Financial Statements and Independent Auditor's Report

“ARMENIAN LEASING COMPANY” credit organization closed joint stock company

31 December 2023

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք. Երևան 0015
Երևան Պլազա
Բիզնես Կենտրոն
Գրիգոր Լուսավորիչ 9

Հ. + 374 10 50 09 64/61

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich street
0015 Yerevan, Armenia

Հ. + 374 10 50 09 64/61

To the shareholder of "ARMENIAN LEASING COMPANY" credit organization closed joint stock company

Opinion

We have audited the financial statements of "ARMENIAN LEASING COMPANY" credit organization closed joint stock company (the "Company"), which comprise the statement of financial position as of 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash 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 2023 and of its financial performance and its cash 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.

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC/
Engagement Partner

19 March 2024

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2023	2022
Interest income calculated using effective interest rate	6	23,491	30,373
Other interest income	6	674,835	290,189
Interest expense	6	(409,443)	(171,770)
Net interest income		288,883	148,792
Fee and commission income	7	70,438	32,572
Fee and commission expense	7	(6,894)	(7,735)
Net fee and commission income		63,544	24,837
Net gain/(loss) from foreign currency transactions	8	(19,415)	12,827
Other income	9	21,386	7,074
Credit loss expense	10	(51,385)	(9,281)
Personnel expenses	11	(155,235)	(110,195)
Other expenses	12	(96,820)	(63,951)
Profit before income tax		50,958	10,103
Income tax expense	13	(25,932)	(8,749)
Profit for the year		25,026	1,354
Total comprehensive income for the year		25,026	1,354

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 47.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Assets			
Cash	14	10,060	22,901
Loans to customers	15	1,175,251	57,610
Finance lease receivables	16	6,705,003	2,998,520
Property, equipment and intangible assets	17	579,961	631,177
Deferred income tax assets	13	-	20,296
Other assets	18	465,409	426,054
Total assets		8,935,684	4,156,558
Liabilities and equity			
Liabilities			
Loans and borrowings	19	6,369,903	2,930,368
Current income tax liabilities		5,424	-
Deferred income tax liabilities	13	212	-
Other liabilities	20	620,911	298,982
Total liabilities		6,996,450	3,229,350
Equity			
Share capital	21	2,002,000	1,015,000
Accumulated loss		(62,766)	(87,792)
Total equity		1,939,234	927,208
Total liabilities and equity		8,935,684	4,156,558

The financial statements were signed on 19 March 2024 by:

Arsen Bazikyan
General Executive Director

Vahagn Sargsyan
Chief Accountant

ARMENIAN LEASING 00211314

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 47.

Statement of changes in equity

In thousand Armenian drams	Share capital	Accumulated loss	Total
Balance as of 01 January 2023	1,015,000	(87,792)	927,208
Issue of share capital	987,000	-	987,000
Total transactions with owners	987,000	-	987,000
Profit for the year	-	25,026	25,026
Total comprehensive result for the year	-	25,026	25,026
Balance as of 31 December 2023	2,002,000	(62,766)	1,939,234
Balance as of 01 January 2022	556,500	(89,146)	467,354
Issue of share capital	458,500	-	458,500
Total transactions with owners	458,500	-	458,500
Profit for the year	-	1,354	1,354
Total comprehensive result for the year	-	1,354	1,354
Balance as of 31 December 2022	1,015,000	(87,792)	927,208

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 47.

Statement of cash flows

In thousand Armenian drams

	2023	2022
Cash flows from operating activities		
Profit before income tax	50,958	10,103
Adjustments for		
Depreciation and amortization charge	15,952	8,991
Credit loss expense	51,385	9,281
Impairment loss of other assets	4,910	1,430
Net (gain)/loss from foreign currency translation of non-trading assets and liabilities	9,394	(17,918)
Interest receivable	(19,863)	(10,121)
Interest payable	25,227	10,813
Other accrued (income)/expenses	1,694	(1,151)
Cash flows before changes in operating assets and liabilities	139,657	11,428
(Increase)/decrease in operating assets		
Loans to customers	(1,101,083)	1,147
Finance lease receivables	(3,687,101)	(1,503,249)
Other assets	17,967	(304,419)
Increase/(decrease) in operating liabilities		
Other liabilities	319,759	108,785
Net cash flow used in operating activities before income tax	(4,310,801)	(1,686,308)
Income tax paid	-	-
Net cash used in operating activities	(4,310,801)	(1,686,308)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(11,286)	(615,620)
Net cash used in investing activities	(11,286)	(615,620)
Cash flow from financing activities		
Issue of share capital	987,000	458,500
Loans and borrowings received	12,468,425	7,597,053
Loans and borrowings repaid	(9,145,850)	(5,729,954)
Payment of lease liabilities	-	(3,660)
Net cash from financing activities	4,309,575	2,321,939
Net increase/(decrease) in cash	(12,512)	20,011
Cash at the beginning of the year	22,901	1,072
Exchange differences on cash	(329)	1,818
Cash at the end of the year (note 14)	10,060	22,901
Supplementary information:		
Interest received	678,463	310,441
Interest paid	(384,216)	(160,957)

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 47.

Notes to the financial statements

1 Principal activities

“ARMENIAN LEASING COMPANY” credit organization closed joint stock company (the “Company”) is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2019. The Company is regulated by the legislation of RA and conducts its business under license number 50, granted on 11 October 2019 by the Central Bank of Armenia (the “CBA”).

The Company performs finance lease operations as well as provides loans to customers.

The registered office of the Company is located at: Vagharsh Vagharshyan St., 12 Building, Area 11, Yerevan, Republic of Armenia.

The number of employees of the Company as of 31 December 2023 is 23 (2022: 18).

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.

The continuous Russian-Ukrainian war since February 2022 has had a significant impact on both the conflicting countries and on the world economy. Many leading countries and economic unions have announced severe economic sanctions against Russia, including Russian banks, other organizations and individuals. The war is still ongoing, but it has already led to a humanitarian crisis and huge economic losses in Ukraine, Russia and other countries.

Despite the complex challenges, the Armenian economy has shown and continues to show quite high sustainability due to the effective macroeconomic policy and adequate actions constantly implemented by the Government of Armenia and the Central Bank of Armenia. The rates of economic growth and activity remain high, also due to the large inflow of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple.

On 25 August 2023, Standard & Poor's raised Armenia's credit rating to "BB-" with a stable outlook. Moody's Armenia's credit rating was last set at the "Ba3" level with a stable outlook on 22 June 2023. Fitch Ratings upgraded Armenia's issuer default rating from "B+" to "BB-" in July 2023 with a stable outlook. The rating upgrade by international rating agencies reflects the strong economic growth prospects, the stabilization of state debt at below-average levels, the outlook for sustainable fiscal performance and the improvement of the external balance.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Company. The Company’s management constantly analyzes the economic situation in the current environment. 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 financial statements are prepared on a going concern basis, as management is satisfied that the Company has adequate resources to continue as a going concern for the foreseeable future. In making this assessment, management has considered a wide range of information including projection of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Company.

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, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in material accounting policies

New standards and amendments described below and applied for the first time in 2023, did not have a material impact on the annual financial statements of the Company.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *International Tax Reform-Pillar Two Model Rules (Amendments to IAS 12).*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts*

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.

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*
- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Lack of Exchangeability (Amendments to IAS 21)*
- *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.*

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.

For information on when financial assets are credit-impaired, refer to note 4.4.6**.**

Other interest income

In calculating other interest income, the nominal interest rate is applied to the gross asset value on a straight-line basis.

Fee and commission income and expense

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

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

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

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

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets and gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss in net gain/losses from foreign currency translation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net gain/losses from foreign currency translation.

The exchange rates at year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2023	31 December 2022
AMD/1 US Dollar	404.79	393.57
AMD/1 EUR	447.90	420.06

4.3 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 general administrative expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises loans and deposits issued 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.

4.4.2 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.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), 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.

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.

4.4.4 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 (refer to note 4.4.3) 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 (refer to note 4.4.6), 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.

4.4.5 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.

4.4.6 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.

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. This is further explained in note 29.1.2.

Based on the above process, The Company groups its financial instruments into Stage 1, Stage 2 and Stage 3 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 of finance lease receivable, 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, finance lease receivables 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.

The PD, the EAD and the LGD are further explained in note 29.1.2.

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 (refer to note 4.4.4) 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 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.

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 Bank 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 finance lease receivables 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.

4.5 Cash

Cash comprises balances on accounts with banks.

Cash is carried at amortised cost.

4.6 Loans to customers

Loans 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 entered into, 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.

Measurement and recognition of leases

Company as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

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

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in the other liabilities.

Company as a lessor

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Upon commencement of a finance lease, the Company recognise the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

Finance lease income is recognised based on pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

When the Company takes possession of finance lease assets under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

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:

	Useful life (years)	Rate (%)
Computer and other communication equipment	3	33.3
Property and office equipment	8	12.5
Vehicles	8	12.5
Other fixed assets	8	12.5

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.9 Attracted resources

Attracted resources, which include loans and borrowings, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.10 Loan commitments

"Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

4.11 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.

Accumulated losses

Include accumulated loss of current and previous periods.

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 periods affected.

5.1 Judgements

Classification of financial assets:

The Company assesses the business model within which the assets are held and also assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the outstanding principal amount (refer to note 4.4.2).

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 26).

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. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. 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 and technical and \ depreciation arising from the changes in the market conditions.

Extension options for leases

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

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 (refer to note 29.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 23.

6 Net interest income

In thousand Armenian drams	2023	2022
Interest income calculated using effective interest rate		
Cash	7	146
Loans to customers	7,187	7,482
Transferred to suppliers	16,297	22,745
	23,491	30,373
Other interest income		
Finance lease receivables	674,835	290,189
Total interest income	698,326	320,562
Loans and borrowings	409,443	169,902
Lease liabilities	-	1,868
Total interest expense	409,443	171,770
Total net interest income	288,883	148,792

7 Fee and commission income and expense

In thousand Armenian drams	2023	2022
Finance lease agreements	5,806	7,833
Suppliers	31,985	14,684
Commissions from insurance companies	32,647	10,055
Total fee and commission income	70,438	32,572
Payment and settlement services	6,894	7,735
Total fee and commission expense	6,894	7,735

8 Net gain/(loss) from foreign currency transactions

In thousand Armenian drams	2023	2022
Net loss from foreign currency trading	(10,021)	(5,091)
Net gain/(loss) from foreign currency translation of non-trading assets and liabilities	(9,394)	17,918
Total net trading gain/(loss)	(19,415)	12,827

9 Other income

In thousand Armenian drams	2023	2022
Income from operating lease	15,627	4,510
Other income	5,759	2,564
Total other income	21,386	7,074

10 Credit loss expense

In thousand Armenian drams			2023
	Note	Stage 1	Total
Loans to customers	15	3,327	3,327
Finance lease receivables	16	47,861	47,861
Other assets	18	197	197
Total credit loss expense		51,385	51,385

In thousand Armenian drams			2022
	Note	Stage 1	Total
Loans to customers	15	11	11
Finance lease receivables	16	9,019	9,019
Other assets	18	251	251
Total credit loss expense		9,281	9,281

11 Personnel expenses

In thousand Armenian drams	2023	2022
Compensations of employees, related taxes included	154,270	109,809
Staff training expenses	965	386
Total personnel expenses	155,235	110,195

12 Other expenses

In thousand Armenian drams	2023	2022
Other taxes and duties	7,059	6,839
Advertising costs	12,807	5,309
Depreciation of property and equipment and amortization of intangible assets	15,952	8,991
IT services	8,130	5,866
Intangible assets maintenance	5,100	4,357
Consulting and other services	6,244	4,250
Office supplies	7,587	5,721
Representative expenses	4,021	3,077
Insurance	5,733	5,515
Security	1,320	1,320
Entrance fees for professional associations	2,946	1,114
Loan providing expenses	4,443	2,937
Communications	2,608	2,179
Property and equipment maintenance	1,116	946
Impairment loss of other assets	4,910	1,430
Other expenses	6,844	4,100
Total other expenses	96,820	63,951

13 Income tax expense

In thousand Armenian drams	2023	2022
Current income tax expense	5,424	-
Deferred tax	20,508	8,749
Total income tax expense	25,932	8,749

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2022: 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 expense and accounting profit is provided below:

In thousand Armenian drams	2023	Effective rate (%)	2022	Effective rate (%)
Profit before tax	50,958		10,103	
Income tax	9,172	18	1,818	18
(Non-taxable)/non-deductible expenses	(3,883)	(7)	2,064	21
Net (gain)/loss from foreign currency translation of non-trading assets and liabilities	1,691	3	(3,225)	(32)
Tax loss carried forward	18,952	37	8,092	80
Total income tax expense	25,932	51	8,749	87

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2022	Recognized in profit or loss	31 December 2023 Net	Deferred tax asset	Deferred tax liability
Loans to customers	-	532	532	532	-
Finance lease receivables	(603)	(1,665)	(2,268)	-	(2,268)
Property and equipment	(2,883)	2,883	-	-	-
Other assets	-	(529)	(529)	-	(529)
Lease liabilities	3,090	(3,090)	-	-	-
Other liabilities	1,740	313	2,053	2,053	-
Tax loss carried forward	18,952	(18,952)	-	-	-
Deferred tax asset/(liability)	20,296	(20,508)	(212)	2,585	(2,797)

In thousand Armenian drams	31 December 2020	Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
			31 December 2022		
Finance lease receivables	-	(603)	(603)	-	(603)
Property and equipment	(3,305)	422	(2,883)	-	(2,883)
Lease liabilities	3,413	(323)	3,090	3,090	-
Other liabilities	1,893	(153)	1,740	1,740	-
Tax loss carried forward	27,044	(8,092)	18,952	18,952	-
Deferred tax asset/(liability)	29,045	(8,749)	20,296	23,782	(3,486)

14 Cash

In thousand Armenian drams	31 December 2023	31 December 2022
Current accounts with the banks	10,060	22,901
Total cash	10,060	22,901

As of 31 December 2023 there are no restrictions on the Company's current accounts (2022: either).

Non-cash transactions have not been performed.

The ECLs relating to cash here rounds to zero, that's why it's not disclosed here.

15 Loans to customers

In thousand Armenian drams	Gross carrying amount	ECL allowance	Carrying amount
	31 December 2023		
Commercial lending	1,179,128	(3,877)	1,175,251
Total	1,179,128	(3,877)	1,175,251

In thousand Armenian drams	Gross carrying amount	ECL allowance	Carrying amount
	31 December 2022		
Commercial lending	58,160	(550)	57,610
Total	58,160	(550)	57,610

As of 31 December 2023 the Company has one borrower the balance of loans provided to which exceeds 10% of equity. The gross carrying amount of these loans amounts to AMD 1,153,702 thousand (2022: the Company has not had a borrower the balance of loans provided to which exceeds 10% of equity).

As of 31 December 2023 the Company did not possess loans (2022: AMD 10,646 thousand of the Company's loan portfolio is collateralized for the loans from banks), were pledged as collateral under loan received from other banks (note 19).

An analysis of changes in ECL allowances in relation commercial lending are as follows.

In thousand Armenian drams	2023	
	Stage 1	Total
Commercial lending		
Balance as of 1 January	58,160	58,160
New assets originated	1,183,604	1,183,604
Assets repaid	(59,840)	(59,840)
Change in balance of asset from interest and foreign exchange	(2,796)	(2,796)
Balance as of 31 December	1,179,128	1,179,128

In thousand Armenian drams	2022	
	Stage 1	Total
Commercial lending		
Balance as of 1 January	63,407	63,407
New assets originated	41,400	41,400
Assets repaid	(50,747)	(50,747)
Change in balance of asset from interest and foreign exchange	4,100	4,100
Balance as of 31 December	58,160	58,160

An analysis of changes in ECL allowances in relation to commercial lending are as follows.

In thousand Armenian drams	2023	
	Stage 1	Total
Commercial lending		
ECL allowance as of 1 January	550	550
Net remeasurement of loss allowance	(131)	(131)
Net remeasurement of loss allowances on new originated financial assets	3,458	3,458
Balance as of 31 December	3,877	3,877

In thousand Armenian drams	2022	
	Stage 1	Total
Commercial lending		
ECL allowance as of 1 January	539	539
Net remeasurement of loss allowance	(392)	(392)
Net remeasurement of loss allowances on new originated financial assets	403	403
Balance as of 31 December	550	550

As of 31 December 2023 the estimated fair value of loans to customers approximates it carrying value. Refer to note 26.

Information on transactions with related parties is disclosed in note 25.

Maturity analysis of loans to customers is disclosed in note 28.

Credit, currency and interest rate analyses of loans to customers are disclosed in note 29.

16 Finance lease receivables

In thousand Armenian drams	31 December 2023	31 December 2022
Privately held companies	5,556,364	2,174,016
Individuals	321,052	335,633
Sole proprietors	900,652	514,075
	6,778,068	3,023,724
ECL allowance	(73,065)	(25,204)
Total finance lease receivables	6,705,003	2,998,520

An analysis of changes in gross carrying amounts in relation to finance lease receivables are as follows:

In thousand Armenian drams			2023
	Stage 1	Stage 3	Total
Balance as of 01 January	3,023,724	-	3,023,724
New assets originated	5,326,485	-	5,326,485
Assets repaid	(1,610,986)	-	(1,610,986)
Transfer to stage 3	(33,419)	33,419	-
Change in balance of asset from interest and foreign exchange	40,051	(1,206)	38,845
Balance as of 31 December	6,745,855	32,213	6,778,068

In thousand Armenian drams		2022
	Stage 1	Total
Balance as of 01 January	1,624,559	1,624,559
New assets originated	2,365,154	2,365,154
Assets repaid	(1,080,194)	(1,080,194)
Change in balance of asset from interest and foreign exchange	114,205	114,205
Balance as of 31 December	3,023,724	3,023,724

An analysis of changes in ECL allowances for finance lease receivables are as follows.

In thousand Armenian drams			2023
	Stage 1	Stage 3	Total
ECL allowance as of 01 January	25,204	-	25,204
Transfer to stage 3	(396)	396	-
Net remeasurement of loss allowance	6,164	2,164	8,328
Net remeasurement of loss allowances on new originated financial assets	39,533	-	39,533
Balance as of 31 December	70,505	2,560	73,065

In thousand Armenian drams	2022	
	Stage 1	Total
ECL allowance as of 1 January	16,185	16,185
Net remeasurement of loss allowance	(7,783)	(7,783)
Net remeasurement of loss allowances on new originated financial assets	16,802	16,802
Balance as of 31 December	25,204	25,204

As of 31 December 2023 the analysis of finance lease receivables by terms is as follows:

In thousand Armenian drams	Not later than 1 year	1-5 years	Later than 5 years	Total
Gross investments on finance lease	2,677,476	5,587,334	50,868	8,315,678
Unearned finance income	(495,078)	(1,033,126)	(9,406)	(1,537,610)
Gross investments present value on finance lease	2,182,398	4,554,208	41,462	6,778,068

As of 31 December 2022 the analysis of finance lease receivables by terms is as follows:

In thousand Armenian drams	Not later than 1 year	1-5 years	Later than 5 years	Total
Gross investments on finance lease	1,110,902	2,637,344	24,814	3,773,060
Unearned finance income	(220,627)	(523,781)	(4,928)	(749,336)
Gross investments present value on finance lease	890,275	2,113,563	19,886	3,023,724

Finance lease receivables by economic sectors are as follows:

In thousand Armenian drams	31 December 2023	31 December 2022
Industry	2,211,581	840,131
Construction	1,856,356	926,639
Trade	758,022	326,875
Agriculture	743,056	451,922
Transportation	553,178	138,745
Health	169,275	112,684
Services	153,819	97,680
Consumer	32,801	19,301
Other	226,915	84,543
Total finance lease receivables	6,705,003	2,998,520

As of 31 December 2023 the Company has two leaseholders (2022: two) whose balances of finance lease receivables exceed 10% of equity. As of 31 December 2023 the carrying amount of these receivables is AMD 413,178 thousand (2022: AMD 197,060 thousand).

As of 31 December 2023 loans from banks and financial institutions are secured by the Company's finance lease receivables amounted to AMD 4,912,913 thousand (2022: AMD 2,989,317 thousand).

Information on transactions with related parties is disclosed in note 25.

As of 31 December 2023 and 31 December 2022 the estimated fair value of finance lease receivables approximates it carrying value. Refer to note 26.

Maturity analysis of finance lease receivables are disclosed in note 28.

Credit, currency and interest rate analyses of finance lease receivables are disclosed in note 29.

17 Property, equipment and Intangible assets

In thousand Armenian drams						Right-of-use assets	
	Buildings	Computer and other communication equipment	Equipment and office supplies	Vehicles	Intangible assets	Buildings	Total
Cost							
As of 01 January 2022	-	11,503	15,143	1,442	5,940	21,222	55,250
Additions	611,700	1,995	475	-	1,450	-	615,620
Derecognition	-	-	-	-	-	(21,222)	(21,222)
As of 31 December 2022	611,700	13,498	15,618	1,442	7,390	-	649,648
Additions	-	2,316	8,870	-	100	-	11,286
Adjustment	(46,550)	-	-	-	-	-	(46,550)
As of 31 December 2023	565,150	15,814	24,488	1,442	7,490	-	614,384
Accumulated depreciation							
As of 01 January 2022	-	7,129	3,379	250	1,070	2,860	14,688
Expenses for the year	-	3,926	1,930	140	647	2,348	8,991
Derecognition	-	-	-	-	-	(5,208)	(5,208)
As of 31 December 2022	-	11,055	5,309	390	1,717	-	18,471
Expenses for the year	10,597	1,704	2,775	137	739	-	15,952
As of 31 December 2023	10,597	12,759	8,084	527	2,456	-	34,423
Carrying amount							
As of 31 December 2022	611,700	2,443	10,309	1,052	5,673	-	631,177
As of 31 December 2023	554,553	3,055	16,404	915	5,034	-	579,961

Fully depreciated items

As of 31 December 2023 fixed and intangible assets included fully depreciated assets in amount of AMD 10,125 thousand, (2022: AMD 7,804 thousand).

Restrictions on title of fixed assets

As of 31 December 2023, the right of use asset is pledged against loan from bank (2022: either) (refer to note 19).

18 Other assets

In thousand Armenian drams	31 December 2023	31 December 2022
Financing of assets to be acquired by finance lease	373,319	359,622
Receivables and other proceeds	3,600	1,943
	376,919	361,565
ECL allowance	(1,059)	(862)
Total other financial assets	375,860	360,703
Prepayments	21,256	1,134
Prepayments on VAT	21,067	17,838
Future expenses	5,500	4,950
Leased assets	41,332	41,070
Materials	394	359
Total non-financial assets	89,549	65,351
Total other assets	465,409	426,054

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
Other financial assets		
ECL allowance as of 01 January	862	611
Net remeasurement on ECL allowance for financial assets	197	251
Balance as of 31 December	1,059	862

19 Loans and borrowings

In thousand Armenian drams	31 December 2023	31 December 2022
Loans from RA banks	2,274,268	524,858
Loans from other financial institutions	440,751	657,545
Loans from state non-profit organizations	2,535,714	1,546,204
Borrowings from commercial organizations	853,051	201,761
Borrowings from related party	266,119	-
Total loans and borrowings	6,369,903	2,930,368

Loans from banks have fixed interest rates.

As of 31 December 2023 the Company's borrowings are secured by the part of the Company's loan portfolio and lease portfolio amounted to AMD 4,912,913 thousand (2022: AMD 2,999,963 thousand) (refer to note 15 and 16).

Loans received from state non-profit organizations include loans under the "MSME Support" loan program financed by the KfW Development Bank and loans provided by the Rural Financing Structure under "RAED PIU Structure".

As of 31 December 2023 the loan from the one bank is secured by the pledged real estate of the Company (2022: either) (refer to note 17).

As of 31 December 2023 the Company has thirteen borrowers (2022: eight) whose loans and borrowings balances exceed 10% of equity. The gross value of these loans and borrowings as of 31 December 2023 amounted to AMD 6,034,190 thousand (2022: AMD 2,782,073 thousand).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

20 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022
Amounts payable to suppliers	158,729	113,953
Due to personnel	11,413	9,719
Total other financial liabilities	170,142	123,672
Deferred VAT liabilities	429,153	159,926
Tax payable, other than income tax	7,618	2,978
Other liability	13,998	12,406
Total other non-financial liabilities	450,769	175,310
Total other liabilities	620,911	298,982

21 Equity

As of 31 December 2023 the Company's registered and paid-in share capital was AMD 2,002,000 thousand. In accordance with the Company's charter, the share capital consists of 572 ordinary shares, all of which have a par value of AMD 3,500 thousand each (2022: 290 ordinary shares, all of which had a par value of AMD 3,500 thousand each).

The respective shareholdings as of 31 December 2023 and 2022 may be specified as follows:

In thousand Armenian drams	31 December 2023		31 December 2022	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
"PARTNERS INVEST" LLC	2,002,000	100	1,015,000	100
	2,002,000	100	1,015,000	100

The participants of "PARTNERS INVEST" LLC are Arsen Bazikyan and Artashes Hakobyan with equal shares.

In 2023 the Company increased its share capital by AMD 987,000 thousand (2022: AMD 458,500 thousand).

As of 31 December 2023 and 31 December 2022, 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.

22 Loan commitments

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2023	31 December 2022
Loans ans undrawn loan commitments	17,249	-
Total commitments and contingent liabilities	17,249	-

An analysis of changes in the ECLs on loan commitment included in allowances of loans to customers (refer to note 15).

23 Contingent liabilities and commitments

Tax and legal matters

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. Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

As of 31 December 2023 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.

As of 31 December 2023 capital commitments for the property to be acquired for the purpose of providing a financial lease amount to AMD 841,187 thousand (2022: AMD 102,082 thousand).

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.

24 Leases

The Company has lease for the main office. With the exception of leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 17).

Right-of-use assets

Leases of property have a lease term of 10 years. Lease payments are generally fixed.

Lease generally imposes a contractual right for the Company to sublet the asset to another party, only in case of written consent of the lessor

Set out below are presented the movements of lease liabilities during the period.

In thousand Armenian drams	31 December 2023	31 December 2022
As of 01 January	-	18,957
Remeasurement	-	-
Accretion of interest	-	1,868
Payments	-	(3,660)
Derecognition	-	(17,165)
Total lease liabilities as of 31 December	-	-

In 2022 the Company has terminated the lease contract because it has acquired the subject of the lease, the real estate.

25 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Company's Management as well as other persons and enterprises related with and controlled by them respectively.

A number of Company's transactions are entered into with related parties in the normal course of business.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2023		2022	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans to customers				
As of 1 January	17,435	-	-	-
Provided during the year	1,186,428	-	21,405	-
Paid during the year	(46,735)	-	(3,970)	-
	1,157,128	-	17,435	-
ECL allowance	(3,426)	-	(174)	-
As of 31 December	1,153,702	-	17,261	-
Finance lease receivables				
As of 1 January	132,407	-	44,653	-
Provided during the year	188,574	-	184,387	-
Paid during the year	(137,123)	-	(96,633)	-
	183,858	-	132,407	-
ECL allowance	(1,828)	-	(1,324)	-
As of 31 December	182,030	-	131,083	-
Loans and borrowings				
As of 1 January	201,761	-	-	-
Received during the year	1,236,928	-	689,047	-
Paid during the year	(1,172,570)	-	(487,286)	-
As of 31 December	266,119	-	201,761	-

In thousand Armenian drams	2023		2022	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Lease liabilities				
As of 1 January	-	-	18,957	-
Accretion of interest	-	-	1,868	-
Paid during the year	-	-	(3,660)	-
Derecognition	-	-	(17,165)	-
As of 31 December	-	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income	25,019	-	14,855	-
Interest expense on lease	-	-	(1,868)	-
Depreciation expenses	-	-	(2,348)	-
Credit loss expense	(3,756)	-	(1,052)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2023	2022
Salaries and bonuses	73,354	51,516
Total key management compensation	73,354	51,516

26 Fair value measurement

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company, in conjunction with the Company's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities 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).

26.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	31 December 2023				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	10,060	-	10,060	10,060
Loans to customers	-	1,141,085	-	1,141,085	1,175,251
Finance lease receivables	-	6,705,003	-	6,705,003	6,705,003
Other assets	-	375,860	-	375,860	375,860
Financial liabilities					
Loans and borrowings	-	6,369,903	-	6,369,903	6,369,903
Other liabilities	-	170,142	-	170,142	170,142

In thousand Armenian drams	31 December 2022				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	22,901	-	22,901	22,901
Loans to customers	-	57,610	-	57,610	57,610
Finance lease receivables	-	2,998,520	-	2,998,520	2,998,520
Other assets	-	360,703	-	360,703	360,703
Financial liabilities					
Loans and borrowings	-	2,930,368	-	2,930,368	2,930,368
Other liabilities	-	123,672	-	123,672	123,672

Loans to customers and finance lease receivables

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. As of 31 December 2023 discount rates used depend on credit risk of the counterparty and ranged from 12 to 14.6% per annum (2022: from 11.8 to 15.5%) for loans to customers and ranged from 6.8 to 20% per annum (2022: from 5.5 to 18.9%) for finance lease receivables.

Loans and borrowings

The fair value of loans and borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for loans of similar maturities and terms.

27 Offsetting of financial assets and financial liabilities

As of 31 December 2023 and 31 December 2022 the 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.

28 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. Refer to note 29.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2023						
	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	10,060	-	*10,060*	-	-	-	10,060
Loans to customers	1,376	1,119,296	*1,120,672*	54,579	-	54,579	1,175,251
Finance lease receivables	192,519	1,966,354	*2,158,873*	4,505,115	41,015	4,546,130	6,705,003
Other assets	375,860	-	*375,860*	-	-	-	375,860
	579,815	3,085,650	*3,665,465*	4,559,694	41,015	*4,600,709*	8,266,174
Liabilities							
Loans and borrowings	100,090	1,451,514	1,551,604	4,630,141	188,158	4,818,299	6,369,903
Other liabilities	170,142	-	170,142	-	-	-	170,142
	270,232	1,451,514	1,721,746	4,630,141	188,158	4,818,299	6,540,045
Net position	309,583	1,634,136	1,943,719	(70,447)	(147,143)	(217,590)	1,726,129
Accumulated gap	309,583	1,943,719		1,873,272	1,726,129		

In thousand Armenian drams	31 December 2022						
	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	22,901	-	*22,901*	-	-	-	22,901
Loans to customers	1,546	19,978	*21,524*	36,086	-	36,086	57,610
Finance lease receivables	87,299	796,448	*883,747*	2,090,107	19,666	2,109,773	2,993,520
Other assets	360,703	-	*360,703*	-	-	-	360,703
	472,449	816,426	*1,288,875*	2,126,193	19,666	*2,145,859*	3,434,734
Liabilities							
Loans and borrowings	54,183	869,924	924,107	1,994,378	11,883	2,006,261	2,930,368
Other liabilities	123,672	-	123,672	-	-	-	123,672
	177,855	869,924	1,047,779	1,994,378	11,883	2,006,261	3,054,040
Net position	294,594	(53,498)	241,096	131,815	7,783	139,598	380,694
Accumulated gap	294,594	241,096		372,911	380,694		

29 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 achieving to 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. 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. They are monitored through the Company’s strategic planning process.

Risk management structure

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

Board

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

General Executive Director

The General Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Controller

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

Excessive risk concentration

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

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

29.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that 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 finance lease receivables into the Company’s asset portfolio. The credit risk management and control are centralised in credit risk management team of Company’s Risk Management Department and reported to the Company's Management.

29.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. 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.

Explanation of internal rating grades is included in note 29.1.2.

In thousand Armenian drams				31 December 2023
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
Standard grade	10,060	-	-	10,060
Gross carrying amount	10,060	-	-	10,060
ECL allowance	-	-	-	-
Net carrying amount	10,060	-	-	10,060
Loans to customers				
Standard grade	1,179,128	-	-	1,179,128
Gross carrying amount	1,179,128	-	-	1,179,128
ECL allowance	(3,877)	-	-	(3,877)
Net carrying amount	1,175,251	-	-	1,175,251
Finance lease receivables				
Standard grade	6,745,855	-	-	6,745,855
Non-performing grade	-	-	32,213	32,213
Gross carrying amount	6,745,855	-	32,213	6,778,068
ECL allowance	(70,505)	-	(2,560)	(73,065)
Net carrying amount	6,675,350	-	29,653	6,705,003
Other financial assets				
Standard grade	376,919	-	-	376,919
Gross carrying amount	376,919	-	-	376,919
ECL allowance	(1,059)	-	-	(1,059)
Net carrying amount	375,860	-	-	375,860

In thousand Armenian drams				31 December 2022
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
Standard	22,901	-	-	22,901
Gross carrying amount	22,901	-	-	22,901
ECL allowance	-	-	-	-
Net carrying amount	22,901	-	-	22,901
Loans to customers				
Standard grade	58,160			58,160
Gross carrying amount	58,160	-	-	58,160
ECL allowance	(550)	-	-	(550)
Net carrying amount	57,610	-	-	57,610

In thousand Armenian drams				31 December 2022
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables				
Standard grade	3,023,724	-	-	3,023,724
Gross carrying amount	3,023,724	-	-	3,023,724
ECL allowance	(25,204)	-	-	(25,204)
Net carrying amount	2,998,520	-	-	2,998,520
Other financial assets				
Standard grade	361,565	-	-	361,565
Gross carrying amount	361,565	-	-	361,565
ECL allowance	(862)	-	-	(862)
Net carrying amount	360,703	-	-	360,703

29.1.2 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 (Refer to note 4.4.6).

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 to customers and finance lease receivables

The criteria for loans to customers and finance lease receivables 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 Bank 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 Bank 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 credit institutions and 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 B (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 judgement. 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.

Collective or individual assessment

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans and finance lease receivables of Stage 3, regardless of the class of financial assets
- The large and unique exposures, finance lease liabilities
- The treasury, trading and interbank relationships such as Due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI,

Those assets for which ECL does not calculated individually the company groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan and finance lease receivables (for example, corporate, mortgage, consumer loan etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency

- Other relevant characteristics.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan, finance lease liabilities

The Company can make concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured.

All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Company defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

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 should be 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.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Companys recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Company determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Company uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Unemployment
- Nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate

29.1.3 Risk concentrations

Geographical sectors

Credit risk assets are located in the RA.

Industry sectors

As of 31 December 2023 the Company's assets exposed to credit risk are included in cash are concentrated in the financial sector. Loans to customers and finance lease receivables are mainly concentrated in the construction, industry, agriculture and trade sectors (see detailed analysis in notes 15 and 16).

29.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For loan to customer - movable properties and equipment
- For finance lease receivables – guarantees

Management will monitor 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.

In addition, in order to minimise the credit loss, the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

29.2 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. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December 2023 the Company does not hold trading portfolio. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

29.2.1 Market risk – Non-trading

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. As of 31 December 2023 the Company did not possess any financial instruments with variable interest rates.

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2023 and 31 December 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023			2022		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	EUR	AMD	USD	EUR
Interest earning assets						
Loans to customers	14.95	12.87	-	14.35	12.81	8.9
Finance lease liabilities	15.09	13.16	10.6	14.47	13.65	10.4
Interest bearing liabilities						
Loans from RA banks	13.7	9.24	6.96	13.31	9.25	6.32
Loans from other financial institutions	14.1	9.05	-	11.66	8.69	-
Loans from state non-profit organizations	7.82	4.08	-	7.73	4.15	-
Borrowings from commercial organizations	-	8.28	5.1	12.62	7.98	-
Borrowings from related parties	14.84	9.51	-	12.58	6.75	-

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 2023 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the comprehensive income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in comprehensive income statement, while a positive amount reflects a net potential increase.

In thousand Armenian drams

	31 December 2023		31 December 2022	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	(13,084)	5	(1,542)
USD	-5	13,084	-5	1,542
EUR	5	3,711	5	(1,135)
EUR	-5	(3,711)	-5	1,135

The Company's exposure to foreign currency risk is as follow:

In thousand Armenian drams	Armenian Dram	USD	EUR	Total
Assets				
Cash	10,060	-	-	10,060
Loans to customers	1,173,403	1,848	-	1,175,251
Finance lease receivables	4,601,984	1,670,086	432,933	6,705,003
Other assets	282,459	87,663	5,738	375,860
	6,067,906	1,759,597	438,671	8,266,174

In thousand Armenian drams	Armenian Dram	USD	EUR	Total
Liabilities				
Loans and borrowings	3,984,181	2,021,268	364,454	6,369,903
Other liabilities	170,142	-	-	170,142
Total	4,154,323	2,021,268	364,454	6,540,045
Net position as of 31 December 2023	1,913,583	(261,671)	74,217	1,726,129
Total financial assets	2,786,524	576,451	71,759	3,434,734
Total financial liabilities	2,352,286	607,293	94,461	3,054,040
Net position as of 31 December 2022	434,238	(30,842)	(22,702)	380,694

29.3 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 manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. 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 maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

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 ratios against regulatory requirements.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2023 based on contractual undiscounted repayment obligations. See note 28 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams

	31 December 2023					
	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						
Loans and borrowings	100,603	1,534,749	5,302,815	222,993	7,161,160	6,369,903
Other liabilities	170,142	-	-	-	170,142	170,142
Total undiscounted non-derivative financial liabilities	270,745	1,534,749	5,302,815	222,993	7,331,302	6,540,045

In thousand Armenian drams

	31 December 2022					
	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						
Loans and borrowings	64,175	1,073,769	2,216,231	12,209	3,366,384	2,930,368
Other liabilities	123,672	-	-	-	123,672	123,672
Total undiscounted non-derivative financial liabilities	187,847	1,073,769	2,216,231	12,209	3,490,056	3,054,040

29.4 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 behavior.

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.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. 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 authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank 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;
- Risk mitigation.

30 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	31 December 2023	
	Loans and borrowings	Total
As of 1 January 2023	2,930,368	2,930,368
Proceeds	12,468,425	12,468,425
Redemption	(9,145,850)	(9,145,850)
Foreign currency translation	91,733	91,733
Accrued interests	25,227	25,227
As of 31 December 2023	6,369,903	6,369,903

In thousand Armenian drams			31 December 2022
	Loans and borrowings	Lease liabilities	Total
As of 1 January 2022	1,206,688	18,957	1,225,645
Proceeds	7,597,053	-	7,597,053
Redemption	(5,729,954)	(3,660)	(5,733,614)
Foreign currency translation	(152,366)	-	(152,366)
Accrued interests	8,947	1,868	10,815
Other	-	(17,165)	(17,165)
As of 31 December 2022	2,930,368	-	2,930,368

31 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company's capital is controlled by using rules and normative approved by the Central Bank of RA.

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.

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.

Regulatory capital consists of Tier 1 capital, which comprises share capital, accumulated losses including current year loss.

The Central Bank of Armenia has set for credit organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.