Financial Statements and Independent Auditor's Report

“DIGISAFE” CU CLOSED JOINT STOCK COMPANY

31 December 2021

Contents

Independent auditor's report

To the shareholders of "DIGISAFE" CU CJSC

Opinion

We have audited the financial statements of "DIGISAFE" CU CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") 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 those ethical requirements. 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.

Auditor's 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of 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.

Ruzanna Badalyan

Director/ Engagement Partner

26 April 2022

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2021	2020
Interest income from the loans to customers	6	76	-
Interest income from bank deposits	7	2,265	-
Net interest income		2,341	-
Other income		8	-
Impairment losses/reversal	8	(903)	-
Personnel expenses		(3,386)	-
Depreciation of property and equipment		(1,063)	-
Amortization of intangible assets		(163)	-
Consulting expenses		(2,268)	
Financial mediation fees		(3,000)	
Other expenses	9	(5,411)	-
Profit before income tax		(13,845)	-
		-	-
Income tax recovery	10	2,492	-
Profit for the year		(11,353)	-

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 39.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	11	75,744	-
Amounts due from other financial institutions	12	6,717	-
Loans and advances to customers	13	7,906	-
Property and equipment	14	13,820	-
Intangible assets	15	11,346	-
Inventories		170	-
Deferred income tax assets		2,492	-
Total assets		**118,195**	**-**
Liabilities and equity			
Liabilities			
Amounts due to customers		-	-
Payables to suppliers		3,237	-
Other liabilities	16	1,311	-
Total liabilities		4,548	-
Equity			
Share capital	17	125,000	-
Accumulated losses		(11,353)	-
Total equity		113,647	-
Total liabilities and equity		**118,195**	**-**

The financial statements were approved on 26 April 2022 by:

Hakob Ghonjeyan

Chief Executive Officer

Manuk Grigoryan

Chief Accountant

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 39.

Statement of changes in equity

In thousand Armenian drams	Share capital	Accumulated loss	Total
Balance as of 01 January 2020	-	-	-
Profit for the year	-	-	-
Total comprehensive income for the year	-	-	-
Increase in share capital	-	-	-
Total transactions with owners	-	-	-
Balance as of 31 December 2020	-	-	-
Balance as of 01 January 2021	-	-	-
Loss for the year	-	(11,353)	(11,353)
Total comprehensive income for the year	-	(11,353)	(11,353)
Increase in share capital	125,000	-	125,000
Total transactions with owners	125,000	-	125,000
Balance as of 31 December 2021	125,000	(11,353)	113,647

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 39.

Statement of cash flows

In thousand Armenian drams	2021	2020
Cash flows from operating activities		
Profit before tax	(13,845)	-
Adjustments for		
Amortization and depreciation allowances	1,227	-
Impairment charge of financial assets	903	-
Interest receivable	59	-
Cash flows from operating activities before changes in operating assets and liabilities	(11,656)	-
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	(6,784)	-
Loans and advances to customers	(8,044)	-
Other assets	(170)	-
Increase/(decrease) in operating liabilities	-	-
Payables to suppliers	3,237	-
Other liabilities	1,311	-
Net cash flow used in operating activities before income tax	(22,106)	-
Income tax paid	-	-
Net cash used in operating activities	(22,106)	-
Cash flows from investing activities		
Purchase of property and equipment	(14,883)	-
Purchase of intangible assets	(11,510)	-
Net cash used in investing activities	(26,393)	-
Cash flow from financing activities		
Proceeds from issue of share capital	125,000	-
Net cash from financing activities	125,000	-
Net increase in cash and cash equivalents	76,501	-
Cash and cash equivalents at the beginning of the year	-	-
Effect of changes in impairment allowance on cash and cash equivalents	(757)	-
Cash and cash equivalents at the end of the year	75,744	-

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 39.

Notes to the financial statements

1 Principal activities

"DIGISAFE" CU CJSC (the “Company”) is a fintech credit organization, which was established at the beginning of 2021 and registered in the Central Company of Armenia on July 13, 2021. The Company provides gold pledged consumer loans via mobile application. After gold evaluation, the whole process is digitalized and implemented via the mobile application of the client. This innovative solution is unique in the region. Gold pledged evaluated and with that amount, a loan limit opened for a client in their mobile phone. Then client gets the opportunity to remotely take the loan at any time, by one or several withdrawals. The client can repay the loan or part of the loan anytime, save interest and take the loan again when needed. Once the loan agreement is expired, a client can retake the new loan remotely, at any time using the same pledge. Client in real-time can see the list of pledged items with detailed descriptions via mobile application and take back pledged items by ordering them via mobile application. The client can choose the interest repayment date matching it with their cash flow. The Company provides opportunities for its clients to keep their gold in a secure and safe place while having instant access to financial resources in mobile when money will be required. Aiming to get specialization and provide clients outstanding services The Company provides only one type of consumer gold pledged loans.

The registered office of the Company is located at: Erebuni 17/1 street, Yerevan (Erebuni Mall).

Number of employees of the Company as of December 31, 2021 is 4 (four).

Below is the list of shareholders of the Company.

Name	Legal Status	Participation Size in Statutory Capital	Number of Ordinary Nominal Shares
Hrachya Tokhmakhyan	Individual	40%	5,000
Vardan Gevorgyan	Individual	25%	3,125
Hakob Ghonjeyan	Individual	25%	3,125
Tigran Hunanyan	Individual	10%	1,250

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature and the stability and development of the Armenian economy largely depends on these changes.

2020 after the recession, the Armenian economy entered a phase of stable recovery. It is expected that the gradual improvement of the COVID-19 epidemic situation, the ceasefire agreement over disputed territories of Nagorno Karabakh, as well as the expansion of public-private investment will stimulate the growth of 2022. The government's efforts to improve the business environment, increase access to finance for SMEs and create opportunities for priority social spending, as well as an expanded action plan for capital market development, should contribute to the stability and development of the Armenian economy. According to the Central Company of Armenia and international financial institutions the GTP will grow by 5.3% in 2022.

These financial statements reflect management's assessment of the impact of the Armenian business environment on the operations of the Company. However, the future economic and political situation and its impact on the Company's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and the Company's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD.

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2021, did not have a material impact on the annual financial statements of the Company.

- *COVID-19-related rent concessions beyond 30 June 2021 (Amendments to IFRS 16)*
- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

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

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below.

- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

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 (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate 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" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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 net 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.

4.2 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Company’s activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.3 Financial instruments

4.3.1 Recognition and initial measurement

The Company initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which The Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.3.2 Classification

Financial assets

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 of 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 of 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.

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

All 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 of 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.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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.

Reclassifications

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 are never reclassified.

Financial liabilities

The Company classifies its financial liabilities as measured at amortized cost.

4.3.3 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 OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as of FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

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.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.3.4 Modifications 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, 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.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. 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.

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.

4.3.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.3.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

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; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

12-month ECL (12mECLs) 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.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, The Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, The Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, The Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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 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.
- 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 FVOCI are credit-impaired. 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.

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.

Presentation of allowances for ECL in the statement of financial position

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;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, The Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
    - where a financial instrument includes both a drawn and an undrawn component, and The Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;

– The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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. However, 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.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short term bank deposits.

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with payment and settlement organization. Loans and advances to payment and settlement organization with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.6 Loans and advances

Loans and advances are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.7 Leases

For any new contracts the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

4.8 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Capitalized expenses on buildings	20 years
Computers	1 year
Other fixed assets	8 years

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 cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

4.9 Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.10 Repossessed assets

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company's policy.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.11 Impairment of non-financial asstes

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.13 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

4.14 Segment reporting

In terms of IFRS 8 the Company's operations are not separated to operating segments and are a complete business unit. The Company's chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Company's assets are distributed in the territory of the Republic of Armenia. The Company's income is derived from the Armenian sources.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period's affected.

5.1 Judgements

Establish criteria for calculating ECL

The Company establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward- looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program that is depreciation arising from the changes in the market conditions.

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL, as well as the key assumptions used in estimating recoverable cash flows.

6 Net interest income

Starting from November 24, 2011 the Company started to provide loans to its customers, loans are provided at the nominal annual interest rate of 15.9 percent, the effective annual interest rate is 17.1 percent. Loans are provide based on the market value of pledged gold. The percent of loan to gold market value amounts to 100%. The loans are mainly provided for a period of no longer than one year plus maximum 15 days. The nominal amount of loans provided to customers as of December 31, 2021 amounts to drams 7,927 thousand. Total interest income for the year ended 2021 amounts to drams 76 thousand.

7 Interest income from bank deposits

The company deposited temporarily free amounts in Evoca Bank as short term bank deposits. The annual interest rate for bank deposits is 6 percent, and the duration of deposits were from three to six months. As of December 31, 2021 the nominal amount of bank deposits amounts to drams 25,000 thousand. During the year ended 2021, interest income from bank deposits amounts to drams 2,265 thousand.

8 Impairment losses/reversal

In thousand Armenian drams	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	757	-	-	757
Amounts due from other financial institutions	67	-	-	67
Loans and advances to customers	79	-	-	79
Total impairment losses/reversal	903	-	-	903

9 Other expenses

In thousand Armenian drams	**2021**	**2020**
Marketing and advertisement expenses	1,755	-
Office expenses	2,903	-
Internet and communication expenses	470	-
Bank charges	68	-
Other expenses	215	-
	5,411	-

10 Income tax recovery

In thousand Armenian drams	**2021**	**2020**
Current tax expense	-	-
Deferred tax	2,492	-
Total income tax recovery	2,492	-

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2020: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

Numerical reconciliation between the tax expenses/ (recovery) and accounting profit / (loss) is provided below:

In thousand Armenian drams	2021	Effective rate (%)	2020	Effective rate (%)
Loss before tax	(13,845)	-	-	-
Income tax	(2,492)	18%	-	-
Non-taxable income	-	0%	-	-
Non-deductible expenses	-	0%	-	-
Income tax recovery	(2,492)	18%	-	-

During 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia was reduced from 20 to 18%.

Deferred tax calculation in respect of temporary differences:

	2020	2021			
In thousand Armenian drams		Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
Other liabilities	-	36	36	36	-
Tax losses carried forward	-	2,456	2,456	2,456	-
Deferred tax asset	-	2,492	2,492	2,492	-
Unrecognized deferred tax assets	-	-	-	-	-
Deferred tax asset	-	2,492	2,492	2,492	-

The Company has available AMD 13,845 thousand in tax losses carried forward which will expire in 2026 if not utilized.

11 Cash and cash equivalents

In thousand Armenian drams	31 December 2021	31 December 2020
Correspondent accounts with banks	51,246	-
Deposits for less than 90 days	25,263	-
	76,509	-
Less loss allowance	(765)	-
Total cash and cash equivalents	75,744	-

Correspondent accounts with banks are non-interest bearing.

The company deposited temporarily free amounts in Evoca Bank as short term bank deposits and classified as deposits for less than 90 days. The annual interest rate for bank deposits is 6 percent, and the duration of deposits were from one to three months. As of December 31, 2021 the nominal amount of bank deposits amounts to drams 25,000 thousand. During the year ended 2021, interest income from bank deposits amounts to drams 2,265 thousand.

An analysis of changes in the ECLs on cash and cash equivalents as follows:

In thousand Armenian drams	**31 December 2021**	**31 December 2020**
	Stage 1	**Stage 1**
ECL allowance as of 1 January	-	-
Net measurement of loss allowance	765	-
Balance as of 31 December	765	-

12 Amounts due from other financial institutions

In thousand Armenian drams	**31 December 2021**	**31 December 2020**
Amounts due from Idram	1,838	-
Amounts due from Easy PAY	1,895	-
Amounts due from Tel-Cell	975	-
Amounts due from MOBIDRAM	2,067	-
Amounts due from Upay	-	-
	6,775	-
Less loss allowance	(58)	-
Total amounts due from other financial institutions	6,717	-

Amounts due from financial institutions represents advance paid to the payment and settlement organization within the contractual terms for provision of loans to the customers of the Company, once the customers decide to take the loan through the intermediary services provided by the settlement organisations. They have a maturity of less than 90 days.

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	**31 December 2021**	**31 December 2020**
	Stage 1	**Stage 1**
ECL allowance as of 1 January 2021	-	-
Net remeasurement of loss allowance	58	-
Balance as of 31 December 2021	58	-

13 Loans and advances to customers

In thousand Armenian drams	31 December 2021			31 December 2020		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairmen t allowance	Carrying amount
Mortgage and consumer lending						
Consumer lending	7,986	(80)	7,906	-	-	-
Total	7,986	(80)	7,906	-	-	-

The Company started its activities during 2021 and only during November and mainly December the Company provided consumer loans to its customers, since there is no historic data for previous periods the Company created an allowance for its consumer loans at 1% from the initial amount of the loan. Management of the Company believes that ECL allowance represents fair amount of expected credit loss.

An analysis of changes in gross carrying amounts in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams	2021	
	Stage 1	Total
Mortgage and consumer lending		
Balance at of 1 January	-	-
New assets originated or purchased	7,986	7,986
Assets repaid	-	-
Transfer to Stage 1	7,986	7,986
Transfer to Stage 2	-	-
Transfer to Stage 3	-	-
Change in balance of asset from interest and foreign exchange	-	-
Recoveries	-	-
Amounts written off during the year	-	-
Balance as of 31 December	7,986	7,986

The Company accepted gold and jewellery as collateral for consumer loans, which it is permitted to sell of if the customer fails to meet its contractual commitments. Fair value of assets pledged as of December 31, 2021 amounts to dram 14,216 thousand.

As of 31 December 2021 and 2020 the estimated fair value of loans and advances to customers approximates it carrying amount.

14 Property and equipment

In thousand Armenian drams	Leasehold improvement	Equipment and fittings	Total
Cost			
As of 01 January 2020	-	-	-
Additions	-	-	-
As of 31 December 2020	-	-	-
Additions	8,014	6,869	14,883
As of 31 December 2021	8,014	6,869	14,883
Accumulated depreciation			
As of 1 January 2020	-	-	-
Expenses for the year	-	-	-
As of 31 December 2020	-	-	-
Expenses for the year	269	794	1,063
As of 31 December 2021	269	794	1,063
Carrying amount			
As of 31 December 2020	-	-	-
As of 31 December 2021	7,745	6,075	13,820

Restrictions on title of fixed assets

As of 31 December 2021, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

15 Intangible assets

In thousand Armenian drams	Acquired software	Total
Cost		
As of 01 January 2020	-	-
Additions	-	-
As of 31 December 2020	-	-
Additions	11,510	11,510
As of 31 December 2021	11,510	11,510
Accumulated depreciation		
As of 1 January 2020	-	-
Amortisation charge	-	-
As of 31 December 2020	-	-
Amortisation charge	164	164
As of 31 December 2021	164	164
Carrying amount		
As of 31 December 2020	-	-
As of 31 December 2021	11,346	11,346

As of 31 December 2021, the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Acquired software represents Armenian accounting software and main application software for customers to take online loans at any time when they wish.

16 Other liabilities

In thousand Armenian drams	31 December 2021	31 December 2020
Due to personnel	969	-
Total other financial liabilities	969	-
Tax payable, other than income tax	342	-
Total other non-financial liabilities	342	-
Total other liabilities	1,311	-

17 Equity

As of 31 December 2021 the Company's registered, issued, circulating and paid-in share/charter capital was AMD 125,000 thousand. In accordance with the Company's statues, the share/charter capital consists of 12,500 ordinary shares, all of which have a par value of AMD 10,000 each.

The respective shareholdings as of 31 December 2021 and 2020 may be specified as follows

In thousand Armenian drams	**31 December 2021**	
	Paid-in share capital	**% of total paid-in capital**
Hrachya Tokhmakhyan	50,000	40%
Vardan Gevorgyan	31,250	25%
Hakob Ghonjeyan	31,250	25%
Tigran Hunanyan	12,500	10%
	125,000	100%

As of 31 December 2021, the Company did not possess any of its own shares.

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

The share capital of the Company was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

18 Contingencies

Tax and legal matters

As of 31 December 2021 there were no legal actions and complaints taken against the Company.

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Insurance

The insurance industry in 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 business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company 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 the Company's operations and financial position.

19 Transactions with related parties

The Company related parties include only shareholder, there are no transaction with related parties during 2021 except for the compensation of Director of the Company who is also one of the shareholders of the Company

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2021	2020
Salaries and bonuses	1,918	-
Total key management compensation	1,918	-

20 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20.1 Financial instruments that are not measured at fair value

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used are fixed at a 17.1% per annum.
The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by professionally-qualified property appraisers.

21 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

If nothing to disclose in relation to offsetting

As of 31 December 2021 Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

22 Maturity analysis of assets and liabilities

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

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	75,744	-	75,744	-	-	-	75,744
Amounts due from other financial institutions	-	6,717	6,717	-	-	-	6,717
Loans and advances to customers	-	7,906	7,906	-	-	-	7,906
	75,744	14,623	90,367	-	-	-	90,367
Liabilities							
Other liabilities	4,548	-	4,548	-	-	-	4,548
	4,548	-	4,548	-	-	-	4,548
Net position	71,196	14,623	85,819	-	-	-	85,819
Accumulated gap	-	-		-	-		

23 Risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry.

Risk management structure

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

Board of Directors

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

Internal controller

Risk management processes throughout the Company are audited annually by the internal controller function that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Controller discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

23.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances into the Company's asset portfolio.

23.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements.

In thousand Armenian drams	31 December 2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	76,509	-	-	76,509
Standard *	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	76,509	-	-	76,509
Loss allowance	(765)	-	-	(765)
Net carrying amount	75,744	-	-	75,744
Amounts due from Company's and other financial institutions				
High	6,775	-	-	6,775
Standard *	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	6,775	-	-	6,775
Loss allowance	(58)	-	-	(58)
Net carrying amount	6,717	-	-	6,717
Loans and advances to consumer customers				
High grade	7,986	-	-	7,986
Standard grade	-	-	-	-
Substandard grade	-	-	-	-
Non-performing grade	-	-	-	-
Gross carrying amount	7,986	-	-	7,986
Loss allowance	(80)	-	-	(80)
Net carrying amount	7,906	-	-	7,906

23.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

Significant increase in credit risk

At each reporting date, The Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Company considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). Wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.

- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Company to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

23.1.3 Collateral and other credit enhancement

The main types of collateral obtained are, as follows:

- For consumer lending gold and other jewelries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Company did not hold any financial instruments for which no loss allowance is recognised because of collateral.

The analysis of gross loan portfolio of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams	**31 December 2021**	**31 December 2020**
Loans collateralized by gold and jewellery	7,986	-
Total loans and advances to customers (gross)	7,986	-

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

23.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. Management of the Company believes that the Company is not exposed to such risks since the Company provides only fixed interest rates loans and only in Armenian drams.

23.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company also has committed lines of credit that it can access to meet liquidity needs

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity.

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Company’s financial liabilities as of 31 December 2021 based on contractual undiscounted repayment obligations.

In thousand Armenian drams

	31 December 2021						
	Trading derivatives	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities							
Other liabilities	-	342	969	-	-	1,311	1,311
Total undiscounted non-derivative financial liabilities	-	342	969	-	-	1,311	1,311

23.2 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Company of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Controler. The results of Internal reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

24 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Companying Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Company.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The minimum ratio between total capital and risk weighted assets required by the Central Company of Armenia is 6%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Company of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2021 the amount of total capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Company of Armenia are provided below.

	Unaudited
In thousand Armenian drams	**31 December 2021**
Tier 1 capital	113,647
Tier 2 capital	-
Total regulatory capital	113,647
Risk-weighted assets	48,513
Capital adequacy ratio	235.4%

The Company has complied with all externally imposed capital requirements through the period.

25 Events after the reporting period

The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact on the world economy. United States and European countries have imposed severe sanctions against Russia. Western powers are discussing widening existing sanctions. Russia is the main trading partner of Armenia, hence sanctions imposed as of now as well as escalation of those sanctions could have a drastical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold

Nonetheless the specific effect is hard to predict with certainty, and management has not yet assessed the effect of the above on the current financial statements.