"MOGO" Universal Credit Organization LLC
Financial statements
and Independent Auditor's Report
For the year ended 31 December 2022

May 2023
Yerevan

Disclaimer

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

Contents

Legal form:	Universal Credit Organization Limited Liability Company
Principal activities:	Providing car loans
Chief Executive Officer:	Hakob Manukyan

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of "Mogo" Universal Credit Organization Limited Liability Company

Opinion

We have audited the financial statements of "Mogo" Universal Credit Organization LLC ("the Organization"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Organization as at 31 December 2022, and its financial performance and its cash flows for the year 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 Organization in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Matter

The Organization's financial statements for the year ended 31 December 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on 30 June 2022.

Responsibilities of the 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 Organization's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operation or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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Reasonable assurance is a high level of assurance but is not a guaranty 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 Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization'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 Organization 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.

31 May 2023

"BDO Armenia" CJSC

Vahagn Sahakyan, FCCA
Managing Partner

Sergey Yakovlev, FCCA
Engagement Partner

"MOGO" Universal Credit Organization LLC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	2022 AMD'000	2021 AMD'000
Interest income		2,497,904	2,161,905
Interest expense		(417,723)	(607,315)
Net interest income	5	**2,080,181**	**1,554,590**
Fee and commission expense		(21,147)	(24,583)
Net fee and commission expense		**(21,147)**	**(24,583)**
Net gain from foreign currency transaction		569,864	409,786
Remeasurement of guarantee		-	22,753
Net other operating income	6	101,319	174,940
Operating income		**2,730,217**	**2,137,486**
Reversal of impairment/(impairment) from loans to customers	10	297,119	(116,748)
Recovery from write-down of repossessed cars		1,707	27,012
Other write-off of financial assets measured at amortized cost		(100,277)	(185,593)
Operating income after impairment		2,928,766	1,862,157
Staff costs		(419,425)	(376,498)
Other selling, general and administrative expenses	7	(1,073,692)	(1,123,544)
Profit before tax		**1,435,649**	**362,115**
Income tax (expense)/reimbursement	8	(107,710)	135,110
Profit for the year		**1,327,939**	**497,225**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,327,939**	**497,225**

The financial statements from pages 6 to 48 were approved by the Management of the Organization on 31 May 2023 and signed by:

General Director
Hakob Manukyan

Chief Accountant
Arshak Karakhanyan

"MOGO" Universal Credit Organization LLC
Statement of financial position
As at 31 December 2022

	Note	31.12.2022 AMD'000	31.12.2021 AMD'000
Assets			
Cash and cash equivalents	9	51,329	70,661
Loans to customers	10	5,302,366	5,388,604
Receivable from loan collection		26,151	20,045
Other assets		48,764	108,699
Current tax assets		18,458	46,736
Property, plant and equipment, and intangible assets		11,162	14,887
Right of use asset	12	90,927	69,387
Deferred tax asset	8	127,897	251,408
Total assets		5,677,054	5,970,427
Liabilities			
Loans from banks and financial institutions	11	2,891,631	4,490,940
Lease liability	12	97,290	79,342
Provision for financial guarantee		-	89,111
Other liabilities	13	182,909	169,018
		3,171,830	4,828,411
Equity			
Share capital		2,250,000	2,250,000
Other reserves		-	(169,450)
Retained earnings		255,224	(938,534)
	14	2,505,224	1,142,016
Total liabilities and equity		5,677,054	5,970,427

"MOGO" Universal Credit Organization LLC
Statement of cash flows
For the year ended 31 December 2022

	Notes	2022 AMD'000	2021 AMD'000
Cash flows from operating activities			
Interest receipts		2,528,834	2,278,700
Interest payments		(306,193)	(575,635)
Fee and commissions paid		(21,147)	(24,583)
Administrative and other operating expenses paid		(1,028,022)	(1,052,589)
Personnel expenses paid and related taxes		(419,425)	(376,498)
Other income		81,819	145,429
Cash flows from operating activities before changes in operating assets and liabilities		**835,866**	**394,824**
(Increase)/decrease in operating assets			
Loans to customers		253,857	400,792
Receivables from loan collection		(6,106)	30,739
Other assets		56,409	10,145
Increase/(decrease) in operating liabilities			
Other liabilities		97,278	(234,998)
Net cash provided from/ (used in) operating activities before income tax paid		**1,237,304**	**601,502**
Income tax paid		-	(22,343)
Net cash from operating activities		**1,237,304**	**579,159**
Cash flows from investing activities			
Purchase of property, equipment, and intangible assets		(5,579)	(4,430)
Net cash flows (used in)/from investing activities		**(5,579)**	**(4,430)**
Cash flows from financing activities			
Proceeds from loans received	11	2,319,157	3,146,866
Repayment of loans received	11	(3,512,856)	(4,183,064)
Attraction of charter capital		-	500,000
Payment of lease liabilities	11	(47,950)	(25,242)
Net cash flows used in financing activities		**(1,241,649)**	**(558,518)**
Net increase/(decrease) in cash and cash equivalents		(9,924)	**16,211**
Effect of changes in exchange rates on cash and cash equivalents		(9,408)	(9,236)
Cash and cash equivalents as at the beginning of the year		70,661	63,686
Cash and cash equivalents as at the end of the year	9	**51,329**	**70,661**

"MOGO" Universal Credit Organization LLC
Statement of changes in equity
For the year ended 31 December 2022

	Charter capital	Other reserves	Retained earnings/ (accumulated losses)	Total
	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 1 January 2021	1,750,000	(97,462)	(1,435,759)	216,779
Total comprehensive income				
Profit for the year	-	-	497,225	497,225
Total comprehensive income for the year	-	-	497,225	497,225
Transactions with owners, recorded directly in equity				
Derecognition of guarantee provided to related party, net of deferred tax of AMD 5,570 thousand (Note 12)	-	25,374	-	25,374
Initial recognition of guarantee provided to related party, net of deferred tax of AMD 21,371 thousand (Note 12)	-	(97,362)	-	(97,362)
Attraction of charter capital	500,000	-	-	500,000
Total transactions with owners	500,000	(71,988)	-	428,012
Balance as at 31 December 2021	2,250,000	(169,450)	(938,534)	1,142,016
Balance as at 1 January 2022	2,250,000	(169,450)	(938,534)	1,142,016
Total comprehensive income				
Profit for the year	-	-	1,327,939	1,327,939
Total comprehensive income for the year	-	-	1,327,939	1,327,939
Transactions with owners, recorded directly in equity				
Derecognition of guarantee provided to related party		51,070		51,070
Derecognition of deferred tax in respect to guarantee provided to related party		(15,801)		(15,801)
Reverse of other reserve		134,181	(134,181)	-
Total transactions with owners	-	169,450	(134,181)	35,269
Balance as at 31 December 2022	2,250,000	-	255,224	2,505,224

"Mogo Armenia" UCO CJSC

Index to notes forming part of the financial statements
For the year ended 31 December 2022

Content

1. About the Organization

"Mogo" Universal Credit Organization LLC (the "Organization") was established in 2017 under the laws of the Republic of Armenia.

The Organization's principal activities are providing quick and convergent services for individuals in Armenia offering loans for vehicle pledges and for vehicle purchases. Until 2020 the Organization was also providing short-term cash payday loans, the provision of which ceased in June 2020.

The activities of the Organization are regulated by the Central Bank of Armenia (CBA). The Organization operates under a universal credit organization license N 42 issued by the CBA on 23 June 2017.

The Organization's registered head office is 18/2 Vardanants Street, offices 4, 5 and 6, Yerevan 0010, Republic of Armenia.

The Organization conducts its operations through 5 branches in the regions of Armenia.

The sole shareholder of the Organization is AS Eleving Luna (previously named Mogo Baltics and Caucasus), which is a subsidiary of Eleving Group S.A. (previously named Mogo Finance S.A.).

Related party transactions are described in detail in Note 15.

The number of employees as of year-end was 69 (2021: 82).

Armenian business environment

The Organization's operations are located in Armenia. Consequently, the Organization is exposed to the economic and financial markets of Armenia, which display emerging-market characteristics.

Legal, tax, and regulatory regimes are in the development stage, with frequent changes and contrasting interpretations, which creates additional difficulties for the business operating in Armenia, in addition to other legal and financial challenges.

The wide geographical spread of the coronavirus (COVID-19), the war in the Republic of Artsakh, and the ongoing political developments surrounding disputed territories have had a significant impact on the economy of Armenia. The current phase can be characterized as a period of steady recovery.

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

The financial statements reflect the Organization's assessment of the Organization's operations and exposure to the business environment in the financial position. The future business environment can differ from that expected.

2. Basis of preparation

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

The principal accounting policies adopted in the preparation of the financial statements are set out in Note 17. The policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements are presented in Armenian Drams (AMD), which is also the Organization's functional currency. Amounts are rounded to the nearest thousand (AMD'000) unless otherwise stated.

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

Basis of measurement

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

Changes in accounting policies

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

1) *Annual improvements to IFRS standards (2018-2020)*

In May 2020, the IASB issued minor amendments to the illustrative examples of IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and IFRS 16 "Leases".

2) *IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (Amendment - Unfavorable Contracts - Contract Performance Costs)*

In May 2020, the IASB issued amendments to IAS 37, adding paragraph 68A to specify the costs to be included in the assessment when recognizing a contract as an unfavorable contract. As a result of these changes, it is expected that a greater number of contracts will be considered unfavorable, as the changes expand the scope of costs that are included in the evaluation of unfavorable contracts.

3) *IAS 16 PPE (Amendment - Proceeds before intended use):*

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

The new standards, interpretations and amendments effective from 1 January 2022 do not have a significant impact on the Organization's financial statements.

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

1) *IFRS 17 "Insurance contracts"*

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

- Combines the present measurement of future cash flows with the recognition of revenue over the period in which the contracted services are rendered;

- Represents the separation of the results of insurance services (including insurance income) from financial income and expenses of insurance, and

- Requires the Organization to choose an accounting policy for each portfolio as to whether to recognize all insurance finance income and expenses in income and expenses or to recognize some of them in other comprehensive income.

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

2) *Accounting policy disclosures (Amendment to IAS 1 and IFRS Practice Statement 2)*

In February 2021, the IASB issued an amendment to IAS 1, which changed the disclosure requirements relating to accounting policies from "significant accounting policies" to "material information about accounting policies". The amendments contain guidance on the circumstances in which accounting information is likely to be considered material.

The amendments to IAS 1 are effective for periods beginning on or after 1 January 2023. Early application is also allowed. As IFRS Practice Statements are non-mandatory guidance, there is no mandatory effective date for IFRS Practice Statement 2.

3) *Definition of accounting estimates (IAS 8 amendment)*

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

4) *Lease liability in case of "Sale and sublease" (IFRS 16 amendment)*

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

5) *IAS 1 "Presentation of Financial Statements" (Amendment - Presentation of liabilities as current or non-current)*

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

6) *IAS 1 "Presentation of Financial Statements" (Amendment - Non-current liabilities with restrictive provisions (covenants))*

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

New standards, interpretations and amendments published, but not yet effective, do not have a material impact on the Company's future financial statements.

3. Critical accounting estimates and judgments

Information about the judgments, estimates and assumptions made in applying the accounting policies, that have the most significant effect on the amounts recognized in the financial statements, is presented below:

- *classification of financial assets.* assessment of the business model, under which the assets are held, and assessment of the contractual provisions to determine whether the cash flows arising at certain dates are only payments of principal and interest calculated on the outstanding principal - Note 17;

- *impairment of financial instruments. establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition and selection and approval of models used to measure ECL - Note 10;*
- *deferred tax asset recoverability*

Fair value measurement

A number of assets and liabilities included in the Organization's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Organization's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- *Level 1:* Quoted prices in active markets for identical items (unadjusted)

- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs.

- *Level 3:* Unobservable inputs (i.e., not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used which has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

4. Financial instruments - Risk Management

The Organization is exposed through its operations to the following financial risks:

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

In common with all other businesses, the Organization is exposed to risks that arise from its use of financial instruments. This note describes the Organization's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The risk management policies aim to identify, analyze and manage the risks faced by the Organization, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practices.

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

The Management Committee is responsible for monitoring and implementation of risk mitigation measures and making sure that the Organization operates within the established risk parameters.

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

In compliance with the Organization's internal documentation, the Management Committee and internal audit function frequently prepare reports, which cover the Organization's significant risks management. The reports include observations as to the assessment of the effectiveness of the Organization's procedures and methodologies and recommendations for improvement.

There have been no substantive changes in the Organization's exposure to financial instrument risks, its objectives, policies, and processes for managing those risks or the methods used to measure them from previous periods.

(a) Principal financial instruments

The principal financial instruments used by the Organization, from which financial instrument risks arise, are as follows:

- Loans to customers
- Cash and cash equivalents
- Other financial assets
- Loans from banks and other financial institutions
- Lease liability
- Provision for financial guarantee
- Other liabilities

(b) Financial instruments by category

Financial assets measured at amortized cost.

	2022 AMD'000	2021 AMD'000
Loans to customers	5,302,366	5,388,604
Cash and cash equivalents	51,329	70,661
Other financial assets	31,486	65,636
	5,385,181	**5,524,901**

Financial liabilities measured at amortized cost

	2022 AMD'000	2021 AMD'000
Loans from banks and financial institutions	2,891,631	4,490,940
Lease liability	90,927	69,387
Provision for financial guarantee	-	89,111
Other liabilities	95,553	101,072
	3,078,111	**4,750,510**

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, loans to customers, liabilities to banks and other financial organizations, and other liabilities.

For assets and liabilities with a maturity of one month, the carrying amount approximates the fair value because the maturities of these financial instruments are quite short.

Fair value hierarchy and valuation methods are presented in Note 18.

Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures in place to manage credit exposures (both for recognized financial assets and unrecognized contractual commitments). The credit policy is reviewed and approved by the Management.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

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

Collateral generally is not held against balances with banks. For the analysis of collateral held against loans to customers refer to Note 10.

The carrying amounts of the Organization's financial assets best represent the maximum exposure to credit risk related to them, without taking into account of any collateral held or other credit enhancements.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 17.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization's historical experience. The Organization concludes that there is a significant risk in credit risk of the assets when payments related to that assets are past due for more than 30 days.

Generating the term structure of PD

Overdue days are the primary input into the determination of the term structure of PD exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 6 months for payday loans and the past 12 months for vehicle portfolios.

Determining whether credit risk has increased significantly

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

As a backstop, the Organization considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due because the estimated PD increased significantly.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument return to being measured as a minimum of 12-month and lifetime ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Organization in full, without recourse by the Organization to actions such as realizing security (if any is held);
- the borrower is past due more than 60 days on any material credit obligation to the Organization.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

- qualitative,
- quantitative; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information

Considering that for the determination of PD only statistical data for 2022 was used, no forward-looking information is incorporated into the ECL calculation by the Organization.

As at 31 December 2022 the Organization did not expect significant changes in the macroeconomic environment in 2022 compared to 2021 which could impact default rates.

Modified financial assets

The contractual maturity of payday portfolio is only one month. The Customers have an extension option by paying an extension fee for 15 to 30 days. Starting from Covid-19 the Organization started the provision of modification options for this instrument.

Measurement of ECL

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

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

ECL for exposures in Stage 1 for the retail portfolio is calculated by multiplying the PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted loans. The LGD models are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the customer and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Organization measures ECL considering the risk of default over the expected contractual period including any borrower's extension options over which it is exposed to credit risk, even if, for credit risk management purposes, the Organization considers a longer period.

Common objectives, policies and processes

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

Maximum exposure of credit risk

The Organization's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For the financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or considering affection of collateral.

Concentrations of credit risk

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2022 AMD'000	31 December 2021 AMD'000
Assets		
Cash and cash equivalents	5,302,366	70,661
Loans to customers	51,329	5,388,604
Other financial assets	31,486	65,636
Total maximum exposure	**5,385,181**	**5,524,901**

As at 31 December 2022 the Organization has no debtors or groups of connected debtors (as at 31 December 2021: none), credit risk exposure to whom exceeded 10 percent of maximum credit risk exposure.

Geographic concentration

The geographical concentration of the Organization's assets and liabilities is limited to the territory of the Republic of Armenia.

Economy sectors

As of 31 December 2022 and 2021 the Organization's assets exposed to credit risk are concentrated in in retail loan provision.

Market risk

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

Interest rate risk

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

Average effective interest rate

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

	31.12.2022 average effective interest rate		31.12.2021 average effective interest rate	
	AMD	EUR	AMD	EUR
Interest-bearing assets				
Loans to customers	45.1	-	45.2	-
Interest-bearing liabilities				
Secured loans from local banks	14.0	-	12.8	-
An unsecured loan from a shareholder	-	12.0	-	12.0
Secured loans from other financial institutions	-	11.4	-	8.5

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2022 and 31 December 2021 has no material impact on the financial statements.

Foreign exchange risk

The Organization has liabilities denominated in EUR.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

Foreign exchange risk arises when the Organization enters transactions denominated in a currency other it's their functional currency.

The following table shows the foreign currency exposure structure of financial liabilities denominated in the EUR as of 31 December:

	2022 EUR AMD'000	2021 EUR AMD'000
ASSETS		
Cash and cash equivalents	4,746	-
Other assets	5,335	65,636
Total assets	**10,081**	**65,636**
LIABILITIES		
Loans from banks and financial institutions	(1,641,059)	(2,146,375)
Other liabilities	(30,368)	(50,368)
Total liabilities	**(1,671,427)**	**(2,196,743)**
Net position	**(1,661,346)**	**(2,131,107)**

A weakening of the AMD, as indicated below, against the EUR at 31 December 2022 and 2021, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2022 AMD'000	2021 AMD'000
10% appreciation of EUR against AMD	(166,135)	(213,111)

A strengthening of the AMD against the EUR at 31 December 2021 and 2021 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Organization seeks to actively support a diversified and stable funding base comprising long- and short-term loans and borrowings from financial institutions.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;

- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The contractual maturity analysis for financial liabilities as at 31 December 2022 is as follows:

AMD'000	From 1 to 12 months	1 to 5 years	Total outflow	Carrying amount
31 December 2022				
Non-derivative liabilities				
Loans and borrowings	1,200,816	2,052,177	3,252,993	2,891,631
Lease liability	54,845	52,887	107,732	97,290
Other financial liabilities	95,553	-	95,553	95,553
Total	**1,351,214**	**2,105,064**	**3,456,278**	**3,084,474**

The contractual maturity analysis for financial liabilities as at 31 December 2021 is as follows:

AMD'000	From 1 to 12 months	1 to 5 years	Total outflow	Carrying amount
31 December 2021				
Non-derivative liabilities				
Loans and borrowings	1,608,147	4,195,427	5,803,573	4,490,940
Lease liability	47,604	43,702	91,306	79,342
Other financial liabilities	101,072	-	101,072	101,072
Issued financial guarantee	81,391,500	-	81,391,500	81,391,500
Total	**83,148,323**	**4,239,129**	**87,387,451**	**86,062,854**

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2022:

	Within one year	More than one year	No maturity	Total
Assets				
Cash and cash equivalents	51,329	-	-	**51,329**
Loans to customers	1,576,009	3,726,357	-	**5,302,366**
Property, equipment intangible assets	-	-	11,162	**11,162**
Right-of-use assets	-	90927		**90,927**
Deferred tax asset	-	127,897	-	**127,897**
Receivables from loan collectors	26,151	-	-	**26,151**
Current tax asset	18,458	-	-	**18,458**
Other assets	48,764	-	-	**48,764**
Total assets	**1,720,711**	**3,945,181**	**11,162**	**5,677,054**
Liabilities				
Loans from banks and financial institutions	1,357,505	1,534,126	-	2,891,631
Lease liability	48,602	48,688	-	97,290

Other liabilities	182,909	-	-	182,909
Total liabilities	**1,589,016**	**1,582,814**	**-**	**3,171,830**
Net position	**131,695**	**2,362,367**	**11,162**	**2,505,224**

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

	Within one year	More than one year	No maturity	Total
Assets				
Cash and cash equivalents	70,661	-	-	70,661
Loans to customers	2,080,073	3,308,531	-	5,388,604
Property, equipment intangible assets and right-of-use assets	-	-	84,274	84,274
Deferred tax asset	-	431,402	(179,994)	251,408
Receivables from loan collectors	20,045	-	-	20,045
Current tax asset	46,736	-	-	46,736
Other assets	108,699	-	-	108,699
Total assets	**2,326,214**	**3,739,933**	**(95,720)**	**5,970,427**
Liabilities				
Loans from banks and financial institutions	1,217,577	3,273,363	-	4,490,940
Lease liability	40,703	38,639	-	79,342
Guarantee provisions	89,111	-	-	89,111
Other liabilities	169,018	-	-	169,018
Total liabilities	**1,516,409**	**3,312,002**	**-**	**4,828,411**
Net position	**809,805**	**427,931**	**(95,720)**	**1,142,016**

Capital risk management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, credit organizations have to maintain a minimum share capital of AMD 150,000 thousand (2021: AMD 150,000 thousand) and total capital of AMD 150,000 thousand (2021: AMD 150,000 thousand). The Organization is in compliance with the minimum share capital and total capital requirements as at 31 December 2022 and 2021.

5. Net interest income

	2022 AMD'000	2021 AMD'000
Interest income		
Loans to customers	2,497,904	2,161,905
	2,497,904	**2,161,905**
Interest expense		
Loans from banks and other financial institutions (Note 11)	(409,731)	(596,210)
Lease liabilities (Note 12)	(7,992)	(11,105)
	(417,723)	**(607,315)**
Net interest income	**2,080,181**	**1,554,590**

6. Net other operating income

	2022 AMD'000	2021 AMD'000
Other operating income		
Penalties earned	67,836	127,881
Income from guarantee amortization	19,665	44,503
Other income	13,982	17,548
	101,483	**189,932**
Other operating expense		
Net loss from disposal of repossessed asset	(164)	(14,992)
	(164)	**(14,992)**
Net interest income	**101,319**	**174,940**

7. Other selling, general and administrative expenses

	2022 AMD'000	2021 AMD'000
Management fee	463,057	457,039
Debt collection expenses	238,227	280,091
Marketing and advertising	69,378	94,944
Depreciation and amortization	46,240	70,652
IT services	39,807	40,586
Penalties	37,319	-
Credit database expenses	28,380	29,659
Communications	28,236	33,225
Non-deductible expenses	20,739	23,062
Utilities	18,135	16,694
Professional services	16,849	16,027
Taxes other than on income	5,386	7,554
Repair and maintenance of property and equipment	1,287	43,913
Other	60,652	10,098
	1,073,692	**1,123,544**

8. Income tax (expense)/ reimbursement

	2022 AMD'000	2021 AMD'000
Current tax expense adjustment for the prior year	-	(23,710)
Origination and reversal of temporary differences	(107,710)	158,820
Total tax (expense)/reimbursement	**(107,710)**	**135,110**

The income tax rate for the current year was 18% as per RA Tax Code (2021: 18%). The current year income tax was calculated using 18% rate, and the deferred tax was calculated using 18% rate as well.

Effective interest rate reconciliation

	2022		2021	
	AMD'000	%	AMD'000	%
Profit before tax	**1,435,649**		**362,115**	
Income tax expense	(258,417)	18.00%	(65,181)	18.0%
Non-deductible expenses, net	47,475	-18.37%	70,511	19.5%
Prior Period tax correction	-	0.00%	(23,710)	(6.5%)
Change in unrecognized temporary differences and tax loss carry-forward	103,232	(39.95%)	153,490	42.4%
Income (tax expense)/reimbursement and effective tax rate	**(107,710)**	**19.10%**	**135,110**	**37.3%**

Details of deferred tax asset/liabilities, amounts recognized in profit or loss and amounts recognized in equity are provided below.

AMD'000	1 January 2022	Recognized in profit or loss	Recognized In Equity	31 December 2022
Loans to customers	(203,094)	84,304	-	**(118,790)**
Other liabilities	7,299	3,532	-	**10,831**
Provision for financial guarantee	15,801	-	(15,801)	**-**
Tax-loss carry forward	431,403	(195,546)	-	**235,856**
Total deferred tax liability	**251,409**	**(107,710)**	**(15,801)**	**127,897**

AMD'000	1 January 2021	Recognized in profit or loss	Recognized In Equity	31 December 2021
Loans to customers	76,787	(279,881)	-	(203,094)
Other liabilities	-	7,299	-	7,299
Provision for financial guarantee	-	-	15,801	15,801
Tax-loss carry forward	-	431,402	-	431,402
Total deferred tax liability	**76,787**	**158,820**	**15,801**	**251,408**

The recognized tax losses expire in 2027. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognized in respect of tax loss carry- forwards and temporary differences to the extent that it is probable that future taxable profit will be available against which the Organization can utilize the benefits therefrom. In assessing the probability of available taxable profits, management has considered improvement of quality of loan portfolio, due to termination of provision of payday loans and introduction of new scoring system for issuance of vehicle loans and positive operating results for 2022 and 2021.

9. Cash and cash equivalents

	31/12/2022 AMD'000	31/12/2021 AMD'000
Bank balances rated from BB- and BB+	51,329	57,910
Not rated	-	12,751
Total cash in the statement of financial position	**51,329**	**70,661**

The Organization uses credit ratings per Standard & Poor's rating agency in disclosing the credit quality of cash and cash equivalents.

As at 31 December 2022 the Organization has placement with one bank (2021: one bank) whose balances exceeded 10% of the equity.

Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2022 and 2021. As of 31 December 2022, and 31 December 2021 the impairment of cash is not material considering high liquidity of assets.

10. Loans to customers

	2022 AMD'000	2021 AMD'000
Vehicle loans	7,228,014	7,325,133
Payday loans	2,877,399	3,163,637
Total gross loans to customers at amortized cost	**10,105,413**	**10,488,770**
Credit loss allowance	(4,803,047)	(5,100,166)
Net loans to customers at amortized cost	**5,302,366**	**5,388,604**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to customers for the year ended 31 December 2022.

AMD'000	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January 2022	78,061	42,091	4,980,014	5,100,166
Transfer to Stage 1	36,768	(5,079)	(31,689)	-
Transfer to Stage 2	(3,274)	11,152	(7,878)	-
Transfer to Stage 3	(7,350)	(17,826)	25,176	-
New financial assets originated	39,226	9,487	15,519	64,232
Reversed impairment for settled receivables	(32,592)	(11,510)	(142,700)	(186,802)
Reversed impairment for written off receivables	(1,186)	(2,279)	(253,666)	(257,131)
Net remeasurement of loss allowance	(35,082)	10,790	106,874	82,582
Balance as at 31 December 2022	74,571	36,826	4,691,650	4,803,047

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to customers for the year ended 31 December 2021.

AMD'000	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January 2021	**201,669**	**1,577,181**	**3,204,568**	**4,983,418**
Transfer to Stage 1	149,014	(81,157)	(67,857)	-
Transfer to Stage 2	(14,765)	36,492	(21,727)	-
Transfer to Stage 3	(38,991)	(1,210,173)	1,249,164	-
New financial assets originated	64,756	-	-	**64,756**
Assets repaid	(66,345)	(210,365)	(308,981)	**(585,691)**
Net remeasurement of loss allowance	(217,277)	(69,887)	924,847	**637,683**
Balance as at 31 December 2021	**78,061**	**42,091**	**4,980,014**	**5,100,166**

Impairment expense

The table below shows the impairment losses from loans to customers recorded in the statement of profit of loss and other comprehensive income for the years ended 31 December 2022 and 2021:

2022

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Vehicle loans	(719)	(1,932)	(100,126)	(101,339)
Payday loans	(4,211)	(3,332)	(188,237)	(195,780)
	(3,492)	**(5,264)**	**(288,363)**	**(297,119)**

2021

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Vehicle loans	(91,359)	(174,925)	212,412	(53,872)
Payday loans	(32,249)	(1,360,165)	1,563,034	170,620
	(123,608)	**(1,535,090)**	**1,775,446**	**116,748**

Credit quality of loans to customers

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Vehicle loans				
not overdue	4,688,865	64,368	-	4,753,233
overdue less than 30 days	290,753	44,833	-	335,586
overdue more than 30 days and less than 60 days	-	59,302	-	59,302
overdue more than 60 days	-	-	2,079,893	2,079,893
Total gross vehicle loans	**4,979,618**	**168,503**	**2,079,893**	**7,228,014**
Credit loss allowance	**(74,299)**	**(36,784)**	**(1,887,186)**	**(1,998,269)**
Total net vehicle loans	**4,905,319**	**131,719**	**192,707**	**5,229,745**
Payday loans				
not overdue	633	-	-	633
overdue less than 30 days	197	62	-	259
overdue more than 60 days	-	-	2,876,507	2,876,507

Total gross payday loans	**830**	**62**	**2,876,507**	**2,877,399**
Credit loss allowance	**(270)**	**(43)**	**(2,804,465)**	**(2,804,778)**
Total net payday loans	**560**	**19**	**72,042**	**72,621**
Total gross loans to customers	**4,980,448**	**168,565**	**4,956,400**	**10,105,413**
Total net loans to customers	**4,905,879**	**131,738**	**264,749**	**5,302,366**

The following table provides information on the credit quality of loans to customers as at 31 December 2021:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Vehicle loans				
not overdue	4,725,615	118,435	112,932	4,956,982
overdue less than 30 days	242,823	46,847	2,906	292,576
overdue more than 30 days and less than 60 days	-	70,731	-	70,731
overdue more than 60 days	-	-	2,004,844	2,004,844
Total gross vehicle loans	**4,968,438**	**236,013**	**2,120,682**	**7,325,133**
Credit loss allowance	(73,580)	(38,716)	(1,987,312)	(2,099,608)
Total net vehicle loans	**4,894,858**	**197,297**	**133,370**	**5,225,525**
Payday loans				
not overdue	-	2,257	1,212	3,469
overdue less than 30 days	4,718	1,054	2,031	7,803
overdue more than 30 days and less than 60 days	-	243	7,640	7,883
overdue more than 60 days	-	-	3,144,482	3,144,482
Total gross payday loans	**4,718**	**3,554**	**3,155,365**	**3,163,637**
Credit loss allowance	(4,481)	(3,375)	(2,992,702)	(3,000,558)
Total net payday loans	**237**	**179**	**162,663**	**163,079**
Total gross loans to customers	**4,973,156**	**239,567**	**5,276,047**	**10,488,770**
Total net loans to customers	**4,895,095**	**197,476**	**296,033**	**5,388,604**

Collateral

Vehicle loans are secured by underlying vehicles. The Organization provides loans to customers of 80% to 100% of the assessed collateral value and creditworthiness analysis. As at 31 December 2022, the loans of the Organization were secured by vehicles with a total market value of AMD 12,679,309 thousand (2021: AMD 13,977,640 thousand).

Payday loans are not secured.

Significant credit exposures

As at 31 December 2022 the Organization has no borrowers or group of connected borrowers (31 December 2021: none), whose net loan balances exceed 10% of equity.

Loan maturities

The maturity of the loan portfolio is presented in Note 3, which shows the remaining period from the reporting date to the contractual maturity of the loans.

Pledge

Loans to customers with principal amounting to 462,190 thousand AMD were pledged to secure loans received from non-resident financial institutions (31.12.2021: 562,391 thousand AMD).

11. Loans from banks and other financial institutions

	31/12/2022 AMD'000	31/12/2021 AMD'000
Secured loans from local banks	1,249,753	2,344,565
Unsecured loan from shareholder	1,178,729	1,582,168
Secured loans from non-resident financial institutions	463,149	564,207
	2,891,631	4,490,940

Terms and debt repayment schedule

AMD'000	Currency	Nominal interest rate	Year of maturity	31-Dec-22 Fair value	31-Dec-22 Carrying amount	31-Dec-21 Fair value	31-Dec-21 Carrying amount
Secured loans from local banks	AMD	14.00%	2024	1,249,753	1,249,753	2,344,565	2,344,565
Unsecured loan from shareholder	EUR	12.00%	2023-2025	1,178,729	1,178,729	1,582,168	1,582,168
Secured loans from non-resident financial institutions	EUR	6.5-15.5%	2023	463,149	463,149	564,207	564,207
Total loans and borrowings				**2,891,631**	**2,891,631**	**4,490,940**	**4,490,940**

Reconciliation of movement of liabilities to cash flows arising from financing activities

'000 AMD	Loans and borrowings	Lease	Total
	2022	2022	2022
Balance at 1 January	**4,490,940**	**79,342**	**4,570,282**
Changes from financing cash flows			
Proceeds from borrowings	2,319,157	-	2,319,157
Repayment of borrowings	(3,512,856)	-	(3,512,856)
Lease payments	-	(39,958)	(39,958)
Total changes from financing cash flows	**(1,193,699)**	**(39,958)**	**(1,233,657)**
The effect of changes in foreign exchange rates	**(509,148)**	**-**	**(509,148)**
Other changes			
Liability-related			
Modification of lease	-	57,904	57,904
Interest expense (Note 5)	409,731	7,992	417,723
Interest paid	(306,193)	(7,992)	(314,185)
Total liability-related other changes	**103,538**	**57,904**	**161,442**
Balance at 31 December	**2,891,631**	**97,288**	**2,988,919**

'000 AMD	Loans and borrowings	Lease	Total
	2021	2021	2021
Balance at 1 January	**5,893,809**	101,416	**5,995,225**
Changes from financing cash flows			-
Proceeds from borrowings	3,146,866	-	**3,146,866**
Repayment of borrowings	(4,183,064)	-	**(4,183,064)**
Lease payments	-	(35,789)	**(35,789)**
Total changes from financing cash flows	(1,036,198)	**(35,789)**	(1,071,987)
The effect of changes in foreign exchange rates	(387,246)	-	(387,246)
Other changes			-
Liability-related			-
Interest expense (Note 11)	596,210	11,105	**607,315**
Interest paid	(575,635)	(11,105)	**(586,740)**
Other non cash changes		13,715	**13,715**
Total liability-related other changes	**20,575**	**13,715**	34,290
Balance at 31 December	4,490,940	79,342	4,570,282

12. Lease liability and Right of use asset

Lease liabilities

The Organization has leases for the head office and branch office premises. Each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability.

Leases of property generally have a lease term ranging from 3-5 years. Lease payments are generally fixed. Some leases contain an option to extend the lease for a further term.

In 2022, the weighted average interest rate applied to lease liabilities recognized in accordance with IFRS 16 was approximately 10% (2021: 11%).

The movements of right of use assets and lease liabilities during the reporting period are set out below.

Right of use Asset	Land and buildings	
	2022	2021
	AMD'000	AMD'000
At 1 January	69,387	91,102
Addition	-	14,575
Modification	57,906	3,752
Disposal	-	(4,148)
Amortisation	(36,366)	(35,894)
At 31 December	90,927	69,387

Lease Liability

	Land and buildings	
	2022	2021
	AMD'000	AMD'000
At 1 January	79,342	101,416
Interest expense (Note 5)	7,992	11,105
Addition	-	14,575
Impact of modification	57,906	(3,752)
Disposal	-	(4,612)
Rental payments	(47,950)	(46,894)
31-Dec	97,290	79,342

13. Other liabilities

	2022 AMD'000	2021 AMD'000
Payables for services providers	85,086	101,072
Other financial payable	10,467	-
Total other financial liabilities	**95,553**	**101,072**
Payables related to taxes	20,994	20,908
Payables to employees	60,176	40,852
Other liabilities	6,186	6,186
Total other non-financial liabilities	**87,356**	**67,946**
Total other liabilities	**182,909**	**169,018**

14. Equity

Charter capital

The owners of charter capital are entitled to receive dividends as declared from time to time. In accordance with Armenian legislation, the Organization's distributable reserves are limited to the balance of retained earnings as recorded in the Organization's statutory financial statements prepared in accordance with IFRS.

In 2021 sole shareholder of the Organization increase charter capital by AMD 500,000 thousand. As at 31 December 2022, the attracted charter capital of the Organization comprised to AMD 2,250,000 thousand (2021: AMD 2,250,000 thousand).

Dividends

No dividends were declared and paid during 2022 and 2021 periods. No dividends were declared after 31 December 2022 and up to the date these financial statements were authorized.

15. Transactions with related parties

The Organization's 100% shareholder is AS Eleving Luna (previously name Mogo Baltics and Caucasus. The ultimate parent of the Organization is Eleving Group S.A. (previously Mogo Finance S.A.)

The ultimate parent company produces publicly available financial statements. The party with ultimate control over the Organization is Eleving Group S.A.

As at 31 December 2022 and 31 December 2021 none of the ultimate beneficial owners of Eleving Group S.A. individually controls the Group.

Transactions with the members of the Board of Directors and the Management

	2022 AMD'000	2021 AMD'000
Short-term employee benefits	106,243	34,864

Transactions with the other related parties

AMD'000	Net transaction value 2022	Outstanding balance 2022	Net transaction value 2021	Outstanding balance 2021
Loans received				
Parent company	-	1,178,729	-	1,582,118
Interest expense				
Parent company	126,662		104,727	-
Payables				
Group member firms (management fee)	428,280	254	523,857	6,374

The Organization together with other subsidiaries of Eleving Group S.A. (previously Mogo Finance S.A.) entered a financial guarantee agreement issued in favour of bondholders of Mogo Finance S.A. with total amount of EUR 150 million listed on the Open Market of the Frankfurt Stock Exchange. As of recalculation made during 2022, there is no additional gurantee necessity from Mogo Armenia side, thus the gurantee amount was derecognized. The contract is still in force.

16. Contingent Liabilities

Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its assets, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Organization property or relating to Organization operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Organization operations and financial position.

Litigations

In the ordinary course of business, the Organization is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

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

Transfer pricing legislation enacted in the Republic of Armenia starting from 1 January 2020. The legislation is effective for the financial year 2020 and onwards. The local transfer pricing rules are closer to OECD guidelines, but with uncertainty in practical application of tax legislation in certain circumstances.

Transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Transfer pricing rules apply to the transactions listed below, if the total amount of the controlled transaction exceeds AMD200 million in the tax year:

- cross-border transactions between related parties;
- cross-border transactions with companies registered in offshore zones, regardless of being related party or not;
- certain in-country transactions between related parties, as determined under the Armenian Tax Code.

Since there is no significant practice of applying the transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these financial statements.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management 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.

17. Events after reporting period

The Organization passed inspection by the Central bank of Armenia during year 2022. The improvement plan was developed with deadlines, as well as the Organization paid AMD 9,000 thousand penalty for non-compliance cases. During February 2023 follow up inspection took place to monitor the progress of implementation. As of the reporting date the remediation actions suggested by the Central Bank of Armenia are still in progress.

18. Accounting policies

Recognition of income and expenses

Income is recognized to the extent that it is probable that the economic benefits will flow to the Oganization and the income can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Organization and the expense can be reliably measured.

The following specific criteria must also be met before income is recognized.

The effective interest rate method

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

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

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

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

The 'gross carrying amount of a financial asset' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

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

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

Income and expense on fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

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

Net conversion loss

The net conversion loss also includes the net income or expense from foreign currency purchases and sales and is recognized in profit or loss when the related service has been rendered.

Foreign currency

Transactions in foreign currencies are translated to the AMD at exchange rates at the dates of the transactions.

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

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

In the Organization's financial statements, all assets, liabilities and transactions of Organization entities with a functional currency other than the AMD (the Organization's presentation currency) are translated into AMD.

The exchange rates used by the Organization in the preparation of the financial statements are as follows:

	31 December 2022	31 December 2021
AMD/1 US Dollar	393.57	480.14
AMD/1 EUR	420.06	542.61

Taxation

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

Current tax

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

Deferred tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan of the Organization. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority.

Financial instruments

Financial assets and financial liabilities

Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Organization may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Organization makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Organization'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 Organization's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organization's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

Reclassification

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

Financial liabilities

The Organization classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition
Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

(i) the consideration received (including any new asset obtained less any new liability assumed) and
(ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognized as a separate asset or liability.

In transactions in which the Organization 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 Organization continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

Modification of financial assets and financial liabilities
Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, the Organization updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis - i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Organization first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Organization applied the policies on accounting for modifications to the additional changes.

Financial assets
If the terms of a financial asset are modified, the Organization evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

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

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

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

The Organization concludes that the modification is substantial as a result of the following qualitative factors:

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

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

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

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

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

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

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

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

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

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment

The Organization recognizes loss allowances for expected credit losses (ECL) on financial assets that are debt instruments and are not measured at FVTPL.

The Organization measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL - other financial instruments on which credit risk has not increased significantly since their initial recognition

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

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

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

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see note 3(e)(ii)) 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 asset

At each reporting date, the Organization assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for more than 90 days is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Organization cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Organization 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.

Write-offs

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts

Cash

Cash and cash equivalents include current account balances and demand deposits held with banks. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Financial Guarantees

Where a contract meets the definition of financial guarantee contract the Organization, as an issuer, applies specific accounting and measurement requirements of IFRS 9. These IFRS 9 measurement requirements are applied for all guarantee contracts, including guarantees issued between entities under common control, as well as guarantees issued by a subsidiary on behalf of the parent. If Organization gives a guarantee on behalf of an entity under common control, a respective provision is recognized in the financial statements. Where transaction is driven by the Organization's shareholders in their capacity as owners, the Organization treats such transactions as an increase in Provisions for financial guarantees and an equal and opposite decrease in equity (as a distribution of equity). Distributions of equity under financial guarantees are recognized in other reserves.

Financial guarantees are initially recognized in at fair value. Subsequently, unless the financial guarantee contract is designated at inception as at fair value through comprehensive income, Organization's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss and other comprehensive income, and ECL provision determined in accordance with IFRS 9. Amortization is recognized in the statement of profit or loss and other comprehensive income under net other operating income on a straight-line basis over the term of guarantee.

Financial guarantees are derecognized if the terms of the guarantee are substantially changed. Changes in guarantee limit are treated as a derecognition. In such cases the original guarantee is derecognized and a new guarantee is recognized at fair value. Change in the fair value is recognized as a decrease or increase in Other reserves. Other reserves are transferred to retained earnings upon extinguishment of liabilities under the financial guarantee.

Leases

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company 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 commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Organization by the end of the lease term or the cost of the right-of-use asset reflects that the Organization will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as the discount rate.

The Organization determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee, if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Organization has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

– leasehold improvements	1-5 years
– computer hardware	3 years
– fixtures and fittings	5 years
– motor vehicles	5 years
– other equipment	2 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1-10 years.

Repossessed assets

Repossessed assets are measured at the lower of cost and net realizable value

Provisions

A provision is recognized in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Organization has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Equity

Ordinary shares

The shares of the Organization are redeemable at the option of the participant under the legislation of the Republic of Armenia. The entity is obliged to pay a withdrawing participant its share of the net assets of the entity for the year of withdrawal in cash or, with the consent of the participant, by an in-kind transfer of assets.

Retained earnings

Retained earnings include accumulated profit of current and prior periods.

Dividends

The ability of the Organization to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared

19. Fair values of financial instruments

The Organization measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

As at 31 December 2022 and 2021 the estimated fair values of all financial instruments approximate their carrying amounts.

Loans to customers are considered to bear market interest rate. The interest rate of these loans is similar to interest rate of loans issued by similar financial institutions in the Republic of Armenia. There have been no significant fluctuation in effective interest rates of loans issued by the Organization in 2021 and 2022.