired) or to the amortised 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 amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised 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 3(g).

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 amortised 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.

(e) 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 3(g)). Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies

IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(f) Taxation

Income tax comprises current and deferred tax. Income 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.

(i) 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.

(ii) 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 realised 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.

(g) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised 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 recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised 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 derecognised, the cumulative gain or loss previously recognised 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 recognised in profit or loss. Dividends are recognised 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 recognised in other comprehensive income. Cumulative gains and losses recognised 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 amortised 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 realising 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;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and 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 realised.

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 amortised cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Company derecognises 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 derecognised) 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 recognised in other comprehensive income is recognised in profit or loss.

The Company enters into transactions whereby it transfers assets recognised 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 derecognised. 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 recognise 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 derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) 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 derecognised and a new financial asset is recognised 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; and

- 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 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 maximise 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 amortised 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 recognises 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 amortised over the remaining term of the modified financial asset. 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 derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised 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 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 amortised 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 recognised 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 recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

See also Note 4.

The Company recognises 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 recognised 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 recognised 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 recognised 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 derecognised (see Note 3(g)) 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 amortised 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 reorganisation; 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 amortised 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. Recoveries of amounts previously written off

are included in "impairment losses on financial instruments" in the statement of profit or loss and other comprehensive income. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(h) 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 held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as cash and cash equivalents if that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.

(i) 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 3 (g) (i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(j) Investment securities

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

- debt investment securities measured at amortised cost (see Note 3 (g) (i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt investment securities measured at FVTPL (see Note 3 (g) (i)); these are measured at fair value with changes recognised immediately in profit or loss;

(k) Share capital

(i) Ordinary shares

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

(ii) 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.

(l) Standards issued but not yet effective

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

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the "settlement" of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

4. Financial risk review

This note presents information about the Company's exposure to financial risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(g)(iv).

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 analysed 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.

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.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(g)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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 amortisation. 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.

		External benchmarks used	
In thousand drams	Exposure as at 31 December 2021	PD	LGD
Investment securities at amortised cost	3,124,386	S&P default study	Moody's recovery studies
Borrowings provided	85,892	S&P default study	Moody's recovery studies

Loss allowance

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

In thousand drams	2021		2020	
	Stage 1	Total	Stage 1	Total
Borrowings provided				
Balance at 1 January	**665**	**665**	**528**	**528**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(407)	**(407)**	137	**137**
Balance at 31 December	**258**	**258**	**665**	**665**

In thousand drams	2021		2020	
	Stage 1	Total	Stage 1	Total
Investment securities at amortised cost				
Balance at 1 January	**57,769**	**57,769**	**9,521**	**9,521**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(41,121)	**(41,121)**	48,248	**48,248**
Balance at 31 December	**16,648**	**16,648**	**57,769**	**57,769**

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 2021 and 2020:

	2021		
In thousand drams	Borrowings provided	Investment securities at amortised cost	Total
Net remeasurement of loss allowance	(407)	(41,121)	**(41,528)**
Total	**(407)**	**(41,121)**	**(41,528)**

	2020		
In thousand drams	Borrowings provided	Investment securities at amortised cost	Total
Net remeasurement of loss allowance	137	48,248	**48,385**
Total	**137**	**48,248**	**48,385**

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2021. 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 3 (g) (iv).

In thousand drams	31 December 2021		31 December 2020	
	Stage 1	Total	Stage 1	Total
Borrowings provided				
Not rated	-	-	-	-
Not overdue	86,150	86,150	221,810	221,810
	86,150	**86,150**	**221,810**	**221,810**
Loss allowance	(258)	(258)	(665)	(665)
Carrying amount	**85,892**	**85,892**	**221,145**	**221,145**

In thousand drams	31 December 2021		31 December 2020	
	Stage 1	Total	Stage 1	Total
Investment securities at amortised cost				
Rated BB-	-	-	-	-
Rated B+	3,141,034	3,141,034	10,236,066	10,236,066
Not rated	-	-	-	-
	3,141,034	**3,141,034**	**10,236,066**	**10,236,066**
Loss allowance	(16,648)	(16,648)	(57,769)	**(57,769)**
Carrying amount	**3,124,386**	**3,124,386**	**10,178,297**	**10,178,297**

5 Net interest income

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Interest income calculated using the effective interest method		
Investment securities measured at amortised cost	521,863	425,362
Cash and cash equivalents	59	141
Deposits	18,991	25,041
	540,913	**450,544**
Other interest income		
Investment securities measured at FVTPL	68,938	156,604
Total interest income	**68,938**	**156,604**
Interest expense		
Amounts due to financial institutions	(469,939)	(327,471)
Total interest expense	**(469,939)**	**(327,471)**
Net interest income	**139,912**	**279,677**

6 Net (loss) / gain on sale of financial instruments at amortized cost

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Debt financial instruments	(146,343)	291,929
Total	**(146,343)**	**291,929**

7 Net loss on financial instruments at fair value through profit or loss

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Net gain / (loss) on changes in fair value		
Government securities	(31,747)	(72,893)
Non-government securities	1,076	(78)
	(30,671)	**(72,971)**
Net loss from dealing operations in securities		
Government securities	(92,947)	(143,653)
Non-government securities	(1,098)	-
	(94,045)	**(143,653)**
Total	**(124,716)**	**(216,624)**

8 Net (loss) / loss reversal from impairment of financial assets

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Borrowings provided	407	(137)
Borrowings provided	41,121	(48,248)
Total	**41,528**	**(48,385)**

9 Net loss on foreign exchange revaluation

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Foreign currency exchange gain		
Cash and cash equivalents	3	33,642
	3	**33,642**
Foreign currency exchange loss		
Cash and cash equivalents	(4)	(60,444)
	(4)	**(60,444)**
Net loss on foreign exchange revaluation	**(1)**	**(26,802)**

10 Other general administrative expenses

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Utilities and rental expense	14,484	14,273
Professional services	6,720	10,200
Depreciation	384	496
Security	749	749
Assets provided without compensation	-	5,496
Other	5,903	4,453
Total	**28,240**	**35,667**

11 Income tax reimbursement / (expense)

In thousand drams	Year ended December 31, 2021	Year ended December 31, 2020
Current tax	-	(166,817)
Deferred tax	21,448	115,983
Total	**21,448**	**(50,835)**

In 2021, the applicable tax rate for current and deferred tax is 18% (2020: 18%). Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2021	Effective tax rate (%)	Year ended December 31, 2020	Effective tax rate (%)
Profit before taxation (under IFRS)	(128,653)		233,900	
Tax calculated at a tax rate of 18% (2020: 18%)	23,158	18.00	(42,102)	18.00
(Non-taxable)/non-deductible items, net	(1,710)	(1.30)	(8,732)	3.70
Income tax reimbursement / (expense)	21,448	16.70	(50,834)	21.70

The Company faces some taxable temporary differences, which arise as a result of some expenses that are non-deductible taxable expenses as well as some incomes that are non-taxable incomes.

Deferred taxes are the net tax consequences of the temporary differences between the carrying values of assets and liabilities used for financial accounting and tax accounting. As of December 31, 2021, temporary differences mostly represent the differences between recognition criteria/timing of incomes and expenses as well as due to temporary differences of tax base of some assets in tax accounting.

Deferred taxes for the year ended December 31, 2021 can be summarized as follows:

In thousand drams	As of December 31, 2021	Recognized in profit or loss	Recognized in other comprehensive income	As of December 31, 2020
Deferred tax assets				
Property and equipment	7	(7)	-	14
Investment securities measured at FVTPL	6,536	(4,535)	-	11,071
Tax losses	33,443	33,443	-	-
Provisions	3,518	(7,453)	-	10,971
Total deferred tax assets	**43,504**	**21,448**	**-**	**22,056**
Deferred tax liabilities				
Investment securities measured at FVTPL	-	-	-	-
Property and equipment	-	-	-	-
Total deferred tax liabilities	**-**	**-**	**-**	**-**
Net result - deferred tax assets	**43,504**	**21,448**	**-**	**22,056**

Deferred taxes for the year ended December 31, 2020 can be summarized as follows:

In thousand drams	As of December 31, 2020	Recognized in profit or loss	Recognized in other comprehensive income	As of January 1, 2020
Deferred tax assets				
Property and equipment	14	14	-	-
Investment securities measured at FVTPL	11,071	11,071	-	-
Tax losses	-	-	-	-
Provisions	10,971	10,561	-	410
Total deferred tax assets	**22,056**	**21,646**	**-**	**410**
Deferred tax liabilities				
Investment securities measured at FVTPL	-	94,331	-	(94,331)
Property and equipment	-	6	-	(6)
Total deferred tax liabilities	**-**	**94,337**	**-**	**(94,337)**
Net result - deferred tax assets / (liabilities)	**22,056**	**115,983**	**-**	**(93,927)**

12 Cash and cash equivalents

In thousand drams	As of December 31, 2021	As of December 31, 2020
Current accounts in banks	452	2,481
Total	**452**	**2,481**

No cash and cash equivalents are impaired or past due.

13 Amounts due from banks

In thousand drams	As of December 31, 2021	As of December 31, 2020
Deposits	42,368	107,783
Accrued interest on deposits	30,087	25,041
Total	**72,455**	**132,824**

14 Financial instrumens

In thousand drams	As of December 31, 2021	As of December 31, 2020
Investment securities at amortised cost	3,124,386	10,178,297
Investment securities at fair value through profit or loss	929,166	1,365,809
Total	**4,053,552**	**11,544,106**

Investment securities at amortised cost

In thousand drams	As of December 31, 2021	As of December 31, 2020
Held by the Company		
Government securities	-	-
	-	-
Loss allowance	-	-
Total	**-**	**-**
Pledged under sale and repurchase agreements		
Government securities	3,141,034	10,236,066
Loss allowance	(16,648)	(57,769)
Total	**3,124,386**	**10,178,297**
Carrying amount	**3,124,386**	**10,178,297**

Investment securities at fair value through profit or loss

In thousand drams	As of December 31, 2021	As of December 31, 2020
Held by the Company		
Government securities	-	-
Non-government securities	-	129,872
Total	**-**	**129,872**
Pledged under sale and repurchase agreements		
Government securities	929,166	1,235,937
Non-government securities	-	-
Total	**929,166**	**1,235,937**
Carrying amount	**929,166**	**1,365,809**

None of investment securities are past due.

15 Borrowings provided

In thousand drams	As of December 31, 2021	As of December 31, 2020
Borrowings provided to shareholders	86,150	189,810
Borrowings provided to third parties	-	32,000
Credit loss allowance	(258)	(665)
Total	**85,892**	**221,145**

The borrowings provided are interest free. The expected maturity of the borrowings provided is presented in Note 19 (d). No borrowings provided are past due.

16 Amounts due to financial institutions

In thousand drams	As of December 31, 2021	As of December 31, 2020
Principal amounts payable under repurchase agreements	3,486,949	10,537,363
Interest payable under repurchase agreements	3,840	13,971
Total	**3,490,789**	**10,551,334**

As at 31 December 2021 the Company has 5 banks (2020: 10 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2021 is AMD 3,486,949 thousand (2020: AMD 10,537,363 thousand).

17 Borrowings received

In thousand drams	As of December 31, 2021	As of December 31, 2020
Borrowings received from shareholders	26,132	-
Total	**26,132**	**-**

The borrowings provided are interest free. The expected maturity of the borrowings provided is presented in Note 19 (d). No borrowings provided are past due.

18 Share capital and reserves

(a) Issued capital and share premium

On March 12, 2021, the share capital of the Company replenished by 20,000 thousand AMD, amounting to 640,000 thousand AMD, which consists of 64,000 ordinary shares (62,000 shares in 2020). All shares have a nominal value of 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.

19 Risk management

Management of risk is fundamental to the business of the Company and forms an essential element of the Company's operations. The major (significant) risks faced by the Company are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Company has developed a system of reporting on significant risks and capital.

The Company's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Company's significant risks, was approved by the authorized management bodies of the Company in accordance with regulations and recommendations issued by the CBA.

The shareholders have overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The management of the Company is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters. The Executive Director is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the shareholders.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.
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.

(i) 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 reduce or create losses in the event that unexpected movements occur.

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2021 and 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021 Average effective interest rate, % AMD	2020 Average effective interest rate, % AMD
Interest bearing assets		
Current accounts in banks	1.0%	1.0%
Deposits	9.0%	8.3%
Financial instruments at fair value through profit or loss	9.8%	9.0%
Financial instruments at amortised cost	9.2%	9.3%
Interest bearing liabilities		
Amounts due to financial institutions	8.8%	5.3%

(ii) Currency risk

The Company's assets and liabilities are denominated in AMD.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments).

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Collateral generally is not held against investments in securities and borrowings provided.

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 2021:

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

Types of financial assets/liabilities	Gross amounts of recognised financial liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Sale and repurchase agreements	(10,551,334)	(10,551,334)	10,551,334	-	-
Total	**(10,551,334)**	**(10,551,334)**	**10,551,334**	**-**	**-**

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 amortised cost basis.

(d) 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 2021 is as follows:

In thousand drams	Demand and less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	**Carrying amount**
Non-derivative liabilities					
Amounts due to financial institutions	(3,490,789)	-	-	-	**(3,490,789)**
Total	**(3,490,789)**	**-**	**-**	**-**	**(3,490,789)**

The maturity analysis for financial assets and liabilities as at 31 December 2020 is as follows:

In thousand drams	Demand and less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	**Carrying amount**
Non-derivative liabilities					
Amounts due to financial institutions	(10,551,334)		-	-	**(10,551,334)**
Total	**(10,551,334)**	**-**	**-**	**-**	**(10,551,334)**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2021:

In thousand drams	Demand and less than 3 months	From 3 to 6 months	From 1 to 5 years	More than 5 years	No maturity	**Total**
ASSETS						
Cash and cash equivalents	452	-	-	-	-	452
Deposits	-	72,455	-	-	-	72,455
Investment securities at fair value through profit or loss	-	82,780	268,350	578,036	-	929,166
Investment securities at amortised cost	-	306,950	936,322	1,881,115	-	3,124,386
Borrowings provided	85,892	-	-	-	-	85,892
Deferred tax assets	-	-	-	-	43,504	43,504
Property and equipment	-	-	-	-	892	892
Other assets	-	-	-	-	420	420
TOTAL ASSETS	**86,344**	**462,185**	**1,204,672**	**2,459,151**	**44,816**	**4,257,167**
LIABILITIES						
Amounts due to financial institutions	3,490,789	-	-	-	-	3,490,789
Current tax liability	-	-	-	-	-	-
Other liabilities	-	-	-	-	3,650	3,650
TOTAL LIABILITIES	**3,490,789**	**-**	**-**	**-**	**3,650**	**3,494,439**
Net position	**3,577,133**	**462,185**	**1,204,672**	**2,459,151**	**48,466**	**7,751,606**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2020:

In thousand drams	Demand and less than 3 months	From 3 to 6 months	From 1 to 5 years	More than 5 years	No maturity	**Total**
ASSETS						
Cash and cash equivalents	2,481	-	-	-	-	2,481
Deposits	-	-	132,824	-	-	132,824
Investment securities at fair value through profit or loss	-	121,681	394,456	849,672	-	1,365,809
Investment securities at amortised cost	-	999,949	3,050,250	6,128,098	-	10,178,297
Borrowings provided	189,241	31,904	-	-	-	221,145
Deferred tax assets	-	-	-	-	22,056	22,056
Property and equipment	-	-	-	-	991	991
Other assets	-	-	-	-	169	169
TOTAL ASSETS	**191,722**	**1,153,534**	**3,577,530**	**6,977,770**	**23,216**	**11,923,772**
LIABILITIES						
Amounts due to financial institutions	10,551,334	-	-	-	-	10,551,334
Current tax liability	-	134,281	-	-	-	134,281
Other liabilities	-	-	-	-	2,581	2,581
TOTAL LIABILITIES	**10,551,334**	**134,281**	**-**	**-**	**2,581**	**10,688,196**
Net position	**10,743,056**	**1,287,815**	**3,577,530**	**6,977,770**	**25,797**	**22,611,968**

The Company believes that the negative liquidity position is manageable by means of rolling over repurchase agreements, since they are secured by highly liquid financial instruments and in case of necessity by means of sale of debt securities.

20 Capital management

The CBA sets and monitors capital requirements for the Company. The Company defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, investment companies have to maintain amount of capital and a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum levels. As at 31 December 2021 and 2020, this minimum amount of capital is AMD 300,000 thousand and a minimum level of the ratio of capital to risk weighted assets is 12%. The Company is in compliance with the statutory capital ratio as at 31 December 2021 and 2020.

21 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. 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.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised 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.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

22 Related party transactions

(a) Control relationships

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

(b) Transactions with Shareholders and the members of the Management

In thousand drams	As of December 31, 2021	2021		As of December 31, 2020
Employee benefits	-	(8,272)	8,272	-
Borrowings provided to shareholders	86,150	(883,960)	780,300	189,810
Dividends	-	(300,000)	300,000	-
Borrowings received fom shareholders	26,132	(51,740)	77,872	-
Car rental fees included in other general administrative expenses	-	(10,800)	10,800	-

In thousand drams	As of December 31, 2020	2020		As of December 31, 2019
Employee benefits	-	(7,305)	7,305	-
Borrowings provided to shareholders	189,810	(414,917)	373,542	231,185
Dividends	-	(270,000)	270,000	-
Borrowings received fom shareholders	-	-	-	-
Car rental fees included in other general administrative expenses	-	(10,800)	10,800	-

23 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The carrying amounts of the financial assets and liabilities as presented in the statement of financial position approximate their respective fair values as at 31 December 2021 and 2020. The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Fair value hierarchy The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

In thousand drams	Level 1	Level 2	Level 3	Toal
Investment securities at fair value through profit or loss				
- Debt and other fixed-income instruments	-	929,166	-	929,166
	-	**929,166**	**-**	**929,166**

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

In thousand drams	Level 1	Level 2	Level 3	Toal
Investment securities at fair value through profit or loss				
- Debt and other fixed-income instruments	-	1,365,809	-	1,365,809
	-	**1,365,809**	**-**	**1,365,809**