FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2021

FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

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FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

Management of FINCA Universal Credit Organization Closed Joint Stock Company (the "Organization") is responsible for the preparation of the financial statements that present fairly the financial position of The Organization as at December 31, 2021, and the related statements of profit or loss, comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

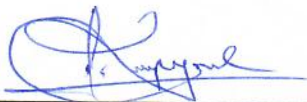
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Organization's financial position and financial performance; and
- Making an assessment of the Organization's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organization;
- Maintaining adequate accounting records that are sufficient to show and explain the Organization's transactions and disclose with reasonable accuracy at any time the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2021 were approved by the Management of the Organization on May 6, 2022.

On behalf of the Management Board:



Vardan Haroyan
Chief Operational officer/
acting Chief Executive Officer

May 6, 2022
Yerevan, Republic of Armenia

Anush Petrosyan
Chief Financial Officer/Chief Accountant

May 6, 2022
Yerevan, Republic of Armenia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FINCA Universal Credit Organization Closed Joint Stock Company:

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matter

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.
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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of expected credit losses (ECL) on loans to customers As at December 31, 2021 and 2020, the Organization reported Loans to customers at amortized cost of 23,117,991 thousand AMD and 24,298,801thousand AMD and ECL of 4,870,267 thousand AMD and 4,488,569 thousand AMD, respectively. For loans assessed on a collective basis, there is a risk of errors in the underlying data used in assessment of the ECL, and assumptions used in assessing probability of default (PD), loss given default (LGD) and inconsistency of historical and forward-looking information with available market based data. Due to the significance and subjectivity of judgements used by management of the Organization, the volume of loans assessed on a collective basis and increased judgement and estimation uncertainty as a result of COVID-19, external economic environment and post-war recoveries, we identified the collective assessment of expected credit losses, particularly the assessment of the probability of default, as a key audit matter. In particular we focused our procedures on the following issues: • The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models to make those calculations; • Timely identification of significant increase in credit risk and event of default based on quantitative and qualitative factors; • Correct allocation of loans to customers to stages.	We obtained understanding of the processes and control procedures related to the loan origination, credit risk management and ECL assessment for collectively assessed loans, including the controls over the timely identification of significant increase in credit risk. We challenged the key assumptions used in collective ECL models, on a sample basis tested input data and analyzed the integrity of those models. Our work included the following procedures: • With the involvement of our actuarial specialists, we tested the mathematical accuracy and computation of the ECL on loans to customers assessed on a collective basis by re-performing and calculating elements of the expected credit losses based on relevant source data. This included assessing the appropriateness of model design and formulas used, considering modelling techniques and recalculating PDs, LGDs and Exposure at default; • We analyzed the principal assumptions in respect of loan falling into default and any recoveries expected from defaulted loans with reference to our knowledge of industry practices, the Organization's actual experience and available and relevant forward looking information; • For sample of loans, we ascertained whether the significant increase in credit risk had been identified in a timely manner including, where relevant, we analyzed borrower's financial and non-financial information, overdue days and checked other relevant impairment events such as forbearance and certain financial performance indicators that had been identified on a timely manner and had reflected the impact of COVID-19.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Refer to Notes 4, 6 and 24 to the financial statements for the description of the Organization's policy and disclosures of gross carrying amounts and related allowances balances.	• On a sample basis, we tested the accuracy and completeness of the key underlying input data (aging, exposure at default, recovery of loans after default, forward looking information). We assessed the accuracy and completeness of the disclosures in the financial statements relating to the loans to customers to ensure compliance with IFRS requirements. We found no material exceptions in these tests.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the Organization for 2021, but does not include the financial statements and our auditor's report thereon. The 2021 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, 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 Responsibilities for the Audit of the Financial Statements

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Srbuhi Hakobyan

Executive Director

Deloitte Armenia CJSC

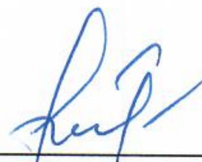
May 6, 2022

FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(In thousand AMD, unless otherwise stated)

	Note	December 31, 2021	December 31, 2020
ASSETS:			
Cash and cash equivalents	5	1,549,987	724,687
Financial assets at fair value through profit or loss		1,885	152
Loans to customers	6	18,247,724	19,810,232
Current income tax assets		51,048	39,814
Right-of-use assets	9	440,189	447,912
Property and equipment	7	120,130	178,728
Intangible assets	8	199,008	253,591
Other assets	10	84,383	83,754
TOTAL ASSETS		**20,694,354**	**21,538,870**
LIABILITIES:			
Debt securities issued	11	3,540,061	5,030,607
Lease liabilities	9	500,013	510,764
Other borrowed funds	12	10,435,446	9,562,356
Deferred income tax liabilities	19	103,042	33,322
Other liabilities	13	279,384	572,409
TOTAL LIABILITIES		**14,857,946**	**15,709,458**
EQUITY:			
Share capital	15	4,905,960	4,905,960
Reserve Fund	15	343,967	343,967
Retained earnings		586,481	579,485
TOTAL EQUITY		**5,836,408**	**5,829,412**
TOTAL LIABILITIES AND EQUITY		**20,694,354**	**21,538,870**

On behalf of the Management Board:



Vardan Haroyan
Chief Operational Officer/
Acting Chief Executive Officer

May 6, 2022
Yerevan, Republic of Armenia

Anush Petrosyan
Chief Financial Officer/Chief Accountant

May 6, 2022
Yerevan, Republic of Armenia

The notes on pages 11-63 form an integral part of these financial statements.

FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousand AMD, unless otherwise stated)

	Notes	2021	2020
Interest income	16	5,344,799	6,499,827
Interest expense	16,25	(1,279,102)	(1,536,214)
Net interest income before impairment losses on interest bearing assets	16	4,065,697	4,963,613
Impairment losses on interest bearing assets	5,6	(1,516,366)	(2,648,743)
Net interest income		**2,549,331**	**2,314,870**
Modification loss on loans to customers	24	(15,692)	(155,631)
Net gain from foreign exchange operations	17	72,775	89,400
Net (loss)/gain on financial assets measured at FVTPL		(26,094)	17,833
Fee and commission expense		-	(14,611)
Net other gain/(loss)	18	161,890	(272,973)
Net non-interest income/(expense)		**192,879**	**(335,982)**
Operating income		**2,742,210**	**1,978,888**
Staff costs		(1,403,556)	(1,748,827)
Depreciation and amortization	7,8,9	(367,619)	(468,060)
Other operating expenses	20,25	(894,319)	(812,091)
Operating expenses		**(2,665,494)**	**(3,028,978)**
Profit/(loss)before income tax		**76,716**	**(1,050,090)**
Income tax (expense)/benefit	19	(69,720)	148,518
Net (loss)/profit for the year		**6,996**	**(901,572)**
Total comprehensive Income/(loss)for the year		**6,996**	**(901,572)**

The notes on pages 11-63 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousand AMD, unless otherwise stated)

	Notes	Share capital	Reserve Fund	Retained earnings	Total equity
Balance as at January 1, 2020		**4,905,960**	**297,765**	**2,023,259**	**7,226,984**
Loss for the year		-	-	(901,572)	**(901,572)**
Total comprehensive loss for the year		-	-	**(901,572)**	**(901,572)**
Dividends declared	15	-	-	(496,000)	**(496,000)**
Transfer to Reserve Fund			46,202	(46,202)	-
Balance as at December 31, 2020		**4,905,960**	**343,967**	**579,485**	**5,829,412**
Profit for the year		-	-	6,996	**6,996**
Total comprehensive income for the year		-	-	**6,996**	**6,996**
Balance as at December 31, 2021		**4,905,960**	343,967	**586,481**	**5,836,408**

The notes on pages 11-63 form an integral part of these financial statements.

FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousand AMD, unless otherwise stated)

	Note	2021	2020
Cash flows from operating activities:			
Profit/(loss) before tax		76,716	(1,050,090)
Adjustments for:			
Depreciation and amortization	7, 8, 9	367,619	468,060
(Gain)/loss on disposal of property and equipment, intangible assets		(7,939)	16,618
Impairment losses on interest bearing assets	5,6	1,516,366	2,648,743
Foreign exchange translation loss/(gain), net		87,904	37,764
Change in provision	18	(126,500)	279,889
Change in other non-cash items		73,221	175,924
Cash flows from operating activities before changes in operating assets and liabilities		**1,987,387**	**2,576,908**
Changes in operating assets and liabilities			
Change in Financial assets at fair value through profit or loss		(27,827)	(302)
Change in interest on derivative financial assets		18,560	150
Change in loans to customers		(712,916)	1,793,295
Change in interest accruals on other borrowed fund, debt securities issued		119,941	15,715
Change in other assets		(13,787)	(21,477)
Change in right-of-use assets and in lease liabilities		822	(2,167)
Change in other liabilities		(52,079)	(61,533)
Change in due to bank		-	(1,209,687)
Change in interest on investment securities		-	(3,078)
Net cash inflow from operating activities		**1,320,101**	**3,087,824**
Cash flows from investing activities:			
Proceeds from sales of property and equipment and intangible assets		7,993	-
Purchase of property and equipment		(31,422)	(24,990)
Purchase of intangible assets		(15,709)	(24,012)
Proceeds from sale of investment securities at amortized cost		-	1,221,451
Net cash (used in)/from investing activities		**(39,138)**	**1,172,449**
Cash flows from financing activities:			
Dividends paid		-	(496,000)
Repayment of lease liabilities	14	(211,211)	(227,917)
Proceeds from borrowed funds	14	14,666,097	10,066,256
Repayment of borrowed funds	14	(13,204,355)	(13,832,651)
Repayment of debt securities issued		(1,400,000)	-
Net cash used in financing activities		**(149,469)**	**(4,490,312)**
Net increase/(decrease) in cash and cash equivalents		**1,131,494**	**(230,039)**
Cash and cash equivalents beginning of the year	5	**724,694**	**704,494**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(306,150)	250,239
Cash and cash equivalents, end of the year	5	**1,550,038**	**724,694**
Supplementary information:			
Interest received		4,061,422	5,106,198
Interest paid		(1,159,161)	(1,523,227)

During the years ended December 31, 2021 the Organization did not obtain any non-cash settlements for uncollectible loans to customers in the form of asset repossession (December 31, 2020: AMD 4,886 thousand).

The notes on pages 11-63 form an integral part of these financial statements.

1. GENERAL INFORMATION

FINCA Universal Credit Organization cjsc (the "Organization") is a closed joint stock Organization - 100% subsidiary of FINCA Microfinance Coöperatief U.A. (Netherlands). The Organization is regulated by the Central Bank of Armenia (the "CBA") and conducts its business under license number 13, granted on 28 March 2006.

The Organization is involved in microfinance and provides individual business, consumer and rural loans. The loans are disbursed both in local and foreign currencies.

The registered office of the Organization is located at 2a, Agatangeghos str., Yerevan, Republic of Armenia.

As at December 31, 2021 the Organization had 30 branches operating in Armenia (December 31, 2020: 39 branches). On January 11, 2021 the Company reorganized the branch network and closed 9 branches by merging them with the closest branches.

The founder of FINCA UCO CJSC is FINCA International, Inc., a tax-exempt not-for-profit corporation incorporated and existing under the laws of the state of New York. In 2011 FINCA International, Inc. transferred 100% of issued shares (136,472 shares) of the Organization to FINCA Microfinance Coöperatief U.A. (a cooperative with exclusion on liability, having its official seat in Amsterdam, the Netherlands) as a member contribution to the Cooperative.

As of December 31, 2021, the members of the Cooperative were:

1. FINCA MICROFINANCE HOLDING COMPANY LLC, a limited liability company registered under the laws of the State of Delaware, United States of America and having its registered address at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States of America. FINCA MICROFINANCE HOLDING COMPANY LLC holds 99 voting rights as a Member A and 1 voting right as a Member B of the Cooperative.
2. FINCA INTERNATIONAL LLC, a limited liability company registered under the laws of the State of Maryland, United States of America and having its registered address at 11 East Chase Street, Baltimore, Maryland 21202, United States of America. FINCA INTERNATIONAL LLC holds 1% voting right of the Cooperative.

As at December 31, 2021 and 2020 the following shareholders owned FINCA MICROFINANCE HOLDING COMPANY LLC:

	December 31,2021	December 31,2020
First level shareholders/ holders of the issued share capital:		
FINCA International LLC	65.89%	65.89%
International Finance Corporation	14.27%	14.27%
KfW	8.87%	8.87%
Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V.	7.25%	7.25%
ASN-NOVIB FONDS	1.66%	1.66%
Triodos Custody B.V.	1.03%	1.03%
Triodos SICAV II	1.03%	1.03%
Total	**100.00**	**100.00**

FINCA International Inc. is a not-for-profit corporation under the laws of the United State of America and as such, its Members hold no ownership in the Organization and have no economic rights. As at December 31, 2021 the Members of FINCA International, Inc. are as follows: Rupert Scofield, John Hatch, Robert Hatch and Richard Williamson. FINCA International Inc. produces publicly available financial statements.

FINCA International Inc. provides low-income people around the world the tools they need to succeed, by offering responsible financial services, such as small loans or savings accounts; by reaching people in remote communities using technology like mobile phones and tablets; and by providing access to life-enhancing products. FINCA operates in communities through affiliated organizations ("affiliates").

The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA. Small loans support investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

2. ADOPTION OF NEW AND REVISED STANDARDS

New and amended IFRS Standards that are effective for the current year

The following amendments and interpretations are effective for the Organization effective January 1, 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*

The above standards and interpretations were reviewed by the Organization's management, but did not have a significant effect on the financial statements of the Organization.

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the Organization has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New or revised standard or interpretation	Applicable to annual reporting periods beginning on or after
IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles).	1 January 2023
Amendments to IAS 8 – "Definition of Accounting Estimates"	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – "Disclosure of Accounting Policies"	1 January 2023
Annual Improvements to IFRS Standards 2018-2020:	
Amendments to IFRS 3 – "Reference to the Conceptual Framework"	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment – Revenue Before Intended Use	1 January 2022
Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – "Loss-making Contracts – Completion Value"	1 January 2022
Amendments to IAS 12 Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Organization in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are presented in thousands of *Armenian Drams ("AMD thousand")*, unless otherwise indicated.

These financial statements have been prepared assuming that the Organization is a going concern and will continue operation for the foreseeable future.

Armenian business environment

Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability.

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Armenian economy, adversely affect the Organization's operations, results of operations, financial conditions and prospects. In times of more severe market stress the Armenian economy and the Organization's performance may be exposed to deterioration.

COVID-19

Further, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in the announcement of the pandemic status by the World Health Organization in March 2020. Measures put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. As a result, the Organization may face increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

The significance of the effect of COVID-19 on the Organization's business largely depends on the duration and the incidence of the pandemic effects on the world and Armenian economy. Towards the mid to end of 2020, the government relaxed certain economic restrictions and business environment limitations given the path of the pandemic, however their scope may be subject to change in response to the uncertain future pandemic developments.

Political instability and military actions in the region

In September 2020, the long-standing Nagorno-Karabakh conflict was escalated with the break of ceasefire regime, which was restored by a treaty signed by the parties involved on 10 November 2020. Since then, Armenia has been in a political and economic turmoil. A number of protests against the results of the treaty have led to extraordinary parliamentary elections being announced, which was held in June 2021.

Further development of the situation may have significant effect on the Organization's business, its financial position and performance in the future, which is difficult to predict, given the degree of uncertainties related to political instability.

Basis of preparation

The Organization maintains its accounting records in accordance with requirements of the Armenian legislation. The Organization makes adjustments and reclassifications for the preparation and presentation of the financial statements in accordance with IFRS.

These financial statements have been prepared on the historical cost basis except for certain financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

The Organization presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months

after the reporting date (non-current) is presented in Note 24.

Going Concern

Management prepared these financial statements on a going concern basis, which contemplates the realization of the Organization's assets and the settlement of the Organization's liabilities in the normal course of business.

The Organization has net profit for the year ended December 31, 2021 amounting AMD 6,996 thousand (2020: Net loss for the amounting AMD 901,572 thousand).

As at December 31, 2021 the Organization's was in breach of several covenants attached to the loans provided by the international financial institutions. The Organization received waivers for all covenant breaches before December 31, 2021.

Management of the Organization believes that the Organization will be able to continue as a going concern based on the following:

The Management is in active negotiations with Lenders with the support of Finca Impact Finance Team to secure the waivers. The Organization has analyzed the cross-default clauses for all agreements with international lenders. Currently the Organization does not have and does not expect of the lenders to issue a notice that the breaches constitute an event of default, which is for the other lenders a trigger point to activate a cross-default clause.

Management of the Organization believes that preparation of the financial statements on the going concern basis is appropriate due to the followings:

1) Maintaining funding contingency plans and monitoring balance sheet liquidity ratios to comply with regulatory requirements.
2) As at December 31, 2021 and subsequent to the reporting date, the Organization did not receive any notices on termination of further funding or notifications with claims of immediate repayment of any loans from the lenders.
3) Subsequent to the reporting date, the Organization has issue debt securities in the amount of AMD 1,400,000 thousand.
4) Subsequent to the reporting date, the Organization has re-paid loans in accordance with schedules agreed in agreements without delays.

The management believes that, based on current forecasts and measures taken to manage liquidity,and also taking into account the economic situation in the country in connection with the COVID-19 pandemic and the strengthening of the national currency, the Organization has enough funds to continue its activities in the foreseeable future.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Organization operates ("the functional currency"). Armenian dram ("AMD") is the currency of the RA and the Organization's functional and presentation currency. All financial information is presented rounded to the nearest thousands of dram, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Organization.

The principal accounting policies are set out below. Accounting policies presented herein have been consistently applied throughout the entire periods presented in these financial statements.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing 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 items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognized in comprehensive income in the month when they arise.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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

	Average Rate		Spot Rate	
	2021	2020	December 31, 2021	December 31, 2020
AMD/1 US Dollar	503.73	491.65	480.14	522.59
AMD/1 Euro	596.40	559.30	542.61	641.11

Interest income and expense recognition. Interest income and expense for financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any

expected credit loss allowance), or to the amortized cost of financial liabilities. For credit- impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

Financial instruments

Recognition and initial measurement. Financial assets and financial liabilities are recognized in the Organization's financial position when the Organization becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and subsequent measurement. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Financial assets. 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 (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI 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.

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

On initial recognition, financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, the Organization may irrevocably designate such financial asset to be

measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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. If the business model under which the Organization holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Organization's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Organization holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets. IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Organization recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Organization under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

The Organization measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in note 24, including details on how instruments are grouped when they are assessed on a collective basis.

The Organization's financial assets classified into the measurement categories are as following:

Financial assets	Business Model	SPPI	Measurement Category
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Derivative financial instruments	Other business model	Cash flows are not solely payments of principal and interest	FVTPL (Mandatory)
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Investment securities	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost

Credit-impaired financial assets. 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- 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;
- The disappearance of an active market for a security because of financial difficulties; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Organization recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain. The Organization did not purchase or originate any credit-impaired financial assets during years 2021 and 2020.

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:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value;
- For loan commitments and financial guarantee contracts: as a provision; and
- 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.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Organization renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Organization assesses whether this modification results in derecognition. In accordance with the Organization's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Organization considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Organization deems the arrangement is substantially different leading to derecognition.
- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If the terms are substantially different, the Organization derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Organization recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Organization derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Organization neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Organization recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Organization retains substantially all the risks and rewards of ownership of a transferred financial asset, the Organization continues to recognize the financial asset.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.
The Organization considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract is unlikely to be paid to the Organization in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Organization takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Organization uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

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 and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Organization uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement in PD;
- Forbearance status; and
- A backstop of 30 days past due.

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the bank is reasonably confident that a borrower is able to service the renewed payment schedule.

During 2020 a number of loans were provided 2 months grace period during the state of emergency declared in the country and the lockdown imposed related to COVID-19 pandemic outbreak . All those loans were reclassified to Stage 2, and subsequently after making six consecutive repayments without any delays were considered as cured and transferred to Stage 1. The gross carrying amount of cured loans in Stage 1 as of December 31, 2021 is AMD 782,824 thousand of (December 31, 2020: AMD 3,017,218 thousand).

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that forms the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Armenia's economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

Write-off. Financial assets are written off when the Organization has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event. The Organization may apply enforcement activities to financial assets written off. Recoveries resulting from the Organization's enforcement activities will result in impairment gains.

The write-off policy is determined by an analysis of recovery curves occurring congruently with IFRS 9 back-testing and model calibration to determine the point at which less than 10% (ten percent) of the marginal remaining amount of a portfolio can be reasonably expected to be collected, up to a maximum of 24 months in default ("MID") for Stage 3 loans.

Three conditions must be considered in the analysis of the recovery curve before any reversion to expert judgment due to ambiguity in interpretation of the steps below:

1) The shape of the curve – whether the curve's acceleration function as defined by time towards the highest or "ultimate" recovery rate is monotone (i.e. "gradual") or rapid (i.e. "steep");
2) The scale of the ultimate recovery rate – ranging between 0% to 100%, whether the magnitude of recovery rate is large or small; and
3) Adoption of an absolute or relative application of the 10% criteria noted in the preceding paragraph – whether after consideration of the condition no. 1 and 2 above, evidence of a monotone and large scale requires application of a write-off criteria of the ultimate recovery rate less 10% (i.e. the absolute application) or a rapid and small scale requires application of a criteria of the ultimate rate multiplied by 0.9.

Financial liabilities at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss account.

Other financial liabilities. Other financial liabilities, including borrowings, debt securities issued are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" below.

Derecognition of financial liabilities. The Organization derecognizes financial liabilities when, and only when, the Organization's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank 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 is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Derivative financial instruments. The Organization enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Net interest income. Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities' and 'Net gain/(loss) on other financial instruments at FVTPL'.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Organization's statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Organization assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Organization are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Organization's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Organization's own equity instruments.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Property and equipment. Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

- Communication devices and computers	— 3 years;
- Office equipment	— 5 years;
- Vehicles	— 5 years;
- Other	— 5 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Organization will obtain ownership by the end of the lease term or renew the lease term.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. The useful lives of software is determined 20 years and for licensees 4 years. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Organization reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Organization estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Organization's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Organization is able to control the reversal of the temporary difference and it is probable that the temporary difference will not

reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions. Provisions are recognised when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that the Organization will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Collateral. The Organization obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Organization a claim on these assets for both existing and future customer liabilities.

Segment reporting. An operating segment is a component of the Organization that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Organization's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Operating Segments. Management does not review separately the operating results of

any of the components of the Bank. Assets are concentrated primarily in the Republic of Armenia, and the majority of revenues and profit is derived from operations in, and connected with, the Republic of Armenia. The Chief Operating Decision Maker, in the case of the Organization, the Board of Directors, only receives and reviews the information on the Organization as a whole. The Organization's IFRS operating results such as interest income, net interest income and net profit are regularly reviewed by the Board of Directors to make decisions about the types of the Organization's reportable segments in order to assess its performance and future resources allocation.

In the application of the Organization's accounting policies the Organization management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Organization's accounting policies the Organization management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgments is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Measurement of the expected credit loss allowance. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses).
A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Measurement of CBA provision. The measurement of the provision of CBA is based on the application of the following terms and regulations:

- For 2020 AMD 240,000 thousand provision was booked based on the CBA inspection act:
- in relation to violation of the Art. 13 (1) of the RA Law "On Consumer Credits", for the loans issued during the period from January 1, 2018 until July 20, 2020 taking for basis 365 days instead of 360 days; and
- in relation to the violation of Art. 10 (2) of the RA Law "On Consumer Credits" and clause 86 (3) of the regulation 8/05 for loans issued during the period from January 1, 2018 until December 31, 2020.

There was uncertainty in relation to the period applied for the calculation of the provision. During the year 2021 the CBA provision was recalculated to the amount of AMD 113,500 thousand as per additional clarification from the CBA instructing to apply recalculation of the provision for the violation of Art. 10 (2) of the RA Law "On Consumer Credits" and clause 86 (3) of the regulation 8/05 for loans issued during the period from 16 August 2019. As a result an income of AMD 126,500 thousand was booked.

5. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	605,699	190,628
Correspondent accounts	944,339	534,066
	1,550,038	**724,694**
Less: expected credit losses	*(51)*	*(7)*
Total cash and cash equivalent	**1,549,987**	**724,687**

A reconciliation of the Expected credit loss allowance by stages in accordance with IFRS 9 is as follows:

	Stage 1	Total
Expected credit losses at January 1, 2020	**899**	**899**
Recovery of provision	(892)	(892)
Expected credit losses at December 31, 2020	**7**	**7**
Provision charge	44	44
Expected credit losses at December 31, 2021	**51**	**51**

As at December 31, 2021 correspondent accounts are held with resident commercial banks, with 81.7% of the balance held at three resident commercial banks. As at December 31, 2020 the Organization has 81.8% of the balance held in three financial institution.

6. LOANS TO CUSTOMERS

	December 31, 2021	December 31, 2020
Loans customers at amortized cost	23,117,991	24,298,801
Less: Expected credit losses	(4,870,267)	(4,488,569)
Total loans to customers	**18,247,724**	**19,810,232**

Loans to customers comprise:

	December 31, 2021			
	Gross loans	Expected credit losses	Net loans	Expected credit losses on gross loans, %
Individual rural loans	12,556,617	(2,520,618)	10,035,999	20.1%
Individual business loans	6,886,862	(1,184,909)	5,701,953	17.2%
Consumer loans	3,674,512	(1,164,740)	2,509,772	31.7%
Total loans to customers	**23,117,991**	**(4,870,267)**	**18,247,724**	**21.1%**

	December 31, 2020			
	Gross loans	Expected credit losses	Net loans	Expected credit losses on gross loans, %
Individual rural loans	13,159,094	(2,140,871)	11,018,223	16.3%
Individual business loans	6,792,891	(1,336,288)	5,456,603	19.7%
Consumer loans	4,346,816	(1,011,410)	3,335,406	23.3%
Total loans to customers	**24,298,801**	**(4,488,569)**	**19,810,232**	**18.5%**

The balances as at reporting date represent the remaining balances of the respective product portfolio. Loans to customers per industry groups are presented below:

	December 31, 2021		December 31, 2020	
	Gross loan portfolio	Gross loan portfolio, %	Gross loan portfolio	Gross loan portfolio, %
Agriculture	12,922,509	55.90%	13,695,466	56.36%
Service	4,158,855	17.99%	4,791,741	19.72%
Trade	3,761,204	16.27%	3,184,063	13.10%
Production	786,060	3.40%	849,593	3.50%
Transport	660,728	2.86%	769,154	3.17%
Construction	49,012	0.21%	90,927	0.37%
Other	779,623	3.37%	917,857	3.78%
Gross loans to customers	**23,117,991**	**100.00%**	**24,298,801**	**100.00%**

The analysis of changes for loan expected credit losses is presented in the table below:

	Agriculture	Trade	Production	Transport	Construction	Service	Other	Total
January 1, 2020	**1,068,409**	**434,597**	**110,747**	**82,388**	**53,621**	**469,815**	**118,910**	**2,338,487**
Provision charge	1,432,385	154,083	46,910	98,318	17,136	876,630	28,051	**2,653,513**
Recovery previously written-off loans	147,782	88,461	28,113	9,996	9,790	10,199	94,466	**388,807**
Write-off of loans to customers	(520,008)	(186,216)	(56,379)	(50,011)	(34,204)	(169,008)	(160,155)	**(1,175,981)**
Interest income adjustment on Stage 3 loans	62,719	21,967	2,661	2,749	1,198	37,866	498	**129,658**
Foreign exchange differences	75,269	21,878	5,606	5,215	2,336	38,781	5,000	**154,085**
December 31, 2020	**2,266,556**	**534,770**	**137,658**	**148,655**	**49,877**	**1,264,283**	**86,770**	**4,488,569**
Provision charge/(recovery)	969,856	25,557	(680)	33,279	20,961	257,357	209,992	**1,516,322**
Recovery previously written-off loans	122,876	91,369	25,278	16,079	8,578	25,437	91,903	**380,720**
Write-off of loans to customers	(695,016)	(168,514)	(50,781)	(49,379)	(44,092)	(335,026)	(214,099)	**(1,556,907)**
Interest income adjustment on Stage 3 loans	126,650	23,035	5,700	6,343	325	54,150	4,642	**220,845**
Foreign exchange differences	(134,963)	(24,202)	(4,102)	(8,146)	(193)	(4,384)	(3,292)	**(179,282)**
December 31, 2021	**2,655,959**	**482,015**	**113,073**	**146,831**	**35,456**	**1,261,817**	**175,116**	**4,870,267**

Analysis of collateral and other credit enhancements

The Organization closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Organization will take possession of collateral to mitigate potential credit losses. At December 31, 2021 and 2020 financial assets and related collateral held in order to mitigate potential losses are shown below:

	31 December 2021	31 December 2020
Loans collateralised by movable property	1,841,191	2,272,897
Loans collateralised by non-movable property	5,162,961	3,881,761
Total secured loans	**7,004,152**	**6,154,658**
Unsecured loans – express loans	13,783,043	16,331,179
Total unsecured loans	**13,783,043**	16,331,179
Total loans	**20,787,195**	**22,485,837**
Accrued interest receivable	2,158,436	1,557,950
Unamortized origination and service fees, net	172,360	255,014
Less - Allowance for expected credit losses	(4,870,267)	(4,488,569)
Loans to customers	**18,247,724**	**19,810,232**

As at December 31, 2021 and 2020 all loans to customers (100% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region.

For other disclosures on loans to customers (staging and etc.) see note 24.

7. PROPERTY AND EQUIPMENT

	Leasehold improvements	Communication devices and computers	Office equipment	Vehicles	Other	Total
At cost						
January 1, 2020	**334,516**	**498,945**	**336,557**	**77,826**	**216,044**	**1,463,888**
Additions	7,965	8,352	4,854	-	3,819	**24,990**
Write off	(57,045)	-	-	-	-	**(57,045)**
December 31, 2020	**285,436**	**507,297**	**341,411**	**77,826**	**219,863**	**1,431,833**
Additions	4,053	21,335	3,055	1,248	1,731	**31,422**
Write off	(16,515)	-	(15,092)	(16,000)	(3,165)	**(50,772)**
Transfers between PPE subcategories	(865)	92	68	-	705	-
December 31, 2021	**272,109**	**528,724**	**329,442**	**63,074**	**219,134**	**1,412,483**
Accumulated depreciation						
January 1, 2020	**250,968**	**342,109**	**304,607**	**77,561**	**205,139**	**1,180,384**
Depreciation charge	26,181	64,655	14,578	116	7,617	**113,147**
Write off	(40,426)	-	-	-	-	**(40,426)**
December 31, 2020	**236,723**	**406,764**	**319,185**	**77,677**	**212,756**	**1,253,105**
Depreciation charge	18,743	51,540	10,303	547	4,801	**85,934**
Write off	(13,954)	-	(13,648)	(16,000)	(3,084)	**(46,686)**
Transfers between PPE subcategories	(756)	151	9	-	596	-
December 31, 2021	**240,756**	**458,455**	**315,849**	**62,224**	**215,069**	**1,292,353**
Net book value						
As at December 31, 2021	**31,353**	**70,269**	**13,593**	**850**	**4,065**	**120,130**
As at December 31, 2020	**48,713**	**100,533**	**22,226**	**149**	**7,107**	**178,728**

As at December 31, 2021 and 2020, the cost of fully depreciated assets that are still in use comprised AMD 902,034 thousand and AMD 889,537 thousand respectively.

The Organization did not have any pledged property and equipment as at December 31, 2021 and 2020.

8. INTANGIBLE ASSETS

	Total
At cost	
January 1, 2020	**623,148**
Additions	24,012
December 31, 2020	**647,160**
Additions	15,709
December 31, 2021	**662,869**
Accumulated amortization	
January 1, 2020	**290,679**
Amortization charge	102,890
December 31, 2020	**393,569**
Amortization charge	70,292
December 31, 2021	**463,861**
Net book value	
As at December 31, 2021	**199,008**
As at December 31, 2020	**253,591**

Intangible assets mainly consist of software

9. RIGHT OF USE ASSETS

Right-of-use assets	**Buildings**	**Total**
Cost		
As at January 1, 2020	976,174	**976,174**
Additions	147,809	**147,809**
Lease terminations	(258,647)	**(258,647)**
31 December 2020	865,336	**865,336**
Additions	244,528	**244,528**
Lease terminations	(101,896)	**(101,896)**
As at December 31, 2021	1,007,968	**1,007,968**
Accumulated depreciation		
As at January 1, 2020	259,360	**259,360**
Charge for the year	252,023	**252,023**
Lease terminations	(93,959)	**(93,959)**
31 December 2020	417,424	**417,424**
Charge for the year	211,393	**211,393**
Lease terminations	(61,038)	**(61,038)**
As at December 31, 2021	567,779	**567,779**
Carrying amount		
As at December 31, 2020	**447,912**	**447,912**
As at December 31, 2021	**440,189**	**440,189**

The Organization leases several buildings. The average lease term is 5 years.

The maturity analysis of lease liabilities is presented in note 24.

	December 31, 2021	December 31, 2020
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	211,393	252,023
Interest expense on lease liabilities	63,361	85,483
Gain from lease concession	646	11,854
Gain from lease termination	4,032	15,336

The total cash outflow for leases amount to AMD 274,572 thousand.

Lease Liability

	December 31, 2021	December 31, 2020
Maturity analysis:		
Year 1	205,567	257,238
Year 2	165,514	170,161
Year 3	118,654	100,694
Year 4	75,188	57,373
Year 5	37,831	23,979
Year 6	9,120	9,420
Year 7	6,080	7,134
	617,954	**625,999**
Less: unearned interest	(117,941)	(115,235)
	500,013	**510,764**
Analyzed as:		
Non-current	345,720	305,322
Current	154,923	205,442
	500,013	**510,764**

Lease liability movements are presented in note 14.

10. OTHER ASSETS

	December 31, 2021	December 31, 2020
Other financial assets		
Account receivable for money transfer systems	17,683	16,251
Other receivables	659	1,759
Total other financial assets	**18,342**	**18,010**
Other non-financial assets		
Repossessed assets	20,109	19,569
Prepaid taxes (other than profit tax) and other liabilities to the budget	19,886	22,275
Prepayments for the goods and services	13,148	14,142
Inventory	11,827	8,735
Other	1,071	1,023
Total other assets	**84,383**	**83,754**

11. DEBT SECURITIES ISSUED

	CCY	Date of issue	Maturity date month/year	Annual coupon/ interest rate %	December 31, 2021	December 31, 2020
Debt securities issued	AMD	24/04/19	26/09/22	10.5	1,541,043	1,540,672
Debt securities issued	AMD	26/04/19	26/04/22	10.5	1,018,764	1,018,170
Debt securities issued	USD	25/02/19	25/02/22	6	980,254	1,066,500
Debt securities issued	AMD	18/12/18	20/12/21	10.5	-	1,405,265
Total debt securities issued					**3,540,061**	**5,030,607**

During 2019 year there were four issuance of the debt securities on the nominal amounts of AMD 1,500,000 thousand, AMD 1,400,000 thousand, AMD 1,000,000 thousand and USD 2,000 thousand in accordance with the table above.

12. OTHER BORROWED FUNDS

	Weighted average nominal interest rate	December 31, 2021	Weighted average nominal interest rate	December 31, 2020
International financial institutions	7.20%	5,353,928	8.20%	5,187,236
Central Bank of Armenia	6.30%	3,092,140	6.40%	85,192
Other financial institutions	11.10%	1,102,201	9.60%	2,355,245
FINCA Microfinance Holding	6.40%	887,177	6.70%	1,934,683
Total other borrowed funds		**10,435,446**		**9,562,356**

As at December 31, 2021 the Organization has borrowings from five financial institutions (December 31 2020: seven financial institutions) whose balances each exceed 10% of equity. The value of these balances as at December 31, 2021 is AMD 6,485,344 thousand (December 31 2020: AMD 8,874,137 thousand).

On June 28, 2021 the Organization has concluded loan agreement with the Central Bank of Armenia under the framework of "MSME Support" Program between the Central Bank of Armenia and KfW bank of the Federal Republic of Germany. The administration of the loan is conducted by the German Armenian Fund Project Management Unit (PMU GAF). The lending within the Program is based on refinancing principles, which means that the Organization first provides loans out of their own funds, and afterwards apply to PMU GAF for refinancing. If the provided loans comply with the Program requirements, the Central Bank of Armenia refinances those loans. The loans are provided in local currency only and for the period of five years. There are a number of financial institutions in the Republic of Armenia who participate in the Program and are bound to the same terms and conditions. The interest rate is being determined by the Advisory council twice a year, based on the refinancing rate set by the Central Bank and the average yield of 5 year Government Bonds, as well as the overall trend of the SME loans pricing in the market. At the same time, the Advisory Council sets the maximum effective interest rate that can be charged from the clients under the GAF Program loans. As at December 31, 2021 the outstanding balance of loans under "MSME Support" program was AMD 1,578,287 thousand (no balance as at December 31, 2020).

On May 20, 2021 the Organization has concluded loan agreement with the Central Bank of Armenia under the framework of «Agricultural Sector Support" Program (third stage) between the Central Bank of Armenia and KfW bank of the Federal Republic of Germany. The administration of the loan is conducted by the German Armenian Fund Project Management Unit (PMU GAF). The lending within the Program is based on refinancing principles, which means that the Organization first provides loans out of their own funds, and afterwards apply to PMU GAF for refinancing. If the provided loans comply with the Program requirements, the Central Bank of Armenia refinances those loans. The loans are provided in local currency only and for the period of five years. There are a number of financial institutions in the Republic of Armenia who participate in the Program and are bound to the same terms and conditions. The interest rate is being determined by the Advisory council twice a year, based on the refinancing rate set by the Central Bank, as well as the overall trend of the agricultural loans pricing in the market. At the same time, the Advisory Council sets the maximum effective interest rate that can be charged from the clients under the GAF Program loans. As at December 31, 2021 the outstanding balance of loans under "Agricultural Sector Support" program was AMD 1,467,979 thousand(no balance as at December 31, 2020).

Management of the Organization believes that there are no other financial instruments similar to the other borrowed funds received from CBA and due to the specific nature of clients and conditions of the lending, availability of the funds to other participants such as other commercial banks, these products represent a separate market. As a result, other borrowed funds from the CBA were received in an orderly transaction and as such have been recorded at fair value at the initial recognition date.

The Organization is obligated to comply with financial covenants in relation to other borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios.

As at December 31, 2021, the Organization breached certain financial covenants required by some of its borrowing agreements with international financial institutions and FINCA Microfinance Holding relating to the portfolio quality and the positive profitability. The borrowed amounts as at reporting date, in respect of which the covenant breach had taken place, amounted to AMD 2,563,885 thousand.

The Organization has obtained waivers from the lenders before the 2021 year end and for the purposes of the Organization's liquidity position analysis as at December 31, 2021, the Organization haven't made any reclassifications for the borrowings as these loans will be repaid according to their contractual terms.

As at December 31, 2020 the Organization includes all the borrowings from international financial institutions as on demand as according to agreements with international institutions there are cross default clauses, see Note 24.

These liabilities are measured at amortised cost.

Other borrowed funds are to be repaid as follows:

	December 31, 2021	December 31, 2020
Year 1	5,335,769	8,577,753
Year 2	1,973,572	962,220
Year 3	1,568,625	17,858
Year 4	774,097	3,016
Year 5	783,383	1,509
	10,435,446	**9,562,356**

13. OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Other financial liabilities:		
CBA provision	34,125	240,000
Payables for services	31,026	12,499
Other	13,351	-
Provision for business reorganization	-	39,890
	78,502	**292,389**
Other non-financial liabilities:		
Unused vacation reserve	93,911	164,624
Taxes payable, other than income tax	75,207	94,850
Other	31,764	20,546
Total other liabilities	**279,384**	**572,409**

14. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Organization's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Organization's statement of cash flows as cash flows from financing activities.

					Non-cash changes			
	January 1, 2021	Proceeds - cash flows	Repayments – cash flows	Interest payment	Interest expense	Foreign currency revaluation	New leases, modification and rent concessions	December 31, 2021
Other Borrowed funds	9,562,356	14,666,097	(13,204,355)	(625,145)	749,200	(712,707)	-	10,435,446
Debt securities issued	5,030,607	-	(1,400,000)	(470,655)	466,541	(86,432)	-	3,540,061
Lease liabilities	510,764	-	(211,211)	(63,361)	63,361	-	200,460	500,013
	15,103,727	**14,666,097**	**(14,815,566)**	**(1159,161)**	**1,279,102**	**(799,139)**	**200,460**	**14,475,520**

					Non-cash changes			
	January 1, 2020	Proceeds - cash flows	Repayments – cash flows	Interest payment	Interest expense	Foreign currency revaluation	New leases, modification and rent concessions	December 31, 2020
Other Borrowed funds	12,513,956	10,066,256	(13,832,651)	(936,968)	949,063	802,700	-	9,562,356
Debt securities issued	4,940,839	-	-	(467,342)	470,962	86,148	-	5,030,607
Lease liabilities	784,918	-	(227,917)	(88,211)	85,483	-	(43,509)	510,764
	18,239,713	**10,066,256**	**(14,060,568)**	**(1,492,521)**	**1,505,508**	**888,848**	**(43,509)**	**15,103,727**

(i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

15. EQUITY

As at December 31, 2021 and 2020 Organization's registered, issued, outstanding and fully paid share capital consisted of 490,596 ordinary shares respectively with par value of AMD 10,000 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the annual and general meetings of the Organization.

The share capital of the Organization was contributed by the shareholders in AMD and they are entitled to dividends and any capital distribution in AMD.

The Organization's distributable reserves among shareholders are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations. The reserve fund of the Organization is formed by compulsory annual deductions in the amount of 5% equivalent to 2020: AMD 46,202 thousand from net IFRS profits of the Organization until the fund reaches 15% of its Share capital.

16. NET INTEREST INCOME

	2021	2020
Interest income		
- Loans to customers	5,320,815	6,405,799
- Investment securities at amortized cost	-	76,989
- Cash and cash equivalents	23,984	17,039
Total interest income	**5,344,799**	**6,499,827**
Interest expense		
- Other borrowed funds	(749,200)	(959,147)
- Debt securities issued	(466,541)	(470,962)
- Lease liability	(63,361)	(85,483)
- Repurchase agreements	-	(20,622)
Total interest expense	**(1,279,102)**	**(1,536,214)**
Net interest income before impairment losses on interest bearing assets	**4,065,697**	**4,963,613**

The penalties are calculated on the accrual basis and are included on overdue principle and interest amounts. In 2021 the amount is AMD 1,031,403 thousand (2020: the amount is AMD 532,403 thousand). As the main part of overdue amounts are loans in stage 3, there is ECL calculated over the penalty accrued as of December 31, 2021 in the amount of AMD 831,831 thousand (2020: AMD 412,765 thousand).

17. NET GAIN FROM FOREIGN EXCHANGE OPERATIONS

	2021	2020
Gain from foreign exchange trading, net	160,679	127,164
Foreign exchange translation loss, net	(87,904)	(37,764)
Total net gain from foreign exchange operations	**72,775**	**89,400**

18. NET OTHER GAIN/(LOSS)

	2021	2020
CBA provision gain/(loss) (Note 13)	126,500	(240,000)
Income from sale of PPE	8,084	-
Gain from lease termination	4,032	15,336
Gain from lease concession	646	11,854
Income from grant	-	7,749
Write-off of leasehold improvements	(4,177)	(16,619)
Expense related to reorganization	-	(55,699)
Penalty on early repayment of the loan	-	(20,319)
Other	26,805	24,725
NET OTHER GAIN/(LOSS)	**161,890**	**(272,973)**

19. INCOME TAXES

The Organization measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia where the Organization operates, which may differ from IFRS.

The Organization is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 18% payable by corporate entities in the Republic of Armenia on taxable profits (as defined) under tax law in that jurisdiction.

Deferred tax assets/(liabilities) as at December 31, 2021 and 2020 comprise:

	December 31, 2021	December 31, 2020
Deferred tax liabilities in relation to:		
Loans to customers	(511,595)	(163,499)
Property and equipment	26,685	26,913
Leases	8,249	11,125
Other assets	-	(1,100)
Borrowed funds	-	4,066
Tax losses carry-forward	316,787	-
Other liabilities	56,832	89,173
Net deferred tax liability	**(103,042)**	**(33,322)**

As per tax legislation of the Republic of Armenia the tax loss may be carried forward for 5 year. The management expects to utilize the tax loss within the next 2-3 years.

The deferred tax liability increased during year 2021 as a result of increased provisioning per regulatory requirements which is being used for determining the carrying amount of loans to customers for tax purposes. The provisioning per regulatory requirement is based on both objective and subjective criteria. Per subjective criteria, information on the performance of loans in other financial institutions is being

used taking the stricter classification for provisioning. During the COVID19 pandemic outbreak as well as subsequent conflict on the border the report on the credit history of clients in other financial institutions was not available and only objective criteria (number of overdue days in the Organization) was used for the regulatory provisioning. The report was first time available in April 2021 after one year period, resulting in significant increase in the subjective provisioning.

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Profit/(loss) before income tax	**76,716**	**(1,050,090)**
Tax at the statutory tax rate (18%)	13,809	(189,016)
Tax effect of permanent differences	55,911	17,887
Prior years related current tax expense	-	22,611
Income tax expense /(benefit)	**69,720**	**(148,518)**
Current income tax expense	-	48,244
Current income tax expense – prior years	-	22,611
Deferred tax expense/(benefit) recognized in the current year	69,720	(219,373)
Income tax expense /(benefit)	**69,720**	**(148,518)**

Deferred income tax liabilities	**2021**	**2020**
As at January 1 – deferred tax liabilities	(33,322)	(252,695)
Origination and reversal of temporary differences recognized in profit or loss	(69,720)	219,373
As at December 31 – deferred tax liabilities	**(103,042)**	**(33,322)**

20. OPERATING EXPENSES

	2021	2020
Royalty	(116,542)	(154,882)
Information technology expenses	(165,918)	(150,379)
Taxes, other than income tax	(157,167)	(75,129)
Professional services	(73,704)	(78,706)
Insurance	(70,351)	(67,841)
Communications	(51,269)	(56,777)
Property and equipment maintenance	(48,636)	(8,838)
Utilities	(32,332)	(38,641)
Bank charges	(27,551)	(15,624)
Office supplies	(20,379)	(41,018)
Security expenses	(19,158)	(23,406)
Representative expenses	(17,985)	(1,005)
Cash collector's service expenses	(16,802)	(10,671)
Financial system mediator expenses	(14,667)	(18,020)
Advertising costs	(12,480)	(8,702)
Business trip expense	(8,813)	(8,983)
Training costs	(580)	(3,011)
Other expenses	(39,985)	(50,458)
Total operating expenses	**(894,319)**	**(812,091)**

Royalty is being paid as percentage of operating income and may vary from 1.5%-2% depending on the size of the operating income. Withholding tax is being paid on it.

21. COMMITMENTS AND CONTINGENCIES

21.1. Capital commitments

The Organization had no capital commitments as at December 31, 2021 and 2020, respectively.

21.2. Legal proceedings

From time to time and in the normal course of business, claims against the Organization are received from customers and counterparties. Management is of the opinion that no material non-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

21.3. Taxation

Commercial legislation of the Republic of Armenia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Organization's business activities, was to be challenged by the tax authorities, the Organization may be assessed additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

22.1. Fair value of the Organization's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Organization's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ Liabilities	Fair value as at December 31, 2021	Fair value as at December 31, 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss: - currency swaps	1,885	152	Level 2	Discounted cash flows, Future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A

22.2. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Because of the short-term nature of most financial assets and financial liabilities, management believes that their carrying amounts approximate their fair values. For certain other financial assets and financial liabilities, management uses discounted cash flows to estimate fair values. Interest rates used to discount these estimated cash flows are based on the government bond yield curve at the reporting date plus currency, maturity of the instrument and credit risk of the counterparty.

	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
- Loans to customers	18,247,724	17,734,421	19,810,232	20,012,388
Financial Liabilities				
- Debt securities issued	3,540,061	3,547,256	5,030,607	5,135,286
- Other borrowed funds	10,435,446	10,395,842	9,562,356	9,536,981
- Lease liabilities	500,013	495,945	510,764	506,813

The following methods and assumptions are used by the Bank to estimate the fair value of financial instruments not carried at fair value.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the loans through the estimated maturity using market rates in micro finance segment, where company operates, as at the respective year-end. The estimated fair value of Loans to customers is categorised into Level 3 category as the fair values have been calculated based on the unobservable inputs.

Other borrowed funds

The estimate was made by discounting the scheduled future cash flows of the other borrowed funds through the estimated maturity using market rates as at the respective year-end. The estimated fair value of Borrowed funds is categorised into Level 3 category as the fair values have been calculated based on the unobservable inputs.

Debt securities issued

The estimate was made by discounting the scheduled future cash flows of the debt securities issued through the estimated maturity using market quoted prices as at respective year-end. The estimated fair value of Debt securities issued is categorised into Level 2 category as the fair values have been calculated based on the observable inputs (quoted prices are available publicly on Armenian Securities Exchange web site)

Lease liabilities

The estimate was made by discounting the scheduled future cash flows of lease liabilities through the estimated maturity using market rates as at the respective year-end. The estimated fair value of lease

liabilities is categorised into Level 3 category as the fair values have been calculated based on the unobservable inputs.

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans to customers	-	-	17,734,421	**17,734,421**
Financial Liabilities				
Debt securities issued	-	3,547,256	-	**3,547,256**
Other borrowed funds	-	-	10,395,842	**10,395,842**
Lease liabilities	-	-	495,945	**495,945**

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans to customers	-	-	20,012,388	**20,012,388**
Investment securities	-	-	-	**-**
Financial Liabilities				
Debt securities issued	-	5,135,286	-	**5,135,286**
Other borrowed funds	-	-	9,536,981	**9,536,981**
Lease liabilities	-	-	506,813	**506,813**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. There hadn't been a transfer between different levels of the fair value hierarchy.

23. CAPITAL RISK MANAGEMENT

The Organization manages its capital to ensure that the Organization will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The CBA sets and monitors capital requirements for the Organization. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2021 have to maintain a minimum share capital of AMD 150,000 thousand (December 31, 2020: AMD 150,000 thousand).

As per CBA regulatory requirement, which became effective in 2011, credit organizations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments; have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. In 2013 the Organization changed its charter so that it has the right to conduct foreign exchange cash transactions as a separate activity, thus the Organization has to measure and comply with this statutory capital requirements and capital ratio. As at December 31, 2021, total capital requirements was AMD 1,000,000 thousand (December 31, 2020: AMD 1,000,000 thousand) and minimum capital ratio level was 12% (December 31, 2020:12%).

The calculation of statutory capital ratio based on requirements set by the Central Bank of Armenia is as follows:

	December 31, 2021 Unaudited	December 31, 2020 Unaudited
Primary capital	3,077,369	5,714,480
Total primary capital	**3,077,369**	**5,714,480**
Risk weighted assets	16,765,787	21,141,652
Statutory capital ratio (%)	18.36%	27.03%
Minimum required statutory capital ratios	12.00%	12.00%
Compliance with the minimum share capital and total capital requirements	**No breaches as at December 31, 2021**	**No breaches as at December 31, 2020**

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Organization's capital is set and monitored using the ratios established by CBA. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Organization balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. In addition, the Organization manages its capital in order to meet covenant requirements.

24. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Organization's business and is an essential element of the Organization's operations. The main risks inherent to the Organization's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

The Organization recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Organization has established a risk management framework, whose main purpose is to protect the Organization from risk and allow it to achieve its performance objectives.

The Board of Directors has overall responsibility for the determination of the Organization's risk management objectives, policies and oversight of the Organization's risk management framework. The overall objective of the Board of Directors is to set polices that seek to reduce risks as far as possible without unduly affecting the Organization's competitiveness and flexibility. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization.

The Organization's risk management policies are established to identify and analyze the risks faced by the Organization, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Organization, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). Risk Committee is responsible for developing, monitoring risk management policies and exercising control over the risk in the legislation and regulatory arena and assesses its influence on the

Organization's activity. This approach allows the Organization to minimize potential losses from the investment climate fluctuations in the Republic of Armenia.

There have been no significant changes in the risk management department since year-end or in any risk management policies.

Credit risk management.

The Organization is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The main business of the Organization is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organization risk management. To avoid significant financial damage caused by this the Organization uses various methods to identify and manage effectively the credit risks.

The Microfinance industry is generally exposed to credit risk through its loans to customers and bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Armenia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Organization's risk management policy are not breached.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Risk Department, Credit Committee and the Organization's Management Board. Before any application is approved by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Risk Department. Daily risk management is performed by the Head of Credit Risk Management Department.

The Organization's credit policy is determined by the number of internal policies and procedures, where all the related requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent monitoring and financial analysis, as well as other information submitted by the borrower, or otherwise obtained
Apart from individual customer analysis the credit portfolio is periodically assessed by the Internal Control department with regard to credit concentration and market risks.

The Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body within the Organization authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Each branch is required to implement Organization's credit policies and procedures, with credit approval authorities set by the internal regulations. Each branch manager reports on all credit related matters to

Management. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Internal Audit and Internal Control Departments undertake regular audits of branches and Organization's credit processes.

The Organization's Credit Risk Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Organization structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved periodically by the Management Board. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily to ensure that the credit limits and creditworthiness guidelines established by the Organization's risk management policy are not breached.

Where appropriate, and in the case of most loans, the Organization obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit risk measurement

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Organization.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Write-off

When periodic collective historical recovery analysis indicates that the Organization does not expect significant additional recoveries after certain months in default ("MID"), it is the policy of the Organization to write-off loans on a collective basis.

Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is AMD 1,506,919 thousand .

Grouping with similar credit risk characteristics

Financial assets are split into two segments for the purposes of PD calculation:

- Small (for loan amounts up to AMD 500,000 (equivalent to USD 1041)
- Medium and large (for loan amounts above AMD 500,000 or equivalent to USD 1041)

The segments above reflect the level of assessment of client creditworthiness, with the Large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

Rating Model

All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

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).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

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

Hazard rates are obtained by Cox proportional hazard model, which is a semi-parametric model, it uses assumed simple form for effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, then Point-in-Time ("PiT") PD is derived, i.e. marginal PDs assigned to a respective date. Observation period for modeling cox hazard rates is 5 years.

Sensitivity test for macroeconomic parameters shows not material effect as at December 31, 2021 and 2020.

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

Secured loans utilize collateral values, whereas unsecured and guaranteed loans are using recovery rates.

Exposure at default (EAD)

EAD is based on the amounts the Organization expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Incorporation of forward-looking information

The Organization incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Organization has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed the impact of macro-economic variables on PD and recovery rate. The macro-economic variable which was involved in the analysis is a real growth rate of GDP.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used on December 31, 2021, for the years 2022 to 2026:

		2022	**2023**	**2024**	**2025**	**2026**
Nominal GDP growth rate, %	Baseline	10.5%	9.1%	8.52%	8.26%	8.18%

Credit quality of loans to customers

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

Loan portfolio	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
Current	14,981,927	740,935	885,327	**16,608,189**
Past due 1-30 days	-	279,588	75,784	**355,372**
Past due 31-60 days	-	110,788	68,706	**179,494**
Past due 61-90 days	-	60,625	16,003	**76,628**
Past due more than 90 days	-	-	5,898,308	**5,898,308**
	14,981,927	**1,191,936**	**6,944,128**	**23,117,991**
Expected credit losses	(284,629)	(150,464)	(4,435,174)	**(4,870,267)**
Total loan portfolio	**14,697,298**	**1,041,472**	**2,508,954**	**18,247,724**

The following table provides information on the credit quality of loans to customers as of December 31, 2020:

Loan portfolio	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Current	14,291,911	1,617,785	401,750	**16,311,446**
Past due 1-30 days	9,788	1,146,962	67,031	**1,223,781**
Past due 31-60 days	-	459,574	89,774	**549,348**
Past due 61-90 days	-	734,662	111,006	**845,668**
Past due more than 90 days	-	-	5,368,558	**5,368,558**
	14,301,699	**3,958,983**	**6,038,119**	**24,298,801**
Expected credit losses	(363,635)	(765,031)	(3,359,903)	**(4,488,569)**
Total loan portfolio	**13,938,064**	**3,193,952**	**2,678,216**	**19,810,232**

The table that follows shows transfers of loans gross carrying amounts in AMD thousand between stages as of 31 December 2020 and 31 December 2021:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to customers at amortized cost				
Gross carrying amount as at January 1, 2020	**22,306,800**	**962,131**	**2,991,471**	**26,260,402**
Changes in the gross carrying amount				
-Transfer from Stage 1 to Stage 2	(12,864,445)	12,864,445	-	-
-Transfer from Stage 2 to Stage 1	4,484,393	(4,484,393)	-	-
-Transfer from Stage 2 to Stage 3	-	(4,055,158)	4,055,158	-
-Transfer from Stage 3 to Stage 2	-	52,154	(52,154)	-
-Transfer from Stage 1 to Stage 3	(53,486)	-	53,486	-
New financial instruments originated or purchased	16,533,357	-	-	**16,533,357**
Repayment of principal amount	(13,481,792)	(378,307)	(306,383)	**(14,166,482)**
Changes in interest accrual	593,608	50,368	503,509	**1,147,485**
Modification of contractual cash flows of financial instruments	82,642	(8,161)	(2,794)	**71,687**
Derecognition during the period	(3,740,132)	(1,371,486)	(203,820)	**(5,315,438)**
Write-offs	-	-	(1,175,981)	**(1,175,981)**
Foreign exchange differences	440,754	327,390	175,627	**943,771**
Gross carrying amount as at December 31, 2020	**14,301,699**	**3,958,983**	**6,038,119**	**24,298,801**
Changes in the gross carrying amount				
-Transfer from Stage 1 to Stage 2	(2,396,518)	2,396,518	-	-
-Transfer from Stage 2 to Stage 1	1,401,331	(1,401,331)	-	-
-Transfer from Stage 2 to Stage 3	-	(3,218,463)	3,218,463	-
-Transfer from Stage 3 to Stage 2	-	221,315	(221,315)	-
-Transfer from Stage 1 to Stage 3	(33,669)	-	33,669	-
New financial instruments originated or purchased	14,872,006	-	-	**14,872,006**
Repayment of principal amount	(10,973,001)	(1,348,658)	(757,107)	**(13,078,766)**
Changes in interest accrual	279,265	(264,980)	951,096	**965,381**
Modification of contractual cash flows of financial instruments	167	(2,487)	(7,402)	**(9,722)**
Derecognition during the period	(2,090,416)	963,512	(469,272)	**(1,596,176)**
Write-offs	-	-	(1,556,907)	**(1,556,907)**
Foreign exchange differences	(378,937)	(112,473)	(285,216)	**(776,626)**
Gross carrying amount as at December 31, 2021	**14,981,927**	**1,191,936**	**6,944,128**	**23,117,991**
Loss allowance as at December 31, 2021	**(284,629)**	**(150,464)**	**(4,435,174)**	**(4,870,267)**

The table that follows shows transfers of loans loan loss allowances in AMD thousand between stages as of 31 December 2020 and 31 December 2021:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loans to customers at amortized cost				
Loss allowance as at January 1, 2020	**282,736**	**157,910**	**1,897,841**	**2,338,487**
Changes in the loss allowance amount				
-Transfer from Stage 1 to Stage 2	(335,573)	335,573	-	-
-Transfer from Stage 2 to Stage 1	518,432	(518,432)	-	-
-Transfer from Stage 2 to Stage 3	-	(1,532,827)	1,532,827	-
-Transfer from Stage 3 to Stage 2	-	29,710	(29,710)	-
-Transfer from Stage 1 to Stage 3	(4,996)	-	4,996	-
New financial instrument originated or purchased	494,327	-	-	**494,327**
Changes in PDs/LGDs/EADs and Modification of contractual cash flows of financial instrument	(61,596)	2,328,015	1,187,827	**3,454,246**
Derecognition during the period	(535,864)	(77,398)	(163,333)	**(776,595)**
Write-offs	-	-	(1,175,981)	**(1,175,981)**
Foreign exchange differences	6,169	42,480	105,436	**154,085**
Loss allowance as at December 31, 2020	**363,635**	**765,031**	**3,359,903**	**4,488,569**
Changes in the loss allowance amount				
-Transfer from Stage 1 to Stage 2	(77,533)	77,533	-	-
-Transfer from Stage 2 to Stage 1	444,193	(444,193)	-	-
-Transfer from Stage 2 to Stage 3	-	(1,010,352)	1,010,352	-
-Transfer from Stage 3 to Stage 2	-	131,322	(131,322)	-
-Transfer from Stage 1 to Stage 3	(492)	-	492	-
New financial instrument originated or purchased	846,249	-	-	**846,249**
Changes in PDs/LGDs/EADs and Modification of contractual cash flows of financial instrument	(1,117,849)	690,071	1,940,142	**1,512,364**
Derecognition during the period	(165,545)	(45,130)	(30,051)	**(240,726)**
Write-offs	-	-	(1,556,907)	**(1,556,907)**
Foreign exchange differences	(8,029)	(13,818)	(157,435)	**(179,282)**
Loss allowance as at December 31, 2021	**284,629**	**150,464**	**4,435,174**	**4,870,267**

During the years ended December 31, 2021, and 2020, the Organization modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

In respect of loans modified during the year, the amortized cost immediately before the loan was modified and the resulting gain or loss arising from the modification is set out below

	2021	2020
Amortized cost before modification	883,712	12,342,547
Impairment allowance	(315,812)	(2,014,439)
Net modification loss	(15,692)	(155,631)
Net loans to customers	**552,208**	**10,172,477**

As at 31 December 2021 there are no any loans that have been previously modified, when they were in Stage 2/3, which are now categorized as Stage 1.

Renegotiated loans and advances. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Organization offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The carrying amount of renegotiated Loans to customers is in the amount of AMD 4,145,465 thousand as at December 31, 2021 (as at December 31, 2020: AMD 4,156,230 thousand).

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the (country). The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Organization's risk management policy are not breached.

Off-balance sheet risk. The Organization applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks.

Geographical concentration. The geographical concentration of the Organization's assets and liabilities as at December 31, 2021 is set out below:

	Republic of Armenia	OECD countries	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	1,549,987	-	-	1,549,987
Loans to customers	18,247,724	-	-	18,247,724
Other financial assets	18,342	-	-	18,342
Total non-derivative financial assets	**19,816,053**	-	-	**19,816,053**
Non-derivative financial liabilities				
Other borrowed funds	4,194,344	6,241,102	-	10,435,446
Debt securities issued	3,540,061	-	-	3,540,061
Lease liabilities	500,013	-	-	500,013
Other financial liabilities	77,542	960	-	78,502
Total non-derivative financial liabilities	**8,311,960**	**6,242,062**	-	**14,554,022**
Net position on non-derivative financial instruments	**11,504,093**	**(6,242,062)**	-	**5,262,031**
Net position	**11,504,093**	**(6,242,062)**	-	**5,262,031**

Geographical concentration. The geographical concentration of the Organization's assets and liabilities as at December 31, 2020 is set out below:

	Republic of Armenia	OECD countries	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	724,687	-	-	**724,687**
Loans to customers	19,810,232	-	-	**19,810,232**
Other financial assets	18,010	-	-	**18,010**
Total non-derivative financial assets	**20,552,929**	-	-	**20,552,929**
Non-derivative financial liabilities				
Other borrowed funds	2,360,552	7,121,993	79,811	**9,562,356**
Debt securities issued	5,030,607	-	-	**5,030,607**
Lease liabilities	510,764	-	-	**510,764**
Other financial liabilities	281,086	11,303	-	**292,389**
Total non-derivative financial liabilities	**8,183,009**	**7,133,296**	**79,811**	**15,396,116**
Net position on non-derivative financial instruments	**12,369,920**	**(7,133,296)**	**(79,811)**	**5,156,813**
Net position	**12,369,920**	**(7,133,296)**	**(79,811)**	**5,156,813**

The Organization enters into numerous transactions where the counterparties that are not rated by international rating agencies. The Organization has developed internal models, which allow it to determine the creditability of counterparties.

Liquidity risk

Liquidity risk management. Liquidity risk refers to the availability of sufficient funds to meet borrowed funds withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

The ALCO controls these types of risks by means of maturity analysis and determining the Organization's strategy for the next financial period. In order to manage liquidity risk, the Organization performs daily monitoring of future expected cash flows on clients' operations, which is a part of assets/liabilities management process. Current liquidity is managed by Treasurer, so Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term deposits, to ensure that sufficient liquidity is maintained for current liquidity support and cash flow optimization.

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Organization.

The borrowed amounts as at reporting date, in respect of which the defaults had taken place, amounting AMD 2,563,885 thousand for which as at December 31, 2021 the Organization have had obtained waivers from the lenders and these loans will be repaid according to their contractual terms

	December 31, 2021					
	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2021 Total
Non-derivative financial assets						
Fixed interest rate instruments						
Cash and cash equivalents	1.41%	944,339	-	-	-	**944,339**
Loans to customers	28.28%	802,357	1,182,092	5,329,006	10,934,269	**18,247,724**
Total fixed interest bearing financial assets		**1,746,696**	**1,182,092**	**5,329,006**	**10,934,269**	**19,192,063**
Non-interest bearing financial assets						
Cash and cash equivalents		605,648	-	-	-	**605,648**
Other financial assets		18,342	-	-	-	**18,342**
Total non-interest bearing financial assets		**623,990**	-	-	-	**623,990**
Total non-derivative financial assets		**2,370,686**	**1,182,092**	**5,329,006**	**10,934,269**	**19,816,053**
Non-derivative financial liabilities and commitments						
Fixed interest rate instruments						
Borrowed funds	12.76%	79,080	763,634	3,605,878	5,099,677	**9,548,269**
Debt securities issued	9.46%	-	1,022,647	2,517,414	-	**3,540,061**
Lease liabilities	12.23%	19,073	54,543	120,826	305,571	**500,013**
Total fixed interest bearing financial liabilities		**98,153**	**1,840,824**	**6,244,118**	**5,405,248**	**13,588,343**
Variable interest rate instruments						
Borrowed funds	6mo LIBOR +5.6%	887,177	-	-	-	**887,177**
Total variable interest bearing financial liabilities		**887,177**	-	-	-	**887,177**
Non-interest bearing financial liabilities						
Other financial liabilities		78,502	-	-	-	**78,502**

Total non-interest bearing financial liabilities	**78,502**	-	-	-	**78,502**
Total non-derivative financial liabilities	**1,063,832**	**1,840,824**	**6,244,118**	**5,405,248**	**14,554,022**
Interest sensitivity Surplus/(gap)	761,366	(658,732)	(915,112)	5,529,021	
Cumulative interest sensitivity Surplus/(gap)	**761,366**	**102,634**	**(812,478)**	**4,716,543**	
Derivative financial instruments					
Gross settled - currency swaps	**1,885**	-	-	-	**1,885**
Liquidity Surplus/(gap)	1,308,739	(658,732)	(915,112)	5,529,021	
Cumulative liquidity Surplus/(gap)	**1,308,739**	**650,007**	**(265,105)**	**5,263,916**	
Derivative financial assets					
Foreign exchange swap contracts					
Inflow	960,280	-	-	-	**960,280**
Outflow	(958,395)	-	-	-	**(958,395)**

	Weighted average effective interest rate	December 31, 2020 Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2020 Total
Non-derivative financial assets						
Fixed interest rate instruments						
Cash and cash equivalents	2.40%	534,059	-	-	-	**534,059**
Loans to customers	32.16%	730,784	1,441,236	6,692,602	10,945,610	**19,810,232**
Total fixed interest bearing financial assets		**1,264,843**	**1,441,236**	**6,692,602**	**10,945,610**	**20,344,291**
Non-interest bearing financial assets						
Cash and cash equivalents		190,628	-	-	-	**190,628**
Other financial assets		18,010	-	-	-	**18,010**
Total non-interest bearing financial assets		**208,638**	-	-	-	**208,638**
Total non-derivative financial assets		**1,473,481**	**1,441,236**	**6,692,602**	**10,945,610**	**20,552,929**

Non-derivative financial liabilities and commitments						
Fixed interest rate instruments						
Borrowed funds	8.24%	6,613,231	879,811	1,055,172	49,660	**8,597,874**
Debt securities issued	9.50%	-	64,883	1,424,538	3,541,186	**5,030,607**
Lease liabilities	12.90%	63,472	9,970	151,939	285,383	**510,764**
Total fixed interest bearing financial liabilities		**6,676,703**	**954,664**	**2,631,649**	**3,876,229**	**14,139,245**
Variable interest rate instruments						
Borrowed funds	6mo LIBOR +5.6%	29,539	-	-	934,943	**964,482**
Total variable interest bearing financial liabilities		**29,539**	-	-	**934,943**	**964,482**
Non-interest bearing financial liabilities						
Other financial liabilities		292,389	-	-	-	**292,389**
Total non-interest bearing financial liabilities		**292,389**	-	-	-	**292,389**
Total non-derivative financial liabilities		**6,998,631**	**954,664**	**2,631,649**	**4,811,172**	**15,396,116**
Interest sensitivity Surplus/(gap)		(5,441,399)	486,572	4,060,953	6,134,438	
Cumulative interest sensitivity Surplus/(gap)		**(5,441,399)**	**(4,954,827)**	**(893,874)**	**5,240,564**	
Derivative financial istruments						
Gross settled – currency swaps		**152**	-	-	-	**152**
Liquidity gap		(5,524,998)	486,572	4,212,892	6,134,438	
Cumulative liquidity Surplus/(gap)		**(5,524,998)**	**(5,038,426)**	**(825,534)**	**5,308,904**	
Derivative financial assets						
Foreign exchange swap contracts						
Inflow		522,742	-	-	-	**522,742**
Outflow		(522,590)	-	-	-	**(522,590)**

Cumulative liquidity gap. The tables above show the expected maturity analysis of non-derivative financial assets and liabilities at their carrying amounts and based on their contractual maturities. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Impaired loans are included at their carrying amounts net of allowance for impairment and based on the expected timing of cash inflows.

The following tables detail the Organization's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in the table below could occur significantly earlier, or at significantly different amounts. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

				December 31, 2021			
	Weighted avrge effect. int. rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Total**	**Carrying amount**
Fixed interest							
Rate instruments							
Borrowed funds	12.76%	97,465	775,086	3,987,836	5,720,818	**10,581,205**	**9,548,269**
Debt securities issued	9.46%	-	1,067,449	2,628,920	-	**3,696,369**	**3,540,061**
Lease liabilities	12.23%	24,317	48,634	157,185	412,388	**642,524**	**500,013**
Total fixed interest bearing Financial liabilities		**121,782**	**1,891,169**	**6,773,941**	**6,133,206**	**14,920,098**	**13,588,343**
Variable interest rate instruments							
Borrowed funds	6mo LIBOR +5.6%	889,325	-	-	-	**889,325**	**887,177**
Total variable interest bearing financial liabilities		**889,325**	-	-	-	**889,325**	**887,177**
Non-interest bearing financial liabilities							
Other financial liabilities		78,502	-	-	-	**78,502**	**78,502**
Total non-interest bearing financial liabilities		78,502	-	-	-	**78,502**	**78,502**
Total financial liabilities		**1,089,609**	**1,891,169**	**6,773,941**	**6,133,206**	**15,887,925**	**14,554,022**

	December 31, 2020						
	Weighted avrge effect. int. rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments							
Borrowed funds	8.24%	6,626,255	893,004	1,097,525	53,467	**8,670,251**	**8,597,874**
Debt securities issued	9.50%	-	110,105	1,762,105	3,786,392	**5,658,602**	**5,030,607**
Lease liabilities	12.90%	21,437	42,873	192,928	368,761	**625,999**	**510,764**
Total fixed interest bearing financial liabilities		**6,647,692**	**1,045,982**	**3,052,558**	**4,208,620**	**14,954,852**	**14,139,245**
Variable interest Rate instruments							
Borrowed funds	6mo LIBOR +5.6%	31,958	-	31,094	971,756	**1,034,808**	**964,482**
Total variable interest bearing financial liabilities		**31,958**	**-**	**31,094**	**971,756**	**1,034,808**	**964,482**
Non-interest bearing financial liabilities							
Other financial liabilities		292,389	-	-	-	**292,389**	**292,389**
Total non-interest bearing financial liabilities		**292,389**	**-**	**-**	**-**	**292,389**	**292,389**
Total financial liabilities		**6,972,039**	**1,045,982**	**3,083,652**	**5,180,376**	**16,282,049**	**15,396,116**

Market risk

Market risk is the risk that the Organization's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Organization is exposed to. There have been no changes as to the way the Organization measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk. The Organization's cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates, and the fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in the prevailing levels of market interest rates on both the value and cash flow risks.

Interest rate sensitivity. The Organization manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Organization's management conducts monitoring of the Organization's current financial performance, estimates the Organization's sensitivity to changes in fair value interest rates and its influence on the Organization's profitability.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Organization's profit for the year ended December 31, 2021 would increase /decrease by AMD 21,307 thousand and (December 31, 2020: increase/decrease by AMD 26,004 thousand).

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organization is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Organization an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasurer performs daily monitoring of the Organization's open currency position.

The Organization's exposure to foreign currency exchange rate risk as at December 31, 2021 is presented in the table below:

	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	269,813	1,236,240	43,934	**1,549,987**
Loans to customers	12,893,600	5,354,124	-	**18,247,724**
Other financial Assets	18,115	-	227	**18,342**
Total non-derivative financial assets	**13,181,528**	**6,590,364**	**44,161**	**19,816,053**
Non-derivative financial liabilities				
Borrowed funds	4,367,275	6,068,171	-	**10,435,446**
Other financial liabilities	76,474	2,002	26	**78,502**
Debt securities issued	2,559,806	980,255	-	**3,540,061**
Lease liabilities	500,013	-	-	**500,013**
Total non-derivative financial liabilities	**7,503,568**	**7,050,428**	**26**	**14,554,022**
Open balance sheet position	**5,677,960**	**(460,064)**	**44,135**	**5,262,031**
Derivative financial instruments				
Gross settled - currency swaps	(958,395)	960,280	-	1,885
Open position	**4,719,565**	**500,216**	**44,135**	**5,263,916**

The Organization's exposure to foreign currency exchange rate risk as at December 31, 2020 is presented in the table below:

	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	409,351	278,283	37,053	**724,687**
Loans to customers	11,024,356	8,785,876	-	**19,810,232**
Other financial Assets	18,010	-	-	**18,010**
Total non-derivative financial assets	**11,451,717**	**9,064,159**	**37,053**	**20,552,929**
Non-derivative financial liabilities				
Borrowed funds	2,314,587	7,247,769	-	**9,562,356**
Other financial liabilities	155,449	136,940	-	**292,389**
Debt securities issued	3,964,107	1,066,500	-	**5,030,607**
Lease liabilities	510,764	-	-	**510,764**
Total non-derivative financial liabilities	**6,944,907**	**8,451,209**	**-**	**15,396,116**
Open balance sheet position	**4,506,810**	**612,950**	**37,053**	**5,156,813**
Derivative financial instruments				
Gross settled - currency swaps	522,742	(522,590)	-	152
Open position	**5,029,552**	**90,360**	**37,053**	**5,156,965**

Currency risk sensitivity. The following table details the Organization's sensitivity to a 20% increase and decrease in the AMD against the USD, 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit before tax where the AMD strengthens 20% against USD.

	December 31, 2021	December 31, 2020
Impact on profit or loss	(100,043)	(18,072)
Impact on equity	(100,043)	(18,072)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors, It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Organization's assets and liabilities are actively managed. Additionally, the financial position of the Organization may vary at the time that any actual market movement occurs. For example, the Organization's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Organization's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risks. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Organization is exposed to price risks of its products, which are subject to general and specific market fluctuations.

The Organization manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments, the Organization is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Organization cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

25. TRANSACTIONS WITH RELATED PARTIES

	December 31, 2021		December 31, 2020	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Statement of financial position				
Other borrowed funds (note 12)				
Comprised of balances with:				
- indirect shareholders	887,177	10,435,446	1,934,683	9,562,356

	2021		2020	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Statement of profit or loss and other comprehensive income				
Interest expense (note 16)	85,357	1,279,102	56,157	1,536,214
Other operating expenses (note 20)	268,410	894,319	302,010	812,091
Comprised of transactions with:				
- the parent (royalty and management fees)	142,995	-	178,417	-
- other related parties (IT and other services)	125,415	-	123,593	-

	2021		2020	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
- short-term employee benefits	154,131	1,403,556	186,784	1,748,827

As at December 31, 2021 the Organization's key management personnel consisted of 3 positions (December 31, 2020: 3 positions).

26. SUBSEQUENT EVENTS

On February 10, 2022 the Organization has issued debt securities on the nominal amounts of AMD 1,400,000 thousand with 12% interest rate and maturity date of February 10, 2025.

On April 20, 2022 the Organization has issued debt securities on the nominal amounts of USD 1,050,000 with 6.5% interest rate and maturity date of April 20, 2024. During January-April 2022 the Organization attracted additional borrowings of USD 3,000,000 and AMD 656,994 thousand, credit line of AMD 800 million.

In February and April 2022 the Organization has made repayments of matured debt securities issued at the nominal amount of USD 2,000,000 and AMD 1,000,000 thousand respectively.

In February 2022, the economic and political situations in Ukraine and the Russian Federation led to increased volatility in the Russian financial market. The uncertainty of the development of events is

increased. The United States, the European Union, the United Kingdom and a number of other countries have imposed a number of new sanctions against Russia.

These events did not have a significant impact on the Organization's operating activities and its financial statements. The Organization's management monitors the current changes in the economic and political situation and takes measures that it considers necessary to maintain the sustainability and development of the Organization's business in the near future