

Landmark Capital CJSC

Financial statements

*Year ended 31 December 2022
together with independent auditor's report*

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Independent auditor's report

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Independent auditor's report

To the Shareholder of Landmark Capital CJSC

Opinion

We have audited the financial statements of Landmark Capital CJSC (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2022, 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 present fairly, in all material respects, the financial position of the Company as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of Landmark Capital CJSC for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements and included an Emphasis of matter section in the auditor's report dated 25 April 2022, drawing attention to the events that took place after the reporting period.

Responsibilities of management and Shareholder 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.

The Shareholder is 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 the Shareholder 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.

CJSC Ernst & Young

General Director
Partner (Assurance)



Eric Hayrapetyan

Responsible Auditor



Yelena Adamyan

2 May 2023

Yerevan, Armenia

Statement of financial position**As of 31 December 2022***(thousands of Armenian Drams)*

	Notes	2022	2021 (reclassified)
Assets			
Cash and cash equivalents	6	1,777,727	713,209
Trading securities	7	787,355	502,248
Amounts due from clients and counterparties	8	808,654	568
Property, equipment and intangible assets		41,059	7,812
Other assets		2,178	9,288
Total assets		3,416,973	1,233,125
Liabilities			
Borrowings	9	645,811	646,915
Current income tax liabilities		361,345	7,485
Deferred tax liabilities	20	12,213	18,934
Amounts due to counterparties	10	535,097	712
Other liabilities	11	110,201	8,586
Total liabilities		1,664,667	682,632
Equity			
Share capital	12	436,815	436,815
Retained earnings		1,303,491	101,678
Other components of equity	12	12,000	12,000
Total equity		1,752,306	550,493
Total equity and liabilities		3,416,973	1,233,125

Signed and authorised for release on behalf of the Management of the Company

Gor Gevorgyan

Executive Director

Irina Ter-Abramyan

Chief Accountant

02 May 2023



Statement of profit or loss and other comprehensive income**For the year ended 31 December 2022***(thousands of Armenian Drams)*

	Notes	2022	2021 (reclassified)
Interest revenue	13	123,501	19,008
Interest expense	13	(72,083)	(16,005)
Net interest income		51,418	3,003
Credit loss expense	14	(22,259)	–
Fee and commission income	15	724,791	85,255
Fee and commission expense	15	(1,511,406)	(4,455)
Net trading income	16	2,738,415	159,659
Net foreign exchange gain/ (loss)	17	72,174	(40,472)
Net gain from initial recognition of interest-free borrowings	9	68,460	66,706
Income from dividends		33,516	957
Income from operating leases		7,583	3,600
Other income		8,276	70
Personnel expenses	18	(437,059)	(117,056)
Other general administrative expenses	19	(142,553)	(40,504)
Profit before income tax expense		1,591,356	116,763
Income tax expense	20	(358,043)	(25,269)
Profit for the year		1,233,313	91,494
Other comprehensive income		–	–
Total comprehensive income for the year		1,233,313	91,494

The accompanying notes from 1 to 27 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2022***(thousands of Armenian Drams)*

	<i>Share capital</i>	<i>Other components of equity</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance as at 1 January 2021	436,815	12,000	10,184	458,999
Profit for the year	–	–	91,494	91,494
Balance as at 31 December 2021	436,815	12,000	101,678	550,493
Profit for the year	–	–	1,233,313	1,233,313
Dividends to shareholders (Note 12)	–	–	(31,500)	(31,500)
Balance as at 31 December 2022	436,815	12,000	1,303,491	1,752,306

The accompanying notes from 1 to 27 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2022***(thousands of Armenian Drams)*

	Notes	2022	2021 (reclassified)
Cash flows from operating activities			
Interest received		119,274	18,061
Payments for the interest portion of lease liabilities		(3,802)	(1,832)
Fees and commissions received		551,295	77,455
Fees and commissions paid		(1,454,385)	(1,887)
Realized gains less losses from instruments at fair value through profit or loss		2,230,719	216,745
Realized gains less losses from dealing in foreign currencies and foreign currency derivatives		597,228	(882)
Personnel expenses paid		(360,524)	(118,206)
Dividends received		33,301	957
Receipts from operating lease		8,649	4,320
Other general administrative expenses paid		(15,015)	(22,993)
Cash flows from operating activities before changes in operating assets and liabilities		1,706,740	171,738
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(395,125)	(656,678)
Net operating activities before income tax		1,311,615	(484,940)
Income tax paid		(10,904)	(1,438)
Net cash from / (used in) operating activities		1,300,711	(486,378)
Cash flows from investing activities			
Purchase of property, equipment		(1,436)	-
Purchase of intangible assets		(5,367)	(1,689)
Net cash used in investing activities		(6,803)	(1,689)
Cash flows from financing activities			
Proceeds from borrowings	25	392,817	1,374,806
Repayments of borrowings	25	(385,293)	(802,643)
Lease liabilities paid	25	(13,273)	(16,491)
Dividends paid	12	(31,500)	-
Net cash (used in) / from financing activities		(37,249)	555,672
Net increase in cash and cash equivalents		1,256,659	67,605
Cash and cash equivalents, beginning		713,209	692,584
Effect of exchange rates changes on cash and cash equivalents		(182,986)	(46,980)
Effect of expected credit losses on cash and cash equivalents		(9,155)	-
Cash and cash equivalents, ending	6	1,777,727	713,209

The accompanying notes from 1 to 27 are an integral part of these financial statements.

(thousands of Armenian Drams)

1. Principal activities

a) Organisation and operations

Landmark Capital CJSC (the “Company”) is a closed joint-stock company incorporated in the Republic of Armenia. The company was registered and licensed (license No: 16) as an investment company by the Central Bank of Armenia on 29 March, 2019. The license permits the Company to provide the following services:

- ▶ Acceptance and transfer of orders of clients for the execution of transactions in securities;
- ▶ Execution of transactions in securities on its own behalf or on behalf of the client and to the client’s account;
- ▶ Provision of consultation to clients related to the investments in securities;
- ▶ Execution of transaction in securities on its own account and own behalf;
- ▶ Execution of non-guaranteed allocation of securities;
- ▶ Managing of package of securities;

In addition to providing the above-mentioned core investment services, the Company can perform other non-core services provided by its license and the law of RA on securities market.

Landmark Capital CJSC is located and operates in Yerevan only. The company has no branches and representations yet. The Company provides information on its activities in accordance with RA legislation based on the principle of reliability and periodicity.

The activity of the Company is regulated by the Central Bank of the Republic of Armenia (CBA).

As of 31 December 2022, the number of Company’s full-time employees is 9 (31 December 2021: 8).

The Company’s registered office is 118 office, 10 Vazgen Sargsyan, Yerevan, 0010, Republic of Armenia.

As of 31 December, the shareholder of the Company is:

Shareholder	2022, %	2021, %
Landmark Holding LLC	100.0	–
Pukuotas Limited	–	100.0
Total	100.0	100.0

Landmark Holding LLC is the direct shareholder of Landmark Capital CJSC. The sole shareholder and ultimate controlling party of the later is Aharon Mkhitaryan as at 31 December 2022 and 2 021.

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 Armenia. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories, later escalation of the conflict in the Republic of Armenia territory has further increased uncertainty in the business environment.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia. It is expected that the war will have a significant impact on the Armenian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Company’s business as there is uncertainty over the magnitude of the impact on the economy in general. The Company’s management is monitoring the economic situation in the current environment.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company has prepared the financial statements on the basis that it will continue to operate as a going concern.

(thousands of Armenian Drams)

2. Basis of preparation (continued)**b) Functional and presentation currency**

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency and the currency in which these financial statements are presented. These financial statements are presented in thousands of Armenian Dram ("AMD"), and all values are rounded off to the nearest thousands, except when otherwise indicated.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at fair value as disclosed in the accounting policies below.

d) Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net profit or equity as previously reported.

Certain amounts in the statement of financial position as of 31 December 2021 have been reclassified.

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>
Other assets	9,856	(568)	9,288
Amounts due from clients and counterparties	-	568	568
Other liabilities	16,783	(8,197)	8,586
Current income tax liabilities	-	7,485	7,485
Amounts due to counterparties	-	712	712

Certain amounts in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021 have been reclassified.

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>
Interest income	85,714	(66,706)	19,008
Net gain from initial recognition of interest free borrowing	-	66,706	66,706
Net income from commercial transactions	119,187	(119,187)	-
Net trading income	-	159,659	159,659
Net foreign exchange loss	-	(40,472)	(40,472)
Other expenses	(18,098)	18,098	-
Other general administrative expenses	(25,767)	(18,098)	(43,865)
Personnel expenses	(113,624)	(3,432)	(117,056)
Other general administrative expenses	(43,865)	3,361	(40,504)
Other income	-	70	70

Certain amounts in the statement of cash flows for the year ended 31 December 2021 have been reclassified as well.

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>
Fee and commission receipts, net	62,047	(62,047)	-
Fee and commission received	-	77,455	77,455
Fee and commission paid	-	(15,408)	(15,408)
Fee and commission paid	(15,408)	13,521	(1,887)
Other general administrative expenses paid	(9,472)	(13,521)	(22,993)
Net receipt of borrowed funds	572,163	(572,163)	-
Proceeds from borrowings	-	1,374,806	1,374,806
Repayments of borrowings	-	(802,643)	(802,643)

(thousands of Armenian Drams)

3. Summary of accounting policies

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 2022 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new and amended standards did not have any impact on Company's financial statements:

- ▶ *Onerous Contracts – Costs of Fulfilling a Contract* – Amendments to IAS 37;
- ▶ *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16 Leases;
- ▶ *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost comprises purchase price including import duties, non-refundable taxes and other directly attributable costs, 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 property and equipment.

Subsequent expenditure on the property and equipment 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 is recognized in 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:

	<u>Years</u>
Communication devices and computers	1-3 years
Other	8 years

Intangible assets

Intangible assets include computer software.

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

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible asset.

Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Leases

i. Company as a lessee

The Company makes the use of leasing arrangements principally for the provision of the office space. The rental contracts for offices are typically negotiated for 3 years and have extension terms. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Company does not enter into sale and leaseback arrangements.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Lease liabilities (continued)

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

In the statement of financial position, right-of-use assets are presented together with property and equipment.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

ii. Operating – Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Cash and cash equivalents

Cash and cash equivalents include cash on demand at Armenian and foreign banks, in Central Depository of Armenia and Clearing systems.

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.

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

Financial assets are classified based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through PL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, lease liabilities and borrowings.

Determination of fair value

The Company measures financial instruments carried at FVPL at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 22.

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

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables and cash and cash equivalents.

The Company only measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- ▶ Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying');
- ▶ It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors;
- ▶ It is settled at a future date.

The Company enters into derivative transactions with various counterparties. These include mainly short-term forward foreign exchange contracts. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss in "Net trading income" and "Net foreign exchange gain".

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets or financial liabilities held for trading

The Company classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value.

Changes in fair value are recognised in net trading income. Included in this classification are debt securities, equities, and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term.

Debt instruments at FVOCI

A debt instrument is measured at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2022 and 2021.

Derecognition of financial assets and liabilities

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

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- ▶ The Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Impairment

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through PL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Armenia.

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

Deferred tax 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 utilised.

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

An entity offsets current tax assets and current tax liabilities if, and only if, the company:

- ▶ Has a legally enforceable right to set off the recognised amounts;
- ▶ And intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

Equity

Share capital

Share capital represents the nominal value of shares that have been issued.

Dividends

The ability of the Company to declare and pay dividends is governed by the regulations established by the legislation of the Republic of Armenia. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

Interest revenue and expense

The Company calculates interest revenue on financial assets measured at amortized cost by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Company calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest revenue on a gross basis.

Fee and commission income and expense

The Company earns fee and commission income from a diverse range of services it provides to its customers, mainly from provision of brokerage and advisory services.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

When the Company provides a service to its customers, consideration is recognised and calculated based on agreement and order concluded between the parties and generally due immediately upon satisfaction of a service provided at a point in time.

The Company's fee and commission expense from services where performance obligations are satisfied over time include agent fees, which are calculated based on marginal income earned by the Company from the services provided to clients introduced by agents. Consequently, acceptance acts are concluded between the Company and agents and agent fees are generally recognised quarterly. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Revenue is recognised when the Company's right to receive the payment is established.

Foreign currency transactions

The financial statements are presented in Armenian drams, which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date:

	31 December 2022	31 December 2021
AMD / 1 US dollar	393.57	480.14
AMD / 1 Euro	420.06	542.61

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss.

4. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice.

(thousands of Armenian Drams)

4. Standards issued but not yet effective (continued)

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company's financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Company is currently assessing the impact of the amendments.

5. Significant accounting judgments and estimates

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.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Measurement of fair values

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs. For further details about determination of fair value please see Note 22.

(thousands of Armenian Drams)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	2021
Current accounts with Central Depository of Armenia and clearing systems	1,300,803	612,517
Current accounts with Armenian and foreign banks	486,079	100,692
Less – allowance for impairment	(9,155)	–
Cash and cash equivalents	1,777,727	713,209

Cash and cash equivalents are allocated to Stage 1 and Stage 2. An analysis of changes in the ECL allowances during the year is, as follows:

	Stage 1	Stage 2	Total
ECL allowance as at 1 January	–	–	–
Changes in ECL	1,792	7,363	9,155
At 31 December	1,792	7,363	9,155

Information about credit quality of cash and cash equivalents is presented in Note 21 “Risk management”.

7. Trading securities

Trading securities owned comprise:

	2022	2021
Corporate bonds	621,915	346,255
Corporate shares	161,498	155,993
US Treasury bonds	3,942	–
Trading securities	787,355	502,248

As at 31 December 2022, trading securities were represented by Armenian and Russian issuers’ corporate bonds denominated in Armenian Drams, US Dollars, US treasury bonds denominated in US dollars and corporate shares denominated in Armenian drams (as at 31 December 2021: Armenian issuers’ corporate bonds denominated in Armenian Drams and corporate shares denominated in Armenian drams).

Trading securities by countries of the issuer comprise:

	2022	2021
Armenia	473,844	502,248
Russia	309,569	–
USA	3,942	–
Trading securities	787,355	502,248

As at 31 December 2022 and 2021, the Company has no securities pledged under sale and repurchase agreements.

(thousands of Armenian Drams)

8. Amounts due from clients and counterparties

The amounts due from clients and counterparties comprises:

	<u>2022</u>	<u>2021</u>
Receivables from securities trading	649,541	–
Amounts due from brokerage services	166,562	474
Amounts due from custody	5,655	94
Less – allowance for impairment	(13,104)	–
Amounts due from clients and counterparties	<u>808,654</u>	<u>568</u>

Amounts due from clients and counterparties are non-interest bearing.

Receivables from securities trading represent unsettled receivable for sale of securities due from foreign bank, which was settled subsequent to the year end.

Balances of amounts due from clients and counterparties are allocated to Stage 1 and Stage 3. An analysis of changes in the ECL allowances during the year is, as follows:

	<u>Stage 1</u>	<u>Stage 3</u>	<u>Total</u>
ECL allowance as at 1 January	–	–	–
Changes in ECL	13,099	5	13,104
At 31 December	<u>13,099</u>	<u>5</u>	<u>13,104</u>

9. Borrowings

Borrowings include the following:

	<u>2022</u>	<u>2021</u>
Borrowings from third parties	645,811	646,915
Total borrowings	<u>645,811</u>	<u>646,915</u>

During 2022 and 2021, the Company received interest-free borrowings from third parties, with the nominal amount of 700,000 thousand (2021: 700,000 thousand) and a 360-day repayment period.

According to IFRS 9, loans issued with interest rates other than the market interest rates are measured at fair value at the date of issuance. The fair value equals the future interest payments and principal debt discounted with the market interest rate. As at the date of issuance of the borrowing, the market rates for similar term borrowings were equal to 10.9% for 2022 (2021: 10.6%).

The Company recognized the attracted borrowing at fair value of AMD 631,540 thousand as at the date of their receipt (2021: AMD 633,294 thousand). As a result net gain from initial recognition of interest-free borrowings with the total amount of kAMD 68,460 was recognized in the statement of profit or loss (2021: AMD 66,706 thousand).

During 2022 and 2021 the Company recognized interest expense on borrowings in the amount of AMD 67,356 thousand and AMD 13,621 thousand respectively (Note 13).

10. Amounts due to counterparties

Amounts due to counterparties comprise:

	<u>2022</u>	<u>2021</u>
Payables for securities purchased	430,338	712
Agent fees payable	55,616	–
Prepayments received for selling securities	49,143	–
Total amounts due to counterparties	<u>535,097</u>	<u>712</u>

The amounts are short-term and have been mostly settled shortly after the reporting period.

*(thousands of Armenian Drams)***11. Other liabilities**

Other liabilities comprise:

	2022	2021
Lease liabilities	34,546	5,751
Payables to personnel	9,588	2,592
Total other financial liabilities	44,134	8,343
Taxes payable other than on income	66,067	243
Total other non-financial liabilities	66,067	243
Total other liabilities	110,201	8,586

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022	2021
As at 1 January	5,751	22,030
Modification	42,068	-
Accretion of interest	3,802	2,044
Payment of principal portion of lease liability	(13,273)	(16,491)
Interest paid on lease liability	(3,802)	(1,832)
Amounts due to clients and counterparties	34,546	5,751

The Company had total cash outflows for leases of AMD 17,075 thousand in 2022 (2021: AMD 18,323 thousand).

12. Equity**Issued capital**

As of 31 December 2022 the Company's share capital was AMD 436,815 thousand (2021: AMD 436,815 thousand). The authorized, issued and outstanding share capital comprises 5,139 ordinary shares (2021: 5,139 ordinary shares) with a par value of AMD 85,000 (2021: AMD 85,000) each.

Ordinary shareholders have the right to receive the declared dividends from time to time and to vote at the Company's annual general meeting of shareholders on a one-share-one vote basis.

Other components of equity

On 27 April 2020, according to the decision of the Company's founder, AMD 12,000 thousand was invested in other components of equity.

Dividends

At the Shareholders' Meeting on 2 May 2022, the Company declared dividends in respect of the year ended 31 December 2021, totalling AMD 31,500 thousand on ordinary shares (AMD 6,130 per share). The dividends were paid in 2022.

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.

(thousands of Armenian Drams)

13. Net interest income

Net interest income comprises:

	2022	2021
Financial assets measured at amortized cost		
Cash and cash equivalents	342	66
	342	66
Interest revenue calculated using effective rate		
Trading securities	123,159	18,942
Other interest revenue	123,159	18,942
Total interest revenue	123,501	19,008
Interest expense		
Borrowings	67,356	13,621
Interest expense calculated using effective interest rate	67,356	13,621
Lease liabilities	3,802	2,044
Other interest expense	925	340
Interest expense	72,083	16,005
Net interest income	51,418	3,003

14. Credit loss expense

The table below shows the ECL charges for financial instruments recognized in the statement of profit or loss for the year ended 31 December 2022:

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	6	1,792	7,363	-	9,155
Amounts due from clients and counterparties	8	13,099	-	5	13,104
Total credit loss expense		14,891	7,363	5	22,259

15. Net fee and commission income

Net fee and commission income comprise:

	2022	2021
Brokerage services	702,464	8,090
Advisory services	14,978	68,709
Depositary services	6,699	456
Securities placement	650	8,000
Fee and commission income	724,791	85,255
Agent fees	1,445,249	-
Other commission expense	57,808	3,888
Services provided by the depositary	8,349	567
Fee and commission expense	1,511,406	4,455
Net fee and commission (expense)/ income	(786,615)	80,800

In the normal course of business, the Company engages external agents to promote its services and increase number of customers. The Company pays certain commission fees to these agents based on fixed percentage applied to net income generated from customers.

*(thousands of Armenian Drams)***16. Net trading income**

	2022	2021
Net realized gain from buying and selling of trading securities	2,300,276	103,591
Net gain from changes in the fair value of trading securities	320,143	58,517
Net gain/(loss) from changes in the fair value of derivatives	117,996	(2,449)
Total net trading income	2,738,415	159,659

During 2022 and 2021 the Company recognized foreign exchange translation losses on trading securities and derivatives in the amount of AMD 239,554 thousand and AMD 7,569 thousand respectively in Net foreign exchange gain (Note 17).

17. Net foreign exchange gain

	2022	2021
Net gain from foreign exchange trading activities	476,292	(416)
Net loss from foreign exchange translation	(404,118)	(40,056)
Total net foreign exchange gain/(loss)	72,174	(40,472)

18. Personnel expenses

Personnel expenses comprise:

	2022	2021
Salaries and bonuses	432,358	113,246
Mandatory pension contributions	3,775	2,914
Social security costs	926	896
Total personnel expenses	437,059	117,056

19. Other general administrative expenses

	2022	2021
Legal and consultancy	63,246	11,694
Utilities and office supplies	27,878	5,889
Depreciation and amortization	15,624	17,822
Terminal installation and testing	12,400	-
Non-refundable taxes and fees	11,457	1,852
Personnel training	3,860	12
Communications	2,952	1,649
Representative expenses	2,328	335
Other	2,808	1,251
Other general administrative expenses	142,553	40,504

20. Income tax expenses

The corporate income tax expense comprises:

	2022 AMD'000	2021 AMD'000
Current tax charge	364,764	5,835
Deferred tax credit – origination and reversal of temporary differences	(6,721)	19,434
Income tax expense	358,043	25,269

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2021: 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 income tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

(thousands of Armenian Drams)

20. Income tax expenses (continued)

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

	2022 AMD'000	2021 AMD'000
Profit before tax	1,591,356	116,763
Income tax at the rate of 18%	286,444	21,017
Tax exempt income	(6,032)	(172)
Non-deductible expenses	77,631	4,424
Income tax expense	358,043	25,269

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

	1 January 2021	Origination and reversal of temporary differences in the statement of profit or loss	31 December 2021	Origination and reversal of temporary differences in the statement of profit or loss	31 December 2022
Property and equipment	52	(52)	–	–	–
Lease liabilities	3,965	(2,918)	1,047	5,171	6,218
Provision for expected credit losses on financial assets	–	–	–	4,006	4,006
Vacation reserve	788	(321)	467	1,259	1,726
Deferred tax asset	4,805	(3,291)	1,514	10,436	11,950
Property and equipment	–	(19)	(19)	7	(12)
Borrowings	–	(9,555)	(9,555)	(199)	(9,754)
Trading securities	–	(9,959)	(9,959)	1,346	(8,613)
Right of use assets	(4,305)	3,390	(915)	(4,869)	(5,784)
Deferred tax liability	(4,305)	(16,143)	(20,448)	(3,715)	(24,163)
Net deferred tax asset/ liability	500	(19,434)	(18,934)	6,721	(12,213)

21. Risk management**Introduction**

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.

(thousands of Armenian Drams)

21. Risk management (continued)**Introduction (continued)**

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 company. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

b) 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.

Credit quality per class of financial assets

The credit quality of financial assets below is managed by the Company based on external credit ratings. Not rated exposures are classified in Standard Grade, unless they are impaired.

As at 31 December 2022:

	<i>Note</i>	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents	6 Stage 1	1,692,578	–	–	–	1,692,578
	Stage 2	–	–	85,149	–	85,149
Amounts due from clients and counterparties	8 Stage 1	–	808,429	–	–	808,429
	Stage 3	–	–	–	225	225
Total		1,692,578	808,429	85,149	225	2,586,381

As at 31 December 2021:

	<i>Note</i>	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Total</i>
Cash and cash equivalents	6 Stage 1	713,071	–	138	713,209
Amounts due from clients and counterparties	8 Stage 1	–	568	–	568
Total		713,071	568	138	713,777

The table below shows the mapping of the Company's grading system and external ratings of the counterparties as at 31 December 2022 and 31 December 2021.

31 December 2022:

<i>International external rating agency (Moody's) rating</i>	<i>Internal rating description</i>	<i>PD</i>
Aaa to A3	High grade	0-0.09%
Baa1 to B3	Standard	0.1-4.3%
Caa1 to Ca	Sub-standard grade	14.0%
C	Impaired	100%

(thousands of Armenian Drams)

21. Risk management (continued)**Introduction (continued)**

31 December 2021:

International external rating agency (Moody's) rating	Internal rating description	PD
Aaa to A3	High grade	0-0.05%
Baa1 to B3	Standard	0.02-3.2%
Caa1 to Ca	Sub-standard grade	9.7%
C	Impaired	100%

Liquidity risk and companying management

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 tables below summarize the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

	31 December 2022					Total
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	
Financial liabilities						
Amounts due to counterparties	-	535,097	-	-	-	535,097
Other financial liabilities	-	-	9,588	-	-	9,588
Lease liabilities	-	4,243	12,729	17,704	-	34,676
Borrowings	-	-	700,000	-	-	700,000
Total undiscounted financial liabilities	-	539,340	722,317	17,704	-	1,279,361
	31 December 2021					Total
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	
Financial liabilities						
Amounts due to counterparties	-	712	-	-	-	712
Other financial liabilities	-	-	2,592	-	-	2,592
Lease liabilities	-	4,334	1,417	-	-	5,751
Borrowings	-	-	700,000	-	-	700,000
Total undiscounted financial liabilities	-	5,046	704,009	-	-	709,055

(thousands of Armenian Drams)

21. Risk management (continued)**Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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 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 hedging the positions. The following table breaks down the Company's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2022 and 31 December 2021.

	31 December 2022			
	Armenia	Russia	Other	Total
Assets				
Cash and cash equivalents	1,186,335	85,149	506,243	1,777,727
Trading securities	473,844	309,569	3,942	787,355
Amounts due from clients and counterparties	6,504	93,748	708,402	808,654
	1,666,683	488,466	1,218,587	3,373,736
Liabilities				
Amounts due from clients and counterparties	3,863	47,559	483,675	535,097
	3,863	47,559	483,675	535,097
Net assets	1,662,820	440,907	734,912	2,838,639
	31 December 2021			
	Armenia	Russia	Other	Total
Assets				
Cash and cash equivalents	363,764	138	349,307	713,209
Trading securities	502,248	-	-	502,248
Amounts due from clients and counterparties	93	-	475	568
	866,105	138	349,782	1,216,025
Liabilities				
Amounts due from clients and counterparties	712	-	-	712
	712	-	-	712
Net assets	865,393	138	349,782	1,215,313

Other countries as of 31 December 2022 and 31 December 2021 are mostly represented by Austria, United Kingdom and United States.

Price risk

As at 31 December 2022 and 2021, the Company had no equity instruments sensitive to changes in market conditions.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the trading portfolio.

(thousands of Armenian Drams)

21. Risk management (continued)**Market risk (continued)**

Currency	Increase in basis points 31 December 2022	Sensitivity of revaluation gains/losses 31 December 2022
AMD	3.18%	(38,051)
USD	2.18%	(40,706)
EUR	1.36%	(6,641)

Currency	Decrease in basis points 31 December 2022	Sensitivity of revaluation gains/losses 31 December 2022
AMD	3.18%	38,051
USD	2.18%	40,706
EUR	1.36%	6,641

Currency	Increase in basis points 31 December 2021	Sensitivity of revaluation gains/losses 31 December 2021
AMD	1.50%	(19,119)
USD	1.25%	(9,555)
EUR	0.20%	-

Currency	Decrease in basis points 31 December 2021	Sensitivity of revaluation gains/losses 31 December 2021
AMD	1.50%	19,119
USD	1.25%	9,555
EUR	0.20%	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2022 and 2021 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Armenian Dram, with all other variables held constant

on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss statement, while a positive amount reflects a net potential increase.

AMD'000	Change in currency rate in % 2022	Effect on profit before tax 2022	Change in currency rate in % 2021	Effect on profit before tax 2021
Currency				
EUR	21.3%	200,122	8.5%	14
	-21.3%	(200,122)	-8.5%	(14)
USD	12.6%	136,140	5.0%	32,230
	-12.6%	(136,140)	-5.0%	(32,230)
RUB	18.6%	25,682	15.0%	21
	-18.6%	(25,682)	-15.0%	(21)

(thousands of Armenian Drams)

22. Fair value measurements

Fair value measurement procedures

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The management considers that the fair values of Company's cash and cash equivalents, amounts due from clients and counterparties, amounts due to counterparties, borrowings and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value hierarchy

For the purpose of fair value disclosures, the Company's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	<i>Fair value measurement using</i>			<i>Total</i>
	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
At 31 December 2022				
Assets and liabilities measured at fair value				
Financial assets held for trading				
- Trading securities	477,786	309,569	-	787,355

	<i>Fair value measurement using</i>			<i>Total</i>
	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
At 31 December 2021				
Assets and liabilities measured at fair value				
Financial assets held for trading				
- Trading securities	502,248	-	-	502,248

The fair value of trading securities is based on quoted market prices, except corporate bonds (Level 2) issued by Russian companies, which are reflected at purchase price. The management considers that the fair value of these bonds approximates purchase price.

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 21 Risk management for the Company's contractual undiscounted repayment obligations.

	2022			2021		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	1,777,727	-	1,777,727	713,209	-	713,209
Trading securities	787,355	-	787,355	502,248	-	502,248
Property, equipment and intangible assets	-	41,059	41,059	-	7,812	7,812
Amounts due from clients and counterparties	808,654	-	808,654	-	568	568
Other assets	2,178	-	2,178	9,288	-	9,288
Total	3,375,914	41,059	3,416,973	1,224,745	8,380	1,233,125
Borrowings	645,811	-	645,811	646,915	-	646,915
Current income tax liabilities	361,345	-	361,345	7,485	-	7,485
Deferred tax liabilities	12,213	-	12,213	18,934	-	18,934
Amounts due to counterparties	535,097	-	535,097	712	-	712
Other liabilities	75,655	34,546	110,201	8,586	-	8,586
Total	1,630,121	34,546	1,664,667	682,632	-	682,632
Net	1,745,793	6,513	1,752,306	542,113	8,380	550,493

(thousands of Armenian Drams)

24. Related party disclosures

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

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

Transactions with ultimate controlling party are as follows:

	As at 31 December 2021	Repayment	FX effect	As at 31 December 2020
Received borrowings	–	(6,663)	893	5,770

Compensation of key management personnel was comprised of the following:

	2022	2021
Salaries and other short-term benefits	77,776	74,500
Social security costs	404	377
Mandatory pension contributions	2,001	1,456
Total key management personnel compensation	80,181	76,333

25. Changes in liabilities arising from financing activities

	Note	Borrowings	Lease liabilities	Total liabilities from financing activities
Carrying amount at 31 December 2020	9, 11	145,150	22,030	167,180
Proceeds from issue		1,374,806	–	1,374,806
Redemption		(802,643)	(18,323)	(820,966)
Foreign currency translation		(15,714)	–	(15,714)
Other		(54,684)	2,044	(52,640)
Carrying amount at 31 December 2021	9, 11	646,915	5,751	652,666
Proceeds from issue		392,817	–	392,817
Redemption		(385,293)	(17,075)	(402,368)
Foreign currency translation		(7,524)	–	(7,524)
Modification		–	42,068	42,068
Other		(1,104)	3,802	2,698
Carrying amount at 31 December 2022	9, 11	645,811	34,546	680,357

The “Other” line includes the effect of accrued but not yet paid interest on lease liabilities and borrowings.

26. Capital adequacy

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 healthy capital ratios in order to support its business and to maximize 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 shareholder or return capital to shareholder. No changes were made in the objectives, policies and processes from the previous years.

The equity consists of share capital, retained earnings and other components of equity.

(thousands of Armenian Drams)

26. Capital adequacy (continued)

The Central Bank of Armenia sets and monitors capital requirements for the Company. Under the current capital requirements set by the Central Bank of Armenia, 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. The Central Bank of Armenia has set the minimal required total capital for investment companies at AMD 300,000 thousand, the minimal required share capital at AMD 1,000 thousand and a minimum level of the ratio of capital to risk weighted assets is 12%. As of 31 December 2022 and 2021 the Company is in compliance with the statutory capital ratio and other requirements set forth by the Central Bank of Armenia.

27. 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.