

**MIKRO KAPITAL ARMENIA**  
**Universal Credit Organization CJSC**

**FINANCIAL STATEMENTS**  
**in Armenian Drams**

**31 DECEMBER 2022**

**YEREVAN 2023**

## CONTENTS

Independent Auditor's Report	3
Statement of Profit or Loss and other Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11

PKF AUDIT SERVICE LLC



**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT OF  
MIKRO KAPITAL ARMENIA UCO CJSC  
AS OF DECEMBER 31, 2022**



## **INDEPENDENT AUDITOR'S REPORT**

To the shareholders of MIKRO KAPITAL ARMENIA UCO CJSC

### **OPINION**

We have audited the financial statements of MIKRO KAPITAL ARMENIA UCO CJSC (the "Company") which comprise Statement of Financial Position as of December 31, 2022, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of December 31, 2022 and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### **BASIS FOR OPINION**

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

### **OTHER MATTERS**

Company's previous 2021 financial statements have been audited by "Baker Tilly Armenia" CJSC, which in its independent auditor's report, dated on 18.03.2022 had expressed an unqualified opinion.

### **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to

enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management wither intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

#### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

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

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

related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Yerevan, 14/03/2023

PKF AUDIT SERVICE LLC

General Director

Gor Davtyan

Licensed Auditor

Hayk Poghosyan



**Statement of Profit or Loss and other Comprehensive Income**

For the year ended at 31 of December 2022

'000 AMD

	Notes	2022	2021
Interest and similar income	5	454,656	354,100
Interest and similar expense	5	(388,463)	(240,279)
<b>Net interest income</b>		<b>66,193</b>	<b>113,821</b>
Commissions and other income	6	229,597	182,452
Commissions and other expense	6	(7,112)	(3,110)
<b>Net Commissions and other income</b>		<b>222,485</b>	<b>179,342</b>
Net loss from foreign currency transactions		(7,930)	55,424
Other operating income		47,032	108
Impairment losses on loans	11	(34,504)	(113,320)
Expenses as regards employees	7	(115,416)	(95,085)
Other general administrative expenses	8	(159,776)	(108,261)
<b>Profit before taxation</b>		<b>18,084</b>	<b>32,029</b>
Profit Tax expense	9	(15,122)	(42,265)
<b>Loss after taxation</b>		<b>2,962</b>	<b>(10,236)</b>
Other comprehensive income		-	-
<b>Comprehensive income</b>		<b>2,962</b>	<b>(10,236)</b>

  
Khachik Nerkararyan  
Chairman of the Board/Executive Director

14.03.2023

  
Lusine Movsisyan  
Chief Accountant



**Statement of Financial Position**

As at 31 of December 2022

'000 AMD

	Notes	2022	2021
<b>ASSETS</b>			
Cash means and bank accounts	10	104,404	137,063
Loans provided to customers	11	2,868,844	2,164,479
Property, plant and equipment and intangible assets	12	20,389	18,474
Right-of-use asset	13	5,668	15,385
Other assets	14	26,162	22,992
<b>Total Assets</b>		<b>3,025,467</b>	<b>2,358,393</b>
<b>LIABILITIES</b>			
Borrowings	15	2,559,972	1,778,309
Provisions		17,500	-
Deferred tax liability	9	34,252	37,334
Other liabilities	16	37,713	169,682
<b>Total liabilities</b>		<b>2,649,437</b>	<b>1,985,325</b>
<b>EQUITY</b>			
Charter capital	17	570,000	570,000
Retained earnings		(193,970)	(196,932)
<b>Total equity</b>		<b>376,030</b>	<b>373,068</b>
<b>Total liabilities and equity</b>		<b>3,025,467</b>	<b>2,358,393</b>

  
 Khachik Nerkararyan  
 Chairman of the Board/Executive Director

14.03.2023

  
 Lusine Movsisyan  
 Chief Accountant






**Statement of Changes in Equity**

For the year ended 31 December 2022

'000 AMD

	Charter Capital	Retained Earnings	Total
Balance as at 01 January 2021	570,000	(184,917)	385,083
Adjustments	-	(1,779)	(1,779)
Loss for the year	-	(10,236)	(10,236)
Balance as at 31 December 2021	570,000	(196,932)	373,068
Adjustments	-	-	-
Loss for the year	-	2,962	2,962
Balance as at 31 December 2022	570,000	(193,970)	376,030

  
Khachik Nerkararyan  
Chairman of the Board/Executive Director

  
Lusine Movsisyan  
Chief Accountant

14.03.2023



**Statement of Cash Flows**  
For the year ended 31 December 2022

'000 AMD

	2021	2020
<b>Cash flows from operating activity</b>		
Interest received	434,934	473,544
Interest paid	(370,786)	(236,341)
Commissions paid	169,292	(3,110)
Salaries and other equivalent payments	(83,730)	(48,325)
Taxes paid	(93,877)	(34,353)
Net cash flows from other operating activity	(191,926)	(75,866)
Decrease / (Increase) in loans to customers	(690,420)	(312,391)
<i>Net Cash flows from/used for operating activity</i>	<b>(826,513)</b>	<b>(236,842)</b>
<b>Cash flows from investing activity</b>		
Acquisition of property, plant, equipment and intangible assets	(6,282)	(6,104)
<i>Net cash used for investing activity</i>	<b>(6,282)</b>	<b>(6,104)</b>
<b>Cash flows from financing activity</b>		
Borrowings received	813,311	350,900
<i>Net cash flows from financing activity</i>	<b>813,311</b>	<b>350,900</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(13,175)	(9,951)
<b>(Decrease)/Increase in cash and cash equivalents, net</b>	<b>(32,659)</b>	<b>98,003</b>
Cash and cash equivalents at the beginning of the year	137,063	39,060
Cash and cash equivalents at the end of the year	104,404	137,063

  
Khachik Nerkararyan  
Chairman of the Board/Executive Director

14.03.2023



  
Lusine Movsisyan  
Chief Accountant

## Notes Attached to the Financial Statements

### 1. Main Activity

Micro Kapital Armenia Universal Credit Organization CJSC (hereinafter, "the Company") is a commercial organization representing a legal person. The Company is a member of a group of international companies.

The Company was registered according to the CB RA Board Decision № 99A as of June 227, 2018. (Registration number: 46).

The main objective of the Company's activity is to support the development of small and medium-sized businesses in the Republic of Armenia.

The Company's legal and operations address is RA, Yerevan, Paronyan Str.8, #1.

### 2. Business Environment

The Company carries on its activity mainly in Armenia therefore the activity is affected by the economic conditions and financial markets of Armenia which have characteristics typical of developing markets. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy.

Armenia continues to undergo political and economic changes. Legal, tax and legislative systems continue to develop, but they are subject to frequent changes and may have different interpretations that, together with other legal and financial barriers, create additional difficulties for organizations operating in Armenia.

As a result, operations carried out in Armenia involve certain risks that are not typical of developed markets. Similar risks and the ensuing consequences may affect the Company's performance in the foreseeable future.

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

### 3. Basis for Preparation

#### *Statement of Compliance*

The Financial Statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

#### *Measurement Basis*

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except for those assets, for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at their amortized cost, and non-financial assets and liabilities are stated at their historical cost.

#### *Functional and presentation currency*

The Company's functional currency is Armenian Dram (AMD), the national currency of the Republic of Armenia, which best reflects the economic substance of the events and circumstances underlying the Company's activity.

Armenian Dram is also the presentation currency for these financial statements. Financial information is presented in Armenian Drams rounded to the nearest thousand.

#### *Use of assessments and reasoning*

For preparation of these financial statements in conformity with IFRS, the management has made a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and corresponding assumptions are regularly revised. The revised accounting estimates are recognized in the period of the revision and in the future periods affected.

As of the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published that have not been effective yet. The Company have not early adopted any of these standards and interpretations.

Management anticipates that all of the applicable pronouncements will be introduced in the Company's accounting policies for the first period following the effective date of the pronouncement. Management expects these changes will not have a material impact on the Company's financial statements.

### ***Going Concern***

These financial statements have been prepared based on the going concern principle which assumes that the assets are realized, and the obligations are settled in the normal course of business.

## **4. Accounting Policy**

### **Recognition of income and expenses**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company, and the expense can be reliably measured.

### ***Interest income and expense***

Interest income and interest expenses are measured, recognized and recorded by the Company using an accrual basis, irrespective of the time they are actually earned or incurred.

### ***Income and expense from commissions and similar payments***

Fees, commissions and other income and expense items are generally recorded using an accrual basis during provision of the services.

### **Recognition of exchange differences**

Gain (loss) resulting from foreign currency transactions includes gains/(losses) from revaluation of assets or liabilities denominated in foreign currency.

Transactions in foreign currencies are translated to functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated to functional currency using a rate of exchange ruling at the statement of financial position date. Exchange differences come forth from translation of foreign currency items as at reporting date are recognized as an income or expense.

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

	31 December 2022	31 December 2021
AMD/ IUS Dollar	393.57	480.14

### **Taxation**

Profit tax for the reporting year comprises current and deferred taxes. Profit tax is recognized in profit or loss except to the extent that it relates to transactions the results of which are recognized in equity, in which case it is recognized within equity as well.

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

Deferred taxes are calculated according to the balance sheet liability method. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities recognized in the financial reports, except for those cases when the deferred profit tax arises from the initial recognition of goodwill or of assets or liabilities in the transactions other than business combinations and affects neither accounting nor taxable profit.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available in

are measured at the tax rates that are expected to be applied at the period when the assets are realized or the liabilities are settled, based on tax rates enacted within that period or within the reporting period.

There are also other operating taxes in the Republic of Armenia, which are assessed based on the Company's activity. These taxes are recognized in the statement of comprehensive income under «other expenses». Indirect tax amounts are included in the amount of those tangible and intangible values to which they relate.

### **Cash and cash equivalents**

Cash and cash equivalents include balances of bank accounts. The statement of cash flows is prepared using the direct method.

### **Financial Instruments**

The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, are accounted for between trade date and settlement date in the same way as for acquired instruments.

At initial recognition, financial assets and liabilities are measured at fair value plus, in the case of investments, expenses directly attributable to the transaction, except for the investments at fair value through profit or loss.

Subsequent to initial recognition, all financial liabilities, other than those designated at fair value through profit or loss (including financial liabilities held for sale), are measured at amortized cost using the effective interest rate method. After the initial recognition, financial liabilities carried at fair value through profit or loss are subsequently accounted for at fair value.

The Company classifies its financial assets based on Financial assets management business model and contractual cash flow characteristic of a financial asset, as follows:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at fair value through profit/loss.

#### *Financial assets measured at amortized cost*

The Company measures the loans provided to customers, accounts receivable, and other financial assets at amortized cost, if the following two conditions are met:

- an asset is held within business model with the objective of holding assets in order to collect contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The details of the mentioned terms are presented below:

#### *Business model test*

The Company classifies financial assets as subsequently measured at amortized cost or fair value on the basis of the Company's business model for financial assets management. The Company determine whether its financial assets meet this condition based on the business model's objective as it has been decided by the Company's key personnel. The Company's business model does not depend on the management intents for a separate instrument. Thus, this approach cannot be applied on an instrument-by-instrument basis, the decision shall be based on a higher level grouping.

#### *Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding*

The Company classifies a financial asset as subsequently measured at amortized cost, if it meets the test in respect of payments solely of principal and interest on the principal amount outstanding.

Within this test 'Principal' is defined as being the fair value of the financial asset at initial recognition and can change over the life of the financial asset. The most important element in interests' payment definition is the consideration of time value of money and credit risk. While carrying out the principal and interest payment test the Company uses its judgment and takes into account such factors as the currency of the financial instrument and the period of its financial instrument.

### *Loans and receivables*

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

Subsequently, the loan's carrying value is measured using the effective interest rate method. Loans to customers with no fixed maturities are accounted for under the effective interest rate method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

### *Impairment of financial assets*

At each reporting date the Company evaluates the extent to which a financial asset or a group of financial assets is impaired.

A financial asset (or a group of financial assets) is considered impaired, and an impairment loss is recognized at the time of formation of the asset. The Company regularly controls all the assets subject to impairment. The Company classifies loans in the following three stages:

- First stage: assets the credit rating of which has not significantly decreased since their initial recognition, or to which the simplified approach is applied because of low credit risk.
- Second stage: assets with significant increase of credit risk since their initial recognition, however there is no objective data on credit loss.
- Third stage: assets with objective evidence of impairment.

Expected credit losses are the weighted average credit losses with the probability of default as the weight. During portfolio assessment of assets, the ECL in respect of each asset is calculated as the product of the following three components:

- Expected cash flows brought to present value at initial or currently applicable revised effective rate.
- Default probability estimated for the following 12 months or over remaining maturity of the loan.
- Total losses in respect of defaulted loans.

The third stage loans that are maximum 1-30 days past due as at the date of provision as well as during the preceding three months shall be reclassified as second stage loans. The third stage loans that are none-past due as at the date of provision as well as during the preceding three months shall be reclassified as first stage loans.

The second stage loans that are none-past due as at the date of provision as well as during the preceding three months shall be reclassified as first stage loans.

The ECLs for the loans in the first stage are recognized for 12 months, and for the loans in the second and third stages for the whole life of the loan.

### *De-recognition of financial assets and liabilities*

#### *Financial assets*

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

**Financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

**Asset possible loss reserve**

Classification of the Company's assets and formation of possible loss reserve is realized in accordance with the Regulation on classification of loans and accounts receivable and formation of possible loss reserve for banks operating within the territory of the Republic of Armenia.

**Inventory**

The accounting concerning inventory is carried in accordance with the IAS 2. Inventory is accounted for at the acquisition cost. The cost of ordinarily interchangeable inventory is assigned by using the first-in, first-out (FIFO) formula.

**Leases**

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets, and
- Leases with a duration of 12 months or less.

IFRS 16 has been applied from 1 January 2019 without restatement of comparative figures.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, using a discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the underlying asset if, the latter is judged to be shorter than the lease term.

**Property, plant and equipment**

Items of Property, plant and equipment ("PPE") that correspond to the assets recognition criteria are recorded at their initial value (cost). The initial value of the item of PPE includes the purchase price, taxes, import duties, and other mandatory payments, which are not refundable by the corresponding body.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings and constructions	20 years
Computer equipment	1 year
Office equipment	1-8 years
Other	1-8 years

Repairs and maintenance costs are recognized as an expense in the statement of comprehensive income at the time they have been incurred. The expenditures increasing the PPE's operational effectiveness as compared with the initially estimated normative data are recognized as capital expenditures and added to the asset's initial cost. These expenditures are amortized using the straight-line method based on the remaining useful

year (the year when the mentioned expenditures have been added to the asset's value); otherwise, they are amortized over the whole useful life of the asset.

Gains and losses on disposals are determined as a difference between net income from the asset's realization and its carrying value, which is recognized in the statement of comprehensive income as an income or expense.

In case of material fluctuations of the PPEs fair (market) value, they are subject to revaluation. The revaluation results are reflected in the order established by the IAS 16.

#### Intangible assets

Intangible assets include computer software.

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

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

#### Borrowings

Borrowings, which include amounts due to customers are initially recognized at fair value of the net income received, less directly attributable transaction costs. After initial recognition, the borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization procedure.

#### Provisions

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

#### Offsetting

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

### 5. Net Interest Income

'000 AMD

	2022	2021
<b>Interest and similar income</b>		
Time deposits with banks	1,228	1,142
Loans provided to customers	453,428	352,958
	<b>454,656</b>	<b>354,100</b>
<b>Interest and similar expense</b>		
Financial lease	(1,699)	(2,953)
Term loans attracted from other commercial entities	(386,764)	(237,326)
	<b>(388,463)</b>	<b>(240,279)</b>
<b>Net interest and similar income</b>	<b>66,193</b>	<b>113,821</b>



**6. Commissions income**

'000 AMD

	2022	2021
<b>Commissions and other income</b>		
Commissions charged to clients	195,398	149,671
Income from fines and penalties	34,199	32,781
	<b>229,597</b>	<b>182,452</b>
<b>Commissions and other expense</b>		
Commissions	(7,112)	(3,110)
	<b>(7,112)</b>	<b>(3,110)</b>
<b>Net Commissions and other income</b>	<b>222,485</b>	<b>179,342</b>

**7. Expenses as regards employees**

'000 AMD

	2022	2021
Expenses regarding salary and other equivalent payments	115,416	95,085
	<b>115,416</b>	<b>95,085</b>

**8. Other General Administrative Expenses**

'000 AMD

	2022	2021
Lease	(9,717)	(9,717)
Advertising, representation expenses	(20,375)	(18,366)
Audit and other consulting services	(19,771)	(18,318)
Non-refundable taxes and dues	(71,986)	(34,706)
Depreciation and amortization	(4,369)	(3,428)
Services received	(26,275)	(17,793)
Telecommunication	(1,549)	(1,258)
Office expenses	(1,942)	(1,322)
Other expenses	(3,793)	(3,353)
	<b>(159,777)</b>	<b>(108,261)</b>

**9. Profit Tax Expense**

'000 AMD

	2022	2021
<b>Current tax expense</b>		
Current profit tax for the year	18,204	-
	18,204	-
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(3,082)	42,265
	<b>(3,082)</b>	<b>42,265</b>
<b>Total tax expense / (income)</b>	<b>15,122</b>	<b>42,265</b>

Temporary differences between the carrying amounts of assets and liabilities used for the preparation of financial statements and the amounts used for tax purposes give rise to net deferred tax assets or liabilities as at 31 December of the years 2022 and 2021.

Movement of temporary differences during the years ended as at 31 December of 2022 and 2021 is presented below:

	Temporary difference		Deferred tax Asset (Liability)	
	2022	2021	2022	2021
Loans to customers	202,121	192,028	(36,382)	(34,565)
Leave provision	5,668	15,385	(1,020)	(2,769)
Leasing	(17,500)	-	3,150	-
	<b>190,289</b>	<b>207,413</b>	<b>(34,252)</b>	<b>(37,334)</b>
<b>Deferred tax deduction (accrual)</b>			<b>3,082</b>	<b>(42,265)</b>

## 10. Cash and Bank accounts

'000 AMD

	2022	2021
Current accounts with banks	104,404	137,063
	<b>104,404</b>	<b>137,063</b>

## 11. Loans provided to Customers

'000 AMD

	2022	2021
Gross Loans provided to customers	3,313,088	2,501,659
Loans impairment reserve	(444,244)	(337,180)
	<b>2,868,844</b>	<b>1,967,281</b>

Analysis of loans and credits by sectors of economic activity

'000 AMD

	2022	2021
Industry	231,784	282,568
Trading	1,300,307	1,024,803
Services	359,187	313,668
Consumer	584,627	243,332
Other	392,939	300,108
	<b>2,868,844</b>	<b>2,164,479</b>

Movement of impairment loss reserve regarding loans and advances:

'000 AMD

	2022	2021
<b>Opening balance</b>	(337,180)	(88,994)
Expense, net	(34,504)	(113,320)
(Write-offs) / return, net	(72,560)	(134,866)
<b>Closing balance</b>	<b>(444,244)</b>	<b>(337,180)</b>

The table below presents information on the indicators of credit quality of loan portfolio provided to customers as at 31 December of 2022 and 2021, in accordance with IFRS 9.

'000 AMD

As at 31/12/2022	Phase 1			Phase 2			Phase 3			Total loans
	Gross	Reserve	Net	Gross	Reserve	Net	Gross	Reserve	Net	
<i>Loans</i>										
Term loans	2,415,551	63,536	2,352,015	-	-	-	-	-	-	2,352,015
<b>Overdue and impaired loans</b>	-	-	-	-	-	-	-	-	-	-
1 - 30 days overdue	-	-	-	328,422	18,134	310,288	-	-	-	310,288
31 - 60 days overdue	-	-	-	-	-	-	-	-	-	-
60 - 90 days overdue	-	-	-	-	-	-	-	-	-	-
91 or more days overdue	-	-	-	-	-	-	569,116	362,574	206,542	206,542
<b>Total loans</b>	<b>2,415,551</b>	<b>63,536</b>	<b>2,352,015</b>	<b>328,422</b>	<b>18,134</b>	<b>310,288</b>	<b>569,116</b>	<b>362,574</b>	<b>206,542</b>	<b>2,868,845</b>

As at 31/12/2021	Phase 1			Phase 2			Phase 3			Total loans
	Gross	Reserve	Net	Gross	Reserve	Net	Gross	Reserve	Net	
<i>Loans</i>										
Term loans	1,774,134	42,899	1,731,235	-	-	-	-	-	-	1,731,235
<b>Overdue and impaired loans</b>	-	-	-	-	-	-	-	-	-	-
1 - 30 days overdue	-	-	-	293,508	20,621	272,887	-	-	-	272,887
31 - 60 days overdue	-	-	-	-	-	-	-	-	-	-
60 - 90 days overdue	-	-	-	-	-	-	-	-	-	-
91 or more days overdue	-	-	-	-	-	-	434,017	73,660	160,357	160,357
<b>Total loans</b>	<b>1,774,134</b>	<b>42,899</b>	<b>1,731,235</b>	<b>293,508</b>	<b>20,621</b>	<b>272,887</b>	<b>434,017</b>	<b>73,660</b>	<b>160,357</b>	<b>2,164,479</b>

**12. Property, Plant and Equipment and Intangible Assets**

'000 AMD

	Computer equipment	Office inventory	Other PPE	Intangible assets	Total
<b>Initial value</b>					
<i>Balance as at 01 January 2021</i>	5,020	3,518	5,133	11,735	25,406
Addition	1,446	609	3,295	1,210	6,560
Disposal	-	-	-	-	-
<i>Balance as at 31 December 2021</i>	6,466	4,127	8,428	12,945	31,966
Addition	2,159	1,412	252	2,460	6,283
Disposal	-	-	-	-	-
<i>Balance as at 31 December 2022</i>	8,625	5,539	8,680	15,405	38,249
<b>Accumulated Depreciation</b>					
<i>Balance as at 01 January 2021</i>	4,975	1,215	1,582	2,292	10,064
Increase	847	518	832	1,231	3,428
Disposal	-	-	-	-	-
<i>Balance as at 31 December 2021</i>	5,822	1,733	2,414	3,523	13,492
Increase	1,365	640	1,044	1,320	4,369
Disposal	-	-	-	-	-
<i>Balance as at 31 December 2022</i>	7,187	2,373	3,458	4,843	17,861
<b>Carrying amount</b>					
as at 31 December 2021	644	2,394	6,014	9,422	18,474
as at 31 December 2022	1,438	3,166	5,222	10,563	20,389

**13. Right of use Asset**

'000 AMD

Right of use Asset

	2022	2021
As at 1 of January	15,384	25,101
Amortization	(9,717)	(9,717)
As at 31 of December	5,667	15,384

Lease liabilities

	2022	2021
As at 1 of January	19,155	29,042
Lease repayment	(11,141)	(9,887)
As at 31 of December	8,014	19,155
Lease payment	12,840	12,840
Interest expense	(1,699)	(2,953)

**14. Other Assets**

'000 AMD

	2022	2021
Accounts receivable	1,650	8,605
Future period expenses	3,087	2,744
Advance payments for taxes and dues	21,371	11,434
Inventory	54	209
	<b>26,162</b>	<b>22,992</b>

**15. Borrowings**

'000 AMD

	2022	2021
Loans received from banks	-	143,062
Borrowings from related parties	2,559,972	1,635,246
	<b>2,559,972</b>	<b>1,778,308</b>

**16. Other Liabilities**

'000 AMD

	2022	2021
Payables to the employees	303	13,352
Payables to the Budget	23,744	3,480
Payables to suppliers	5,652	5,378
Lease payables	8,014	19,155
Liability from exchange differences regarding recalculation of a foreign currency transaction	-	128,317
	<b>37,713</b>	<b>169,682</b>

**17. Charter Capital**

Charter Capital amounts to 570,000 thousand AMD, which is divided into 30,000 ordinary shares; The nominal value of one share is 19,000 AMD. The sole owner is Micro Kapital LLC

**18. Contingent Liabilities***Tax and Legal obligations*

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation and competent authorities.

Management believes that the Organization is carrying on its activity in compliance with all statutory requirements.

Concerning the lawsuits against the Company, Management believes that the resulting liabilities will not have a material effect on the Company's financial condition or the results of future transactions.

**19. Related Party Transactions**

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

The Company has borrowings drawn from the related parties.

'000 AMD

	2022	2021
Borrowings	2,253,035	1,344,729
Interest expense regarding the borrowings	15,509	7,824
Liability from exchange differences regarding recalculation of a foreign currency transaction	0	128,317

Compensations as regards the Company's key management are presented below:

'000 AMD

	2022	2021
Salary and other short-term payments	52,299	49,700
<b>Total compensation as regards key management</b>	<b>52,299</b>	<b>49,700</b>

**20. Maturity Analysis for Financial Assets and Liabilities**

The table below shows the financial assets and liabilities analysis according to their expected settlement periods:

*as at 31 December 2022*

000 AMD

	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	Overdue	Total
<b>Assets</b>							
Cash and bank accounts	104,404						104,404
Loans to customers	5,040	26,168	227,799	1,879,825	650,749	79,263	2,868,844
Other assets	26,162						26,162
	<b>135,606</b>	<b>26,168</b>	<b>227,799</b>	<b>1,879,825</b>	<b>650,749</b>	<b>79,263</b>	<b>2,999,410</b>
<b>Liabilities</b>							
Borrowings attracted	993,002	318,450	1,224,828	23,692	-	-	2,559,972
Other liabilities	37,713						37,713
	<b>239,111</b>	<b>269,976</b>	<b>1,277,055</b>	<b>130,618</b>			<b>2,597,685</b>
<b>Net position</b>	<b>(103,505)</b>	<b>(243,808)</b>	<b>(1,049,256)</b>	<b>1,749,207</b>	<b>650,749</b>	<b>79,263</b>	<b>401,725</b>
<b>Accumulated gap</b>	<b>(705,167)</b>	<b>(948,975)</b>	<b>(1,998,231)</b>	<b>(249,024)</b>	<b>401,725</b>		

*as at 31 December 2021*

000 AMD

	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	Overdue	Total
<b>Assets</b>							
Cash and bank accounts	137,063	-	-	-	-	-	137,063
Loans to customers	236,925	244,365	637,873	942,787	102,529	-	2,164,479
Other assets	22,992	-	-	-	-	-	22,992
	<b>396,980</b>	<b>244,365</b>	<b>637,873</b>	<b>942,787</b>	<b>102,529</b>	<b>-</b>	<b>2,324,534</b>
<b>Liabilities</b>							
Borrowings attracted	109,825	268,010	1,269,856	130,618	-	-	1,778,309
Other liabilities	160,517	1,966	7,199	-	-	-	169,682
	<b>239,111</b>	<b>269,976</b>	<b>1,277,055</b>	<b>130,618</b>			<b>1,947,991</b>
<b>Net position</b>	<b>157,869</b>	<b>(25,611)</b>	<b>(639,182)</b>	<b>812,169</b>	<b>102,529</b>	<b>-</b>	<b>376,543</b>
<b>Accumulated gap</b>	<b>126,638</b>	<b>101,027</b>	<b>(538,155)</b>	<b>274,014</b>	<b>376,543</b>		

## 21. Risk Management

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

Taking risk is at the core of the financial activity, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

Risk management is carried out by the Company's key Management. The Management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes interest rate and other price risks.

### 21.1 Credit risk

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

#### *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.*

The table below presents the worst case scenario of credit risk exposure to the Company as at 31 December 2022 and 2021, without taking account of any collateral held or other credit enhancements attached. In terms of balance sheet assets, the credit risks are based on net carrying amounts.

'000 AMD

	Notes	Maximum gross exposure as at 31/12/2022	Maximum gross exposure as at 31/12/2021
Cash and bank accounts	10	104,404	137,063
Loans to customers	11	2,868,844	2,164,479
Other assets	14	26,162	22,992
<b>Total Credit risk</b>		<b>2,999,410</b>	<b>2,324,534</b>

#### *Risk concentrations of the maximum exposure to credit risk*

##### *Geographical areas*

As at 31 December 2022 and 2021, the Company's credit risks are totally centralized in the Republic of Armenia.

##### *Risk limits control and mitigation policies*

The Company manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and to geographical areas.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Similar risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.



Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

#### *Collateral*

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The analysis of loan portfolio by collateral is presented below:

'000 AMD

	2022	2021
Real estate	119,495	64,012
Equipment	28,936	15,934
Vehicles	1,174,177	291,977
Guarantee	1,439,086	1,232,568
Unsecured loans	107,150	559,988
	<b>2,868,844</b>	<b>2,164,479</b>

#### 21.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk includes currency, interest rate and other price risks. Market risk arises from open interest-rate and currency positions, which tend to be affected by general and specific market changes and market price fluctuations.

**Currency risk**

The Company's currency risk analysis per financial assets and liabilities is as follows:

'000 AMD

as at 31 December 2022	AMD	Freely convertible currency	Non-convertible currency	Total
<b>Assets</b>				
Cash and bank accounts	47,747	56,656		104,403
Loans provided to customers	2,764,804	104,040		2,868,844
Other assets	26,162			26,162
	<b>2,838,713</b>	<b>160,696</b>	<b>-</b>	<b>2,999,409</b>
<b>Liabilities</b>				
Borrowings involved	2,291,386	268,586		2,559,972
Other liabilities	37,713			37,713
	<b>2,329,099</b>	<b>268,586</b>	<b>-</b>	<b>2,597,685</b>
<b>Net position as at 31 December, 2022</b>	<b>509,614</b>	<b>(107,890)</b>	<b>-</b>	<b>401,724</b>

	AMD	Freely convertible currency	Non-convertible currency	Total
<b>Assets</b>				
Cash and bank accounts	117,805	19,258	-	137,063
Loans provided to customers	1,905,681	258,798	-	2,164,479
Other assets	22,992	-	-	22,992
	<b>2,046,478</b>	<b>278,056</b>	<b>-</b>	<b>2,324,534</b>
<b>Liabilities</b>				
Borrowings involved	399,441	1,378,868	-	1,778,309
Other liabilities	169,682	-	-	169,682
	<b>569,123</b>	<b>1,378,868</b>	<b>-</b>	<b>1,947,991</b>
<b>Net position as at 31 December, 2021</b>	<b>1,477,355</b>	<b>(1,100,812)</b>	<b>-</b>	<b>376,543</b>

**21.3 Liquidity risk**

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

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

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2022 and 2021 based on contractual obligations of undiscounted repayments. On demand repayments are classified with the assumption that they will be demanded immediately.

'000 AMD

As at 31 December, 2022	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
<b>Financial liabilities</b>						
Borrowings involved	993,002	318,450	1,224,828	23,692	-	2,559,972
Other liabilities	37,713	-	-	-	-	37,713
<b>Total undiscounted financial liabilities</b>	<b>1,030,715</b>	<b>318,450</b>	<b>1,224,828</b>	<b>23,692</b>	<b>-</b>	<b>2,597,685</b>

As at 31 December, 2021	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
<b>Financial liabilities</b>						
Borrowings involved	109,825	268,010	1,269,856	130,618	-	1,778,309
Other liabilities	160,517	1,966	7,199	-	-	169,682
<b>Total undiscounted financial liabilities</b>	<b>270,342</b>	<b>269,976</b>	<b>1,277,055</b>	<b>130,618</b>	<b>-</b>	<b>1,947,991</b>

## 21. Capital Adequacy

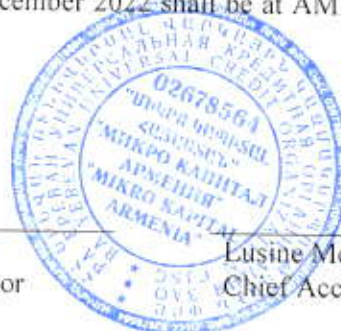
The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and ensure consistent increase in equity.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous year.

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

According to the capital requirements set by the Central Bank of Armenia, the minimal required total capital of the universal credit organizations as of 31 December 2022 shall be at AMD 150,000 thousand (as of 31 December 2021 - at AMD 150,000 thousand).

  
Khachik Nerkararyan  
Chairman of the Board/Executive Director



  
Lusine Movsisyan  
Chief Accountant

14.03.2023