Financial Statements and Independent Auditor's Report

"FINCA" UNIVERSAL CREDIT ORGANIZATION closed joint-stock company

31 December 2022

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Grant Thornton

Independent auditor's report

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To the shareholder 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 "Company"), which comprise the statement of financial position as of 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were 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 these matters.

- *Allowance for expected credit loss*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 34.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Company's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Company's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Company and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Company's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2022. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Company, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other Matter

The financial statements of the Company as of and for the year ended 31 December 2021 were audited by other auditors, whose report dated 06 May 2022 expressed an unmodified opinion on those statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. The 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

The engagement manager on the audit resulting in this independent auditor's report is Naira Ulunts

Armen Hovhannisyan	Naira Ulunts
Chief Executive Officer	Engagement Manager

28 April 2023

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2022	2021
Interest income calculated using effective interest rate	6	4,507,538	5,344,799
Interest expense	6	(1,229,400)	(1,279,102)
Net interest income		3,278,138	4,065,697
Fee and commission expense	7	(160,336)	(21,379)
Net fee and commission expense		(160,336)	(21,379)
Net gain from foreign exchange operations	8	714,986	72,775
Net losses on financial assets at fair value through profit or loss		(417,432)	(26,094)
Other income	9	105,221	180,298
Credit loss expense	10	(791,833)	(1,516,366)
Modification loss on loans to customers		-	(15,692)
Personnel expenses	11	(1,454,006)	(1,418,285)
Depreciation and amortization	19, 20, 21	(332,098)	(367,619)
Other expenses	12	(849,605)	(876,619)
Profit before income tax		93,035	76,716
Income tax expense	13	(86,056)	(69,720)
Profit for the year		6,979	6,996
Total comprehensive income for the year		6,979	6,996

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 68.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	14	1,520,920	1,549,987
Derivative financial assets	15	-	1,885
Amounts due from financial institutions	16	1,361,717	-
Loans to customers	17	18,917,944	18,247,724
Securities pledged under repurchase agreements	18	202,073	-
Prepaid income taxes		-	51,048
Right-of-use assets	19	521,029	440,189
Property and equipment	20	66,536	120,130
Intangible assets	21	181,838	199,008
Other assets	22	97,134	84,383
Total assets		22,869,191	20,694,354
Liabilities and equity			
Liabilities			
Debt securities issued	23	3,308,513	3,540,061
Repurchase agreements	24	199,329	-
Derivative financial liabilities	15	10,399	-
Other borrowed funds	25	12,505,104	10,435,446
Current income tax liabilities		33,318	-
Deferred income tax liabilities	13	146,500	103,042
Lease liabilities	26	578,768	500,013
Other liabilities	27	243,873	279,384
Total liabilities		17,025,804	14,857,946
Equity			
Share capital	28	4,905,960	4,905,960
Statutory general reserve		343,967	343,967
Retained earnings		593,460	586,481
Total equity		5,843,387	5,836,408
Total liabilities and equity		22,869,191	20,694,354

The financial statements were approved on 28 April 2023 by:

Steven Hass
Chief Executive Officer

Anush Petrosyan
Chief Financial Officer/(Chief Accountant)

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 68.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Retained earnings	Total
Balance as of 01 January 2022	4,905,960	343,967	586,481	5,836,408
Profit for the year	-	-	6,979	6,979
Total comprehensive income for the year	-	-	6,979	6,979
Balance as of 31 December 2022	4,905,960	343,967	593,460	5,843,387
Balance as of 1 January 2021	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 of 31 December 2021	4,905,960	343,967	586,481	5,836,408

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 68.

Statement of cash flows

In thousand Armenian drams

	2022	2021
Cash flows from operating activities		
Profit before tax	93,035	76,716
Adjustments for		
Amortization and depreciation allowances	332,098	367,619
Loss/(gain) from disposal of property, equipment and intangible assets	269	(7,939)
Impairment charge of financial assets	791,833	1,516,366
Foreign currency translation (gain)/loss	(48,261)	87,904
Other income	-	(126,500)
Fair value loss on financial assets recognised in profit and loss	294,815	7,534
Interest receivable	(1,770,490)	(1,272,237)
Interest payable	4,852	14,878
Change in other non-cash items	-	73,221
Cash flows from operating activities before changes in operating assets and liabilities	(301,849)	737,562
(Increase)/decrease in operating assets		
Derivative financial assets	(405,833)	(35,361)
Change in interest on derivative financial assets	122,617	18,560
Amounts due from financial institutions	(1,459,213)	-
Loans to customers	(481,934)	559,321
Change in interest accruals on other borrowed funds, debt securities issued	(4,852)	217,170
Other assets	(11,760)	(13,787)
Change in right-of-use assets and in lease liabilities	16,923	822
Decrease in operating liabilities		
Other liabilities	7,199	(52,079)
Net cash flow from/(used in) operating activities before income tax	(2,518,702)	1,432,208
Income tax paid	-	-
Net cash from/(used in) operating activities	(2,518,702)	1,432,208

Statement of cash flows (continued)

In thousand Armenian drams

	2022	2020
Cash flows from investing activities		
Purchase of investment securities	(205,422)	-
Proceeds from sale of property, equipment and intangible assets	3,983	7,993
Acquisition of property and equipment	(23,192)	(31,422)
Acquisition of intangible assets	(51,976)	(15,709)
Net cash used in investing activities	(276,607)	(39,138)
Cash flow from financing activities		
Proceeds from debt securities issued	3,399,678	-
Redemption of debt securities issued	(3,533,297)	(1,400,000)
Repurchase agreements	199,329	-
Payment of lease liabilities	(209,426)	(323,318)
Proceeds from borrowed funds	13,934,380	14,666,097
Repayment of borrowed funds	(10,748,620)	(13,204,355)
Net cash from/(used in) financing activities	3,042,044	(261,576)
Net increase in cash and cash equivalents	246,735	1,131,494
Cash and cash equivalents at the beginning of the year	1,549,987	724,687
Effect of changes in impairment allowance on cash and cash equivalents	30	(44)
Exchange differences on cash and cash equivalents	(275,832)	(306,150)
Cash and cash equivalents at the end of the year (note 14)	1,520,920	1,549,987

Supplementary information:		
Interest received	2,737,048	4,061,422
Interest paid	(1,224,548)	(1,159,161)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 68.

Notes to the financial statements

1 Principal activities

“FINCA” UNIVERSAL CREDIT ORGANIZATION (the “Company”) is a closed joint-stock company, which is a 100% subsidiary of FINCA Microfinance Coöperatief U.A. (Netherlands). The Company is regulated by the Central Bank of Armenia (the "CBA") and conducts its business under license number 13, granted on 28 March 2006.

The Company 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 Company is located at 2a, Agatangeghos str., Yerevan, Republic of Armenia.

As of 31 December 2022 the Company had 30 branches operating in Armenia (2021: 30 branches). On 11 January, 2021 the Company reorganized the branch network and closed 9 branches by merging them with the closest branches.

As of 31 December 2022 the number of employees of the Company was 356 (2021: 371).

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature and the stability and development of the Armenian economy largely depends on these changes.

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

The Ukraine and Russia are important trading partners of Armenia and Armenian business environment has not been spared from this influence. It is noteworthy that as a result of the war in Armenia, a certain economic activity was observed in 2022 due to the large influx of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022, Armenian banks recorded a significant increase in income from intermediary activities. According to the Central Bank of Armenia and international financial organizations, the GDP growth in Armenia in 2022 will be about 13%.

Since the hostilities have not yet stopped, it is impossible to reliably assess its final impact on the business environment of Armenia.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Company. The Company's management constantly analyzes the economic situation in the current environment. The future economic and political situation and its impact on the Company's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and the Company's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2022, did not have a material impact on the annual financial statements of the Company.

- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Company applies the amendment to financial liabilities of 2022.

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below.

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (IFRS 17 and IFRS 4)*
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

3.6 Comparative Information

Comparative information is reclassified to conform to changes in presentation in the current year.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income is the reclassification of income and expenses.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

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

Fee and commission income

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

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

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

Other fee and commission expense – including account servicing fees is recognised as the related services are performed.

Net gain from foreign exchange operations

Net gain from foreign exchange operations comprises all the income and expenses from foreign exchange differences. Net gain from foreign exchange operations also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the equity.

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

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

	31 December 2022	31 December 2021
AMD/1 US Dollar	393.57	480.14
AMD/1 EUR	420.06	542.61
AMD/1 RUB	5.59	6.42

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises loans to customers, deposits in banks, debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume, and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost or at FVTPL.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as of FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income

- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 34.1.2.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Company measures loss allowances at an amount equal to 12-month ECL: recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- **PD (the Probability of Default)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD (the Exposure at Default)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD (the Loss Given Default)** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 34.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
    - where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn

component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;

– The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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;

3) and 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.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts and cash on the way.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with other banks. Deposits in financial institutions are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from financial institutions are carried net of any allowance for impairment losses.

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans to customers

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

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.9 Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.11 Leases

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies scope of the contract,
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Company as a lessee

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

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

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

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

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

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

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

4.12 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Communication devices and computers	3	33.3
Office equipment	5	20
Vehicles	5	20
Other	5	20

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

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

4.13 Intangible assets

Intangible assets include computer software, licences and other.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.14 Repossessed assets

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company's policy.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.15 Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

4.16 Borrowings

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

4.17 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Share premium includes accumulated earnings of current and previous periods.

4.18 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. In identifying its operating segments, management generally distinguishes components of the Company that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance.

The Company's operations are not separated into operating segments and are one complete business unit. The Company receives its main income from refinancing transactions with financial institutions registered in RA.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

5.1 Judgements

Classification of financial assets

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

Establish criteria for calculating ECL

The Company establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward-looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 31).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation arising from the changes in the market conditions.

Extension options for leases

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

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 34.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 29.

6 Net interest income

In thousand Armenian drams	**2022**	**2021**
Interest income calculated using effective interest rate		
Cash and cash equivalents	14,780	23,984
Loans to customers	4,491,151	5,320,815
Investment securities at amortised cost	1,607	-
Total interest income	4,507,538	5,344,799
Debt securities issued	348,338	466,541
Lease liabilities	74,333	63,361
Other borrowed funds	804,399	749,200
Repurchase agreements	2,330	-
Total interest expense	1,229,400	1,279,102
Total net interest income	3,278,138	4,065,697

The penalties are calculated on the accrual basis and are included on overdue principle and interest amounts. In 2022 the amount is AMD 547,949 thousand (2021: AMD 1,031,403 thousand).

7 Fee and commission expense

In thousand Armenian drams	**2022**	**2021**
Cash operations	157,363	11,220
Settlement Operations/Transfers	1,510	950
Other expenses	1,463	9,209
Total fee and commission expense	160,336	21,379

8 Net gain from foreign exchange operations

In thousand Armenian drams	2022	2021
Net income from trading in foreign currencies	666,725	160,679
Net income/(loss) from foreign exchange translation of non-trading assets and liabilities	48,261	(87,904)
Net gain from foreign exchange operations	714,986	72,775

9 Other income

In thousand Armenian drams	2022	2021
Net income from sale of property and equipment	670	8,084
Income from insurance services	4,982	5,897
Adjustment of previously recognized expenses	-	126,500
Commissions	4,980	76
Income from state fees on court cases	46,868	28,026
Other income from lease	12,095	-
Gain from lease termination	-	4,032
Gain from lease concessions	-	646
Other income	35,626	7,037
Total other income	105,221	180,298

Adjustment of previously recognized expenses

The measurement of the CBA provision 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.

The amounts payable of the mentioned loans are included in Note 27 and amounts to AMD 22,898 thousand as of 31 December 2022 and AMD 34,125 thousand as of 31 December 2021, respectively.

10 Credit loss expense/(reversal of credit loss expense)

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	14	(30)	-	-	(30)
Amounts due from financial institutions	16	16,882	-	-	16,882
Loans to customers	17	2,041,049	(31,772)	(1,234,519)	774,758
Investment securities measured at amortised cost	18	223	-	-	223
Total credit loss expense/(reversal of credit loss expense)		2,058,124	(31,772)	(1,234,519)	791,833

In thousand Armenian drams					2021
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	14	44	-	-	44
Loans to customers	17	(94,489)	(156,292)	1,767,103	1,516,322
Total credit loss expense/ (reversal of credit loss expense)		(94,445)	(156,292)	1,767,103	1,516,366

11 Personnel expenses

In thousand Armenian drams	2022	2021
Compensations of employees, related taxes included	1,418,918	1,403,556
Staff training and other expenses	35,088	14,729
Total personnel expenses	1,454,006	1,418,285

12 Other expenses

In thousand Armenian drams	2022	2021
Fixed assets repair and maintenance	231,988	152,359
Advertising costs	844	2,390
Business trip expenses	12,091	8,919
Communications	50,839	51,432
Taxes, other than income tax, duties	87,089	165,083
Consulting and other services	26,457	23,847
Security	19,084	19,158
Cash collection	10,021	5,450
Insurance	53,606	55,309
Royalty	78,235	115,808
Computer software maintenance	45,020	39,920
Project management expenses	23,925	18,384
Recoverable expenses	20,487	36,031
Net loss from sale of property and equipment	-	11,352
Representative expenses	9,599	10,997
Membership fees	2,935	2,582
Office supplies	49,346	44,822
Penalties paid	89	320
Loan provision and return expenses	53,197	39,694
Bond issue expenses	10,100	6,114
Financial system mediator expenses	12,623	14,667
Expenses of short term and low value assets leases	4,903	14,648
Other expenses	47,127	37,333
Total other expense	849,605	876,619

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

13 Income tax expense

In thousand Armenian drams	2022	2021
Current tax expense	42,598	-
Deferred tax	43,458	69,720
Total income tax expense	86,056	69,720

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2021: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2022	Effective rate (%)	2021	Effective rate (%)
Profit before tax	93,035		76,716	
Income tax	16,746	18	13,809	18
Non-deductible expenses	24,930	27	6,226	8
Foreign exchange (gains)/losses	(8,687)	(9)	17,179	22
Non-deductible expenses	53,067	57	32,506	42
Income tax expense	86,056	93	69,720	90

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2021	Recognized in profit or loss	2022 Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	-	(1,771)	(1,771)	-	(1,771)
Amounts due from financial institutions	-	511	511	511	-
Investments in securities	-	40	40	40	-
Loans to customers	(511,595)	281,100	(230,495)	-	(230,495)
Property and equipment	26,685	4,063	30,748	30,748	-
Lease	8,249	2,138	10,387	10,387	-
Borrowings	-	8,176	8,176	8,176	-
Other liabilities	56,832	(20,928)	35,904	35,904	-
Tax losses carried forward	316,787	(316,787)	-	-	-
Deferred tax asset/(liability)	(103,042)	(43,458)	(146,500)	85,766	(232,266)

In thousand Armenian drams	2020	Recognized in profit or loss	2021 Net	Deferred tax asset	Deferred tax liability
Loans to customers	(163,499)	(348,096)	(511,595)	-	(511,595)
Property and equipment	26,913	(228)	26,685	26,685	-
Lease	11,125	(2,876)	8,249	8,249	-
Other assets	(1,100)	1,100	-	-	-
Borrowings	4,066	(4,066)	-	-	-
Other liabilities	89,173	(32,341)	56,832	56,832	-
Tax losses carried forward	-	316,787	316,787	316,787	-
Deferred tax asset/(liability)	(33,322)	(69,720)	(103,042)	408,553	(511,595)

14 Cash and cash equivalents

In thousand Armenian drams	31 December 2022	31 December 2021
Bank accounts	981,806	944,339
Cash on hand	535,199	605,699
Cash on the way	3,936	-
	1,520,941	1,550,038
Less loss allowance	(21)	(51)
Total cash and cash equivalents	1,520,920	1,549,987

As of 31 December 2022 bank accounts in amounts of AMD 648,647 thousand (66.1%) (2021: AMD 770,535 thousand (81.6%) from 3 banks) were due from 3 commercial banks.

An analysis of changes in the ECLs on cash and cash equivalents as follows:

In thousand Armenian drams	31 December 2022		31 December 2021	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	51	51	7	7
Net remeasurement of loss allowance	(30)	(30)	44	44
Balance as of 31 December	21	21	51	51

Non-cash transactions performed by the Company during 2021 are represented by:

- repayment of loan by providing of collateral with total value of AMD 10,032 thousand.

15 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative financial instruments held are set out below.

In thousand Armenian drams	31 December 2022			31 December 2021		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Foreign exchange swap contracts	2,190,234	-	9,856	960,280	1,885	-
Other derivative instruments	34,658	-	543	-	-	-
Total derivative financial instruments		-	10,399		1,885	-

16 Amounts due from financial institutions

In thousand Armenian drams	31 December 2022	31 December 2021
Deposits in banks	1,378,599	-
	1,378,599	-
Less loss allowance on amounts due from financial institutions	(16,882)	-
Total amounts due from other financial institutions	1,361,717	-

Deposits in banks have a maturity of more than 90 days.

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	31 December 2022		31 December 2021	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	-	-	-	-
Net remeasurement of loss allowance	16,882	16,882	-	-
Balance as of 31 December	16,882	16,882	-	-

17 Loans to customers

In thousand Armenian drams	31 December 2022			31 December 2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Agricultural loans	11,907,273	(1,418,328)	10,488,945	12,922,509	(2,655,958)	10,266,551
Mortgage and consumer lending						
Mortgage	81,694	(101)	81,593	-	-	-
Consumer lending	3,146,640	(1,143,084)	2,003,556	3,680,893	(1,170,467)	2,510,426
	3,228,334	(1,143,185)	2,085,149	3,680,893	(1,170,467)	2,510,426
Commercial lending						
Trading	3,771,410	(222,266)	3,549,144	3,761,204	(482,014)	3,279,190
Manufacture	973,476	(34,843)	938,633	721,377	(100,671)	620,706
Transport	691,477	(22,869)	668,608	660,728	(146,831)	513,897
Service	407,346	(12,085)	395,261	369,500	(64,492)	305,008
Construction	45,327	(1,165)	44,162	49,012	(35,455)	13,557
Other	802,018	(53,976)	748,042	952,767	(214,378)	738,389
	6,691,054	(347,204)	6,343,850	6,514,588	(1,043,841)	5,470,747
Total	21,826,661	(2,908,717)	18,917,944	23,117,990	(4,870,266)	18,247,724

During the year ended 31 December 2022 the Company did not obtain assets by taking possession of collateral for loans to customers (2021: AMD 10,032 thousand). The Company sold these assets in 2022.

As of 31 December 2022 did not have significant concentration.

As of 31 December 2022, the loans to customers with a gross amount of AMD 30,600 thousand (2021: nil) can be the transfer of rights to borrowed funds, and AMD 3,693,562 thousand (2021: AMD 3,090,369 thousand) can be the transfer of rights to loans from the Central Bank (refer to note 25).

An analysis of changes in gross carrying amounts in relation to agricultural, mortgage and consumer lending and commercial lending are as follows:

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
Balance at of 1 January	8,346,895	703,013	3,872,601	12,922,509
New assets originated or purchased	7,921,743	70,158	22,629	8,014,530
Assets repaid	(7,707,443)	(439,448)	(709,242)	(8,856,133)
Transfer to Stage 1	27,820	(21,639)	(6,181)	-
Transfer to Stage 2	(200,427)	294,266	(93,839)	-
Transfer to Stage 3	(176,074)	(213,622)	389,696	-
Change in balance of asset from interest and foreign exchange	1,136,606	31,110	45,271	1,212,987
Recoveries	-	-	194,432	194,432
Amounts written off during the year	-	-	(1,581,052)	(1,581,052)
Balance as of 31 December	9,349,120	423,838	2,134,315	11,907,273

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	2,015,925	163,889	1,501,079	3,680,893
New assets originated or purchased	2,476,719	55,481	22,190	2,554,390
Assets repaid	(2,441,283)	(116,025)	(191,077)	(2,748,385)
Transfer to Stage 1	3,686	(3,686)	-	-
Transfer to Stage 2	(53,916)	68,947	(15,031)	-
Transfer to Stage 3	(76,796)	(70,052)	146,848	-
Change in balance of asset from interest and foreign exchange	357,346	17,490	115,753	490,589
Recoveries	-	-	66,057	66,057
Amounts written off during the year	-	-	(815,210)	(815,210)
Balance as of 31 December	2,281,681	116,044	830,609	3,228,334

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	4,619,107	325,033	1,570,448	6,514,588
New assets originated or purchased	4,846,295	20,690	8,200	4,875,185
Assets repaid	(3,885,301)	(242,434)	(459,276)	(4,587,011)
Transfer to Stage 1	5,107	(4,440)	(667)	-
Transfer to Stage 2	(76,262)	141,833	(65,571)	-
Transfer to Stage 3	(60,938)	(70,236)	131,174	-
Change in balance of asset from interest and foreign exchange	432,026	2,248	54,552	488,826
Recoveries	-	-	95,913	95,913
Amounts written off during the year	-	-	(696,447)	(696,447)
Balance as of 31 December	5,880,034	172,694	638,326	6,691,054

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
Balance at of 1 January	8,222,918	2,353,623	3,118,926	13,695,467
New assets originated or purchased	6,884,159	227,054	87,738	7,198,951
Assets repaid	(7,313,918)	(932,662)	(745,300)	(8,991,880)
Transfer to Stage 1	218,548	(209,320)	(9,228)	-
Transfer to Stage 2	(284,900)	317,630	(32,730)	-
Transfer to Stage 3	(348,653)	(1,117,645)	1,466,298	-
Change in balance of asset from interest and foreign exchange	968,741	64,333	563,491	1,596,565
Recoveries	-	-	199,761	199,761
Amounts written off during the year	-	-	(776,355)	(776,355)
Balance as of 31 December	8,346,895	703,013	3,872,601	12,922,509

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	2,594,995	531,546	1,249,473	4,376,014
New assets originated or purchased	2,139,616	69,341	37,994	2,246,951
Assets repaid	(2,857,831)	(236,821)	(199,628)	(3,294,280)
Transfer to Stage 1	44,020	(42,431)	(1,589)	-
Transfer to Stage 2	(81,529)	94,420	(12,891)	-
Transfer to Stage 3	(144,551)	(271,563)	416,114	-
Change in balance of asset from interest and foreign exchange	321,205	19,397	214,301	554,903
Recoveries	-	-	91,671	91,671
Amounts written off during the year	-	-	(294,366)	(294,366)
Balance as of 31 December	2,015,925	163,889	1,501,079	3,680,893

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance at of 1 January	3,483,786	1,073,814	1,669,720	6,227,320
New assets originated or purchased	4,028,710	134,787	41,462	4,204,959
Assets repaid	(3,107,360)	(506,534)	(560,080)	(4,173,974)
Transfer to Stage 1	35,217	(34,684)	(533)	-
Transfer to Stage 2	(78,458)	87,227	(8,769)	-
Transfer to Stage 3	(54,997)	(441,047)	496,044	-
Change in balance of asset from interest and foreign exchange	312,209	11,470	287,940	611,619
Recoveries	-	-	126,454	126,454
Amounts written off during the year	-	-	(481,790)	(481,790)
Balance as of 31 December	4,619,107	325,033	1,570,448	6,514,588

An analysis of changes in ECL allowances in relation to agricultural, mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural loans				
ECL allowance as of 1 January	157,402	85,126	2,413,430	2,655,958
Transfer to Stage 1	7,292	(4,531)	(2,761)	-
Transfer to Stage 2	(4,208)	47,946	(43,738)	-
Transfer to Stage 3	(3,681)	(46,024)	49,705	-
Net remeasurement of loss allowance	372,051	(30,626)	(848,538)	(507,113)
Net remeasurement of loss allowances on new originated financial assets	642,248	9,457	4,398	656,103
Recoveries	-	-	194,432	194,432
Amounts written off during the year	-	-	(1,581,052)	(1,581,052)
Balance as of 31 December	1,171,104	61,348	185,876	1,418,328

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
ECL allowance as of 1 January	58,085	31,643	1,080,739	1,170,467
Transfer to Stage 1	1,160	(1,160)	-	-
Transfer to Stage 2	(1,825)	8,732	(6,907)	-
Transfer to Stage 3	(2,561)	(19,442)	22,003	-
Net remeasurement of loss allowance	215,545	14,176	(135,967)	93,754
Net remeasurement of loss allowances on new originated financial assets	607,750	13,004	7,363	628,117
Recoveries	-	-	66,057	66,057
Amounts written off during the year	-	-	(815,210)	(815,210)
Balance as of 31 December	878,154	46,953	218,078	1,143,185

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	69,142	33,694	941,005	1,043,841
Transfer to Stage 1	855	(558)	(297)	-
Transfer to Stage 2	(1,193)	33,331	(32,138)	-
Transfer to Stage 3	(1,348)	(14,907)	16,255	-
Net remeasurement of loss allowance	62,797	(38,495)	(263,509)	(239,207)
Net remeasurement of loss allowances on new originated financial assets	140,658	712	1,734	143,104
Recoveries	-	-	95,913	95,913
Amounts written off during the year	-	-	(696,447)	(696,447)
Balance as of 31 December	270,911	13,777	62,516	347,204

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
ECL allowance as of 1 January	179,364	453,823	1,633,370	2,266,557
Transfer to Stage 1	32,877	(29,357)	(3,520)	-
Transfer to Stage 2	(8,009)	21,453	(13,444)	-
Transfer to Stage 3	(8,893)	(270,991)	279,884	-
Net remeasurement of loss allowance	(129,297)	(104,154)	1,053,488	820,037
Net remeasurement of loss allowances on new originated financial assets	91,360	14,352	40,246	145,958
Recoveries	-	-	199,761	199,761
Amounts written off during the year	-	-	(776,355)	(776,355)
Balance as of 31 December	157,402	85,126	2,413,430	2,655,958

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	92,986	154,466	771,467	1,018,919
Transfer to Stage 1	9,630	(8,902)	(728)	-
Transfer to Stage 2	(3,175)	8,783	(5,608)	-
Transfer to Stage 3	(6,375)	(101,107)	107,482	-
Net remeasurement of loss allowance	(73,807)	(33,352)	387,165	280,006
Net remeasurement of loss allowances on new originated financial assets	38,826	11,755	23,656	74,237
Recoveries	-	-	91,671	91,671
Amounts written off during the year	-	-	(294,366)	(294,366)
Balance as of 31 December	58,085	31,643	1,080,739	1,170,467

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	91,286	156,742	955,065	1,203,093
Transfer to Stage 1	4,232	(4,036)	(196)	-
Transfer to Stage 2	(2,654)	6,475	(3,821)	-
Transfer to Stage 3	(2,151)	(80,594)	82,745	-
Net remeasurement of loss allowance	(62,334)	(51,597)	245,752	131,821
Net remeasurement of loss allowances on new originated financial assets	40,763	6,704	16,796	64,263
Recoveries	-	-	126,454	126,454
Amounts written off during the year	-	-	(481,790)	(481,790)
Balance as of 31 December	69,142	33,694	941,005	1,043,841

As of 31 December 2022 and 2021 the estimated fair value of loans to customers approximates it carrying amount. Refer to note 31.

Maturity analysis of loans to customers are disclosed in note 33.

Credit, currency and interest rate analyses of loans to customers are disclosed in note 34. The information on related party balances is disclosed in note 30.

18 Securities pledged under repurchase agreements

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2022	31 December 2021
Investment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	202,296	-
Less loss allowance	(223)	-
Total investment securities at amortised cost pledged under repurchase agreements	202,073	-

An analysis of changes in the ECLs on investment securities measured at amortised cost, including pledged under repurchase agreements as follows:

In thousand Armenian drams		2022		2021
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	-	-	-	-
Net remeasurement of loss allowance	223	223	-	-
Balance as of 31 December	223	223	-	-

Investment securities measured at amortised cost upon profitability and maturity terms:

In thousand Armenian drams	31 December 2022		31 December 2021	
	%	Maturity	%	Maturity
RA state bonds	7.15	2025	-	-

All debt securities have fixed coupons.

The Company has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2021: nil).

19 Right-of-use assets

In thousand Armenian drams	Buildings	Total
Cost		
As of 1 January 2021	865,336	865,336
Remeasurement	244,528	244,528
Lease terminations	(101,896)	(101,896)
As of 31 December 2021	1,007,968	1,007,968
Remeasurement	421,192	421,192
Lease terminations	(207,344)	(207,344)
As of 31 December 2022	1,221,816	1,221,816
Accumulated depreciation		
As of 1 January 2021	417,424	417,424
Expenses for the year	211,393	211,393
Lease terminations	(61,038)	(61,038)
As of 31 December 2021	567,779	567,779
Expenses for the year	190,418	190,418
Lease terminations	(57,410)	(57,410)
As of 31 December 2022	700,787	700,787
Carrying amount		
As of 31 December 2021	440,189	440,189
As of 31 December 2022	521,029	521,029

Right-of-use assets

The Company has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. The Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

20 Property and equipment

In thousand Armenian drams

	Leasehold improvement	Computer and other devices	Office equipment	Vehicles	Other fixed assets	Total
Cost						
As of 01 January 2021	285,436	507,297	341,411	77,826	219,863	1,431,833
Additions	4,053	21,276	3,123	1,248	2,436	32,136
Disposals	(17,380)	-	(15,092)	(16,000)	(3,165)	(51,637)
As of 31 December 2021	272,109	528,573	329,442	63,074	219,134	1,412,332
Additions	2,895	13,888	3,899	-	2,510	23,192
Disposals	(5,551)	-	(859)	-	-	(6,410)
As of 31 December 2022	269,453	542,461	332,482	63,074	221,644	1,429,114
Accumulated depreciation						
As of 1 January 2021	236,723	406,764	319,185	77,677	212,756	1,253,105
Expenses for the year	18,743	51,540	10,303	547	4,801	85,934
	(14,710)	-	(13,639)	(16,000)	(2,488)	(46,837)
As of 31 December 2021	240,756	458,304	315,849	62,224	215,069	1,292,202
Expenses for the year	13,278	50,637	8,425	850	2,943	76,133
Disposals	(4,898)	-	(859)	-	-	(5,757)
As of 31 December 2022	249,136	508,941	323,415	63,074	218,012	1,362,578
Carrying amount						
As of 31 December 2021	31,353	70,269	13,593	850	4,065	120,130
As of 31 December 2022	20,317	33,520	9,067	-	3,632	66,536

Fully depreciated items

As of 31 December 2022 fixed assets included fully depreciated assets in amount of AMD 1,094,956 thousand (2021: AMD 902,034 thousand).

Restrictions on title of fixed assets

As of 31 December 2022, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2021: either).

Contractual commitments

As of 31 December 2022 the Company did not have contractual commitments to invest in property and equipment (2021: either).

21 Intangible assets

In thousand Armenian drams

	Licenses	Computer software	Total
Cost			
As of 1 January 2021	470,756	176,404	647,160
Additions	15,709	-	15,709
As of 31 December 2021	486,465	176,404	662,869
Additions	41,176	10,800	51,976
Disposals	-	(3,607)	(3,607)
As of 31 December 2022	527,641	183,597	711,238
Accumulated amortisation			
As of 1 January 2021	348,667	44,902	393,569
Amortisation charge	60,131	10,161	70,292
As of 31 December 2021	408,798	55,063	463,861
Amortisation charge	54,705	10,842	65,547
Disposals	(8)	-	(8)
As of 31 December 2022	463,495	65,905	529,400
Carrying amount			
As of 31 December 2021	77,667	121,341	199,008
As of 31 December 2022	64,146	117,692	181,838

Contractual commitments

As of 31 December 2022 the Company did not have contractual commitments to invest in intangible assets (2021: either).

As of 31 December 2021 and 31 December 2022, the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As of 31 December 2022 intangible assets included fully depreciated assets in amount of AMD 426,771 thousand (2021: AMD 307,740 thousand).

22 Other assets

In thousand Armenian drams	31 December 2022	31 December 2021
Debtors and other receivables	727	83
Other financial assets	37,611	20,006
Total other financial assets	38,338	20,089
Prepaid expenses	12,799	11,253
Other prepaid taxes	19,208	19,835
Prepayments	714	852
Materials	15,998	12,245
Repossessed assets	10,077	20,109
Total non-financial assets	58,796	64,294
Total other assets	97,134	84,383

Expected credit losses on other assets are round to zero and are therefore not disclosed in this table.

Details of non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances as of 31 December are shown below:

In thousand Armenian drams	31 December 2022	31 December 2021
Property	10,077	20,109
Total repossessed assets	10,077	20,109

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

23 Debt securities issued

As of 31 December 2022, the Company had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
10.02.2022	AMD	10,000	140,000	12.00	10.02.2025	1,400,000,000
14.04.2022	USD	25	42,130	6.50	20.04.2024	1,053,250
15.06.2022	AMD	10,000	25,000	12.50	21.06.2024	250,000,000
21.06.2022	USD	25	27,385	6.50	21.06.2024	684,625
16.11.2022	USD	25	40,000	7.50	16.11.2024	1,000,000
16.11.2022	AMD	10,000	50,182	13.00	16.11.2024	501,820,000

The Company has not repurchased any of its own securities issued during the year (2021: either)

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2021: nil).

The bonds issued by the Company are listed in the Armenian Securities Exchange.

24 Repurchase agreements

In thousand Armenian drams	31 December 2022	31 December 2021
Repurchase agreements with the banks	199,329	-
Total payables on repurchase agreements	199,329	-

25 Other borrowed funds

In thousand Armenian drams	31 December 2022	31 December 2021
Loans from international financial institutions	3,342,973	5,353,928
Loans from the CBA	3,973,402	3,092,140
Loans from other financial institutions	4,786,823	1,102,201
Loans from related parties (FINCA Microfinance Holding)	401,906	887,177
Total other borrowed funds	12,505,104	10,435,446

As of 31 December 2022 the Company has borrowings from 7 financial institutions (2021: 5 financial institutions) whose balances each exceed 10% of equity. The gross amount of these balances as of 31 December 2022 is AMD 11,742,180 thousand (2021: AMD 9,233,687 thousand).

On 28 June 2021 the Company 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 Company first provides loans out of their own funds, and afterwards applies 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 of 31 December 2022 the outstanding balance of loans under "MSME Support" program was AMD 2,657,715 thousand (2021: AMD 1,578,287 thousand).

On May 20, 2021 the Company 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 Company 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 of December 31, 2022 the outstanding balance of loans under "Agricultural Sector Support" program was AMD 1,267,138 thousand (2021: AMD 1,482,026 thousand).

As of 31 December 2022 loans from financial organizations are secured by the possibility of ceding the right of claim against loans in the gross amount of AMD 30,600 thousand given to customers (2021: nil) (refer to note 17).

As of 31 December 2022 loans from the CBA are secured by the possibility of ceding the right of claim against loans in the gross amount of AMD 3,693,562 thousand given to customers (2021: AMD 3,090,369 thousand) (refer to note 17).

Management of the Company believes that there are no other financial instruments similar to the other borrowed funds received from the 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 Company 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 of 31 December 2021, the Company 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 Company obtained waivers from the lenders before the 2021 year end and for the purposes of the Company's liquidity position analysis as at 31 December 2021, the Company didn't make any reclassifications for the borrowings as these loans were repaid according to their contractual terms.

The Company has not had any defaults of principal, interest or other breaches during the period.

26 Lease liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
Lease liabilities	578,768	500,013
Total lease liabilities	578,768	500,013

The Company has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets (refer to note 12), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

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

In thousand Armenian drams	31 December 2022	31 December 2021
As of 1 January	500,013	510,764
Remeasurement	421,192	244,528
Termination	(207,344)	-
Accretion of interest	74,333	63,361
Payments	(209,426)	(323,318)
Income from lease terminations	-	4,032
Income from concessions on lease liabilities	-	646
Total lease liabilities as of 31 December	578,768	500,013

In 2022 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 13.2% (2021: 12.2%).

The lease liabilities are secured by the related underlying assets. For the undiscounted maturity analysis of lease liabilities as of 31 December 2022 refer to note 34.3.

27 Other liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
Accounts payables	43,432	32,986
Due to personnel	82,777	102,051
Payables on consumer lending	22,898	34,125
Advances	12,321	28,762
Other financial liabilities	21,278	7,175
Total other financial liabilities	182,706	205,099
Tax payable, other than income tax	61,167	74,285
Total other liabilities	243,873	279,384

28 Equity

As of 31 December 2022 the Company's registered, issued, circulating and paid-in share capital was AMD 4,905,960 thousand. In accordance with the Company's statues, the share capital consists of 490,596 ordinary shares, all of which have a par value of AMD 10,000 each.

As of 31 December 2022 and 31 December 2021 FINCA Microfinance Coöperatief U.A. owns 100% of the Company's shares.

The founder of the Company 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 Company 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 31 December 2022, 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 of 31 December 2022 and 31 December 2021 the following shareholders owned FINCA MICROFINANCE HOLDING COMPANY LLC:

First level shareholders / holders of the issued share capital:	31 December 2022	31 December 2021
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 SICAVI	1.03	1.03
Total	100	100

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 Company and have no economic rights. As of 31 December 2022 the Members of FINCA International, Inc. are as follows: Julie Houser, 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.

As of 31 December 2022, the Company did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company’s statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company’s share capital reported in statutory books.

29 Contingencies

Tax and legal matters

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

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

Insurance

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

30 Transactions with related parties

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

The ultimate controlling party of the Company is the FINCA Microfinance Coöperatief U.A.

A number of transactions are entered into with related parties in the normal course of business. These include loans and other transactions. These transactions were carried out on commercial terms and at market rates.

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

In thousand Armenian drams	2022		2021	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Other borrowed funds				
As of 1 January, gross	887,177	-	1,940,591	-
Issued during the year	1,104,019	-	305,140	-
Repayments during the year	(1,589,290)	-	(1,358,554)	-
As of 31 December	401,906	-	887,177	-
Statement of profit or loss and other comprehensive income				
Interest expense on borrowings	18,967	-	85,357	-
Other operating expenses (royalty and management fees)	76,268	-	142,995	-
Other operating expenses (IT and other services)	204,694	-	125,415	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2022	2021
Salaries and bonuses	158,049	154,131
Total key management compensation	158,049	154,131

31 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2022				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	1,520,920	-	1,520,920	1,520,920
Amounts due from financial institutions	-	1,361,717	-	1,361,717	1,361,717
Loans to customers	-	18,983,829	-	18,983,829	18,917,944
Investment securities measured at amortised cost pledged under repurchase agreements	-	202,831	-	202,831	202,073
Other financial assets	-	38,338	-	38,338	38,338
Financial liabilities					
Debt securities issued	-	3,366,140	-	3,366,140	3,308,513
Repurchase agreements	-	199,329	-	199,329	199,329
Other borrowed funds	-	12,505,104	-	12,505,104	12,505,104
Lease liabilities	-	578,768	-	578,768	578,768
Other financial liabilities	-	182,706	-	182,706	182,706

In thousand Armenian drams	31 December 2021				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	1,549,987	-	1,549,987	1,549,987
Loans to customers	-	17,734,421	-	17,734,421	18,247,724
Other financial assets	-	20,089	-	20,089	20,089
Financial liabilities					
Debt securities issued	-	3,547,256	-	3,547,256	3,540,061
Other borrowed funds	-	10,435,446	-	10,435,446	10,435,446
Lease liabilities	-	500,013	-	500,013	500,013
Other financial liabilities	-	205,099	-	205,099	205,099

Amounts due from financial institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 13.1% to 24% per annum (2021: 12.7% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraisers.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Debt securities issued

The estimated fair value of the debt securities issued is determined on the basis of the expected future cash flows, which are discounted by the corresponding interest rates at the end of the year, which mainly coincide with the current interest rates.

Other borrowed funds

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

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities	-	10,399	-	10,399
Total	-	10,399	-	10,399
Net fair value	-	(10,399)	-	(10,399)

In thousand Armenian drams	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	1,885	-	1,885
Total	-	1,885	-	1,885
Net fair value	-	1,885	-	1,885

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Company uses the closing price at the reporting date.

Normally, the derivatives entered into by the Company are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, e.g. market exchange rates (Level 2). Most derivatives entered into by the Company are included in Level 2 and consist of foreign currency forward contracts.

32 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams				31 December 2022		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Repurchase agreements (notes 18, 24)	199,329	-	199,329	202,296	-	(2,967)
Total	199,329	-	199,329	202,296	-	(2,967)

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 34.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 2022
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	1,520,920	-	1,520,920	-	-	-	1,520,920
Amounts due from financial institutions	-	-	-	1,361,717	-	1,361,717	1,361,717
Loans to customers	2,388,207	6,772,233	9,160,440	9,651,026	106,478	9,757,504	18,917,944
Investment securities measured at amortised cost pledged under repurchase agreements	202,073	-	202,073	-	-	-	202,073
Other financial assets	727	37,611	38,338	-	-	-	38,338
	4,111,927	6,809,844	10,921,771	11,012,743	106,478	11,119,221	22,040,992
Liabilities							
Debt securities issued	-	84,989	84,989	3,223,524	-	3,223,524	3,308,513
Repurchase agreements	199,329	-	199,329	-	-	-	199,329
Derivative financial liabilities	10,399	-	10,399	-	-	-	10,399
Other borrowed funds	710,651	5,123,195	5,833,846	6,653,062	18,196	6,671,258	12,505,104
Lease liabilities	14,943	178,822	193,765	379,153	5,850	385,003	578,768
Other financial liabilities	30,878	151,828	182,706	-	-	-	182,706
	966,200	5,538,834	6,505,034	10,255,739	24,046	10,279,785	16,784,819
Net position	3,145,727	1,271,010	4,416,737	757,004	82,432	839,436	5,256,173
Accumulated gap	3,145,727	4,416,737		5,173,741	5,256,173		

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	1,549,987	-	1,549,987	-	-	-	1,549,987
Derivative financial assets	1,885	-	1,885	-	-	-	1,885
Loans to customers	802,357	6,511,098	7,313,455	10,934,269	-	10,934,269	18,247,724
Other financial assets	83	20,006	20,089	-	-	-	20,089
	2,354,312	6,531,104	8,885,416	10,934,269	-	10,934,269	19,819,685
Liabilities							
Debt securities issued	-	3,540,061	3,540,061	-	-	-	3,540,061
Other borrowed funds	966,257	4,369,512	5,335,769	5,099,677	-	5,099,677	10,435,446
Lease liabilities	19,073	175,369	194,442	305,571	-	305,571	500,013
Other financial liabilities	30,770	174,329	205,099	-	-	-	205,099
	1,016,100	8,259,271	9,275,371	5,405,248	-	5,405,248	14,680,619
Net position	1,338,212	(1,728,167)	(389,955)	5,529,021	-	5,529,021	5,139,066
Accumulated gap	1,338,212	(389,955)		5,139,066	5,139,066		

34 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management structure

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

Board of Directors

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

Executive Board

The Executive Board is responsible for implementing and applying risk management related processes to ensure an independent management process. Develops and implements risk management strategy, principles, concepts, policies and limits.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Company. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Accounting

Accounting is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

Controller

Risk management processes throughout the Company are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the General Meeting.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Company.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management and all other relevant employees of the Company on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

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

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

34.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Company's Executive Board and reported to the Board of Directors.

The main business of the Company 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 Company 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 Company'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 Company's Executive 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 Company'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 Company 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 Company 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 Company'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 Company's credit processes.

The Company'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 Company 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 Company's risk management policy are not breached.

Where appropriate, and in the case of most loans, the Company 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.

34.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements.

Explanation of internal rating grades is included in note 34.1.2.

In thousand Armenian drams				31 December 2022
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	535,199	-	-	535,199
Standard	985,742	-	-	985,742
Gross carrying amount	1,520,941	-	-	1,520,941
Loss allowance	(21)	-	-	(21)
Net carrying amount	1,520,920	-	-	1,520,920
Amounts due from financial institutions				
Standard	1,378,599	-	-	1,378,599
Gross carrying amount	1,378,599	-	-	1,378,599
Loss allowance	(16,882)	-	-	(16,882)
Net carrying amount	1,361,717	-	-	1,361,717
Agricultural loans				
High grade	9,349,120	-	-	9,349,120
Standard grade	-	345,772	-	345,772
Low grade	-	78,066	-	78,066
Non-performing grade	-	-	2,134,315	2,134,315
Gross carrying amount	9,349,120	423,838	2,134,315	11,907,273
Loss allowance	(1,171,104)	(61,348)	(185,876)	(1,418,328)
Net carrying amount	8,178,016	362,490	1,948,439	10,488,945
Loans to mortgage and consumer customers				
High	2,281,681	-	-	2,281,681
Standard	-	78,677	-	78,677
Low	-	37,367	-	37,367
Non-performing	-	-	830,609	830,609
Gross carrying amount	2,281,681	116,044	830,609	3,228,334
Loss allowance	(878,154)	(46,953)	(218,078)	(1,143,185)
Net carrying amount	1,403,527	69,091	612,531	2,085,149

In thousand Armenian drams				31 December 2022
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High grade	5,880,034	-	-	5,880,034
Standard grade	-	134,169	-	134,169
Substandard grade	-	38,525	-	38,525
Non-performing grade	-	-	638,326	638,326
Gross carrying amount	5,880,034	172,694	638,326	6,691,054
Loss allowance	(270,911)	(13,777)	(62,516)	(347,204)
Net carrying amount	5,609,123	158,917	575,810	6,343,850
Investment securities measured at amortised cost pledged under repurchase agreements				
Standard	202,296	-	-	202,296
Gross carrying amount	202,296	-	-	202,296
Loss allowance	(223)	-	-	(223)
Net carrying amount	202,073	-	-	202,073
Other financial assets				
Standard grade	38,338	-	-	38,338
Gross carrying amount	38,338	-	-	38,338
Loss allowance	-	-	-	-
Net carrying amount	38,338	-	-	38,338

In thousand Armenian drams				31 December 2021
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	605,699	-	-	605,699
Standard	944,339	-	-	944,339
Gross carrying amount	1,550,038	-	-	1,550,038
Loss allowance	(51)	-	-	(51)
Net carrying amount	1,549,987	-	-	1,549,987
Agricultural loans				
High grade	8,346,895	-	-	8,346,895
Standard grade	-	594,501	-	594,501
Low grade	-	108,512	-	108,512
Non-performing grade	-	-	3,872,601	3,872,601
Gross carrying amount	8,346,895	703,013	3,872,601	12,922,509
Loss allowance	(157,402)	(85,126)	(2,413,430)	(2,655,958)
Net carrying amount	8,189,493	617,887	1,459,171	10,266,551

In thousand Armenian drams	31 December 2021			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to mortgage and consumer customers				
High	2,015,925	-	-	2,015,925
Standard	-	123,873	-	123,873
Low	-	40,016	-	40,016
Non-performing	-	-	1,501,079	1,501,079
Gross carrying amount	2,015,925	163,889	1,501,079	3,680,893
Loss allowance	(58,085)	(31,643)	(1,080,739)	(1,170,467)
Net carrying amount	1,957,840	132,246	420,340	2,510,426
Loans to commercial customers				
High grade	4,619,107	-	-	4,619,107
Standard grade	-	302,147	-	302,147
Low grade	-	22,886	-	22,886
Non-performing grade	-	-	1,570,448	1,570,448
Gross carrying amount	4,619,107	325,033	1,570,448	6,514,588
Loss allowance	(69,142)	(33,694)	(941,005)	(1,043,841)
Net carrying amount	4,549,965	291,339	629,443	5,470,747
Other financial assets				
Standard grade	20,089	-	-	20,089
Gross carrying amount	20,089	-	-	20,089
Loss allowance	-	-	-	-
Net carrying amount	20,089	-	-	20,089

34.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

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

- Quantitative test based on movement in PD;
- "Forborne" status
- 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 Company is reasonably confident that a borrower is able to service the renewed payment schedule.

While determining significant increase in credit risk the Company considers both forward-looking quantitative and qualitative criteria.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and the Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and the Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by the Company to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

	Grade	2022 12 month PD range	2021 12 month PD range
Agricultural loans	Standard	0.002-0.767%	0-1.866%
	Substandard	0.002-50.868%	0.002-83.295%
	Non-Performing	100%	100%
Loans to mortgage and consumer customers	Standard	0.002-0.769%	0-1.897%
	Substandard	0.055-47.041%	0.149-96.209%
	Non-Performing	100%	100%
Loans to commercial customers	Standard	0.002-0.769%	0-1.866%
	Substandard	0.02-45.295%	0.002-94.472%
	Non-Performing	100%	100%

Collective or individual assessment

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

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

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

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Grouping with similar credit risk characteristics

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

- Small (for loan amounts up to AMD 500,000 (equivalent to USD 2041)
- 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.

Definition of default

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

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

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

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower’s future ability to generate stable and sufficient cash flows,

- the borrower’s overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

Forborne and modified loan

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

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

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

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

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

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

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

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Company.

In thousand Armenian drams	2022	2021
Amortised costs of financial assets modified during the period	102,550	39,552
Net modification loss	75,841	23,957

During the years ended 31 December 2022 and 31 December 2021 the Company has modified the contractual cash flows of certain customer loans. 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 amortised cost immediately before the loan was modified and the resulting gain or loss arising from the modification is set out below:

In thousand Armenian drams	31 December 2022	31 December 2021
Amortised cost before modification	209,774	883,712
Loss Allowance	(129,300)	(315,812)
Net loans to customers	80,474	552,208

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 Company 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 3,769,214 thousand as at December 31, 2022 (2021: AMD 4,145,465 thousand).

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 Company's risk management policy are not breached.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile 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.

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default.

The Company 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)

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

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

Forward looking information

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

- GDP growth

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used on 31 December 2022, for the years 2023-2027.

		2023	2024	2025	2026	2027
Nominal GDP growth rate, %	Baseline	10.06	9.57	8.90	9.02	8.50

34.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully allocated in the RA.

34.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to banks.

The analysis of gross loan portfolio of loans to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
Loans collateralized by real estate	5,954,004	5,346,097
Loans collateralized by movable property	2,387,089	1,908,170
Other collateral	105,045	22,116
Loans collateralized by jewellery and other gold items	14,959	94,189
Unsecured loans	13,365,564	15,747,418
Total loans and advances to customers (gross)	21,826,661	23,117,990

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

As of 31 December 2022, the net carrying amount of credit-impaired loans to customers amounted to AMD 4,478 thousand (2021: nil) and for which no loss allowance was created, as the discounted value of the collateral exceeds the loan amount and these loans are mainly secured by movable property.

34.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk (“VaR”) methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

34.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

As of 31 December 2022 the Company did not have financial assets and liabilities with variable interest rates.

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as of 31 December 2022 and 31 December 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2022		2021	
	Average effective interest rate, %		Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest earning assets				
Amounts due from financial institutions	-	3.3	-	-
Loans to customers	27.1	20.6	27.0	21.8
Investment securities measured at amortised cost pledged under repurchase agreements	-	6.8	-	-

	2022		2021	
	Average effective interest rate, %		Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest earning liabilities				
Debt securities issued	12.7	7.2	10.8	6.1
Repurchase agreements	11.9	-	-	-
Other borrowings	8.6	7.9	8.1	7.5

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Company had significant exposure as of 31 December 2022 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2022			31 December 2021		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+10	(432,830)	(432,830)	+10	(67,716)	(67,716)
EUR	+10	1,572	4,572	+10	1,788	1,788
RUB	+10	4	4	+10	3	3

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	288,256	1,192,877	39,787	1,520,920
Amounts due from financial institutions	-	1,361,717	-	1,361,717
Loans to customers	16,588,478	2,329,466	-	18,917,944
Investment securities measured at amortised cost pledged under repurchase agreements	-	202,073	-	202,073
Other financial assets	37,716	622	-	38,338
	16,914,450	5,086,755	39,787	22,040,992

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Liabilities				
Debt securities issued	2,223,555	1,084,958	-	3,308,513
Repurchase agreements	199,329	-	-	199,329
Other borrowings	6,385,083	6,120,021	-	12,505,104
Finance lease liability	578,768	-	-	578,768
Other financial liabilities	168,712	13,970	24	182,706
Total	9,555,447	7,218,949	24	16,774,420
Total effect of derivative financial instruments	(2,190,234)	2,180,378	(543)	(10,399)
Net position as of 31 December 2022	5,168,769	48,184	39,220	5,256,173
As of 31 December 2021				
Total financial assets	14,377,188	5,414,334	26,278	19,817,800
Total financial liabilities	7,646,702	7,033,891	26	14,680,619
Total effect of derivative financial instruments	(958,395)	960,280	-	1,885
Net position as of 31 December 2021	5,772,091	(659,277)	26,252	5,139,066

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

34.3 Liquidity risk

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 33 for the expected maturities of these liabilities.

In thousand Armenian drams	31 December 2022					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Debt securities issued	-	251,186	3,696,280	-	3,947,466	3,308,513
Repurchase agreements	199,943	-	-	-	199,943	199,329
Other borrowed funds	743,212	5,763,089	7,292,693	23,174	13,822,168	12,505,104
Lease liabilities	21,195	255,955	416,100	6,080	699,330	578,768
Other financial liabilities	30,878	151,828	-	-	182,706	182,706
Total undiscounted non-derivative financial liabilities	995,228	6,422,058	11,405,073	29,254	18,851,613	16,774,420
Derivative instruments						
Inflow	34,115	-	-	-	34,115	-
Outflow	(34,658)	-	-	-	(34,658)	543
Foreign exchange swap contracts						
Inflow	2,180,378	-	-	-	2,180,378	-
Outflow	(2,190,234)	-	-	-	(2,190,234)	9,856
Commitments and contingent liabilities	10,399	-	-	-	10,399	10,399

In thousand Armenian drams	31 December 2021					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Debt securities issued	-	3,696,369	-	-	3,696,369	3,540,061
Other borrowed funds	986,790	4,762,922	5,720,818	-	11,470,530	10,435,446
Lease liabilities	24,317	205,819	412,388	-	642,524	500,013
Other financial liabilities	30,770	174,329	-	-	205,099	205,099
Total undiscounted non-derivative financial liabilities	1,041,877	8,839,439	6,133,206	-	16,014,522	14,680,619

As of 31 December 2021 the Company has received payment exemptions from lenders for the borrowed funds in the amount of AMD 2,563,885 thousand, and these funds were repaid in accordance with the contractual terms (refer to note 25).

34.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

35 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams					2022
	Debt securities issued	**Repurchase agreements**	**Other borrowed funds**	**Lease liabilities**	**Total liabilities from financing activities**
Carrying amount at 31 December 2020	5,030,607	-	9,562,356	510,764	15,103,727
Proceeds from issue	-	-	14,666,097	244,528	14,910,625
Redemption	(1,400,000)	-	(13,204,355)	(323,318)	(14,927,673)
Foreign currency translation	-	-	(622,236)	-	(622,236)
Other	(90,546)	-	33,584	68,039	11,077
Carrying amount at 31 December 2021	3,540,061	-	10,435,446	500,013	14,475,520
Proceeds from issue	3,399,678	394,952	13,934,380	421,192	18,150,202
Redemption	(3,533,297)	(199,329)	(10,748,620)	(209,426)	(14,690,672)
Foreign currency translation	(97,929)	-	(1,112,638)	-	(1,210,567)
Other	-	3,706	(3,464)	(133,011)	(132,769)
Carrying amount at 31 December 2022	3,308,513	199,329	12,505,104	578,768	16,591,714

The ''Other'' line includes origination of new lease liabilities and lease modifications being non-movements. This also includes the effect of accrued but not yet paid interest on debt securities issued, repurchase agreements, other borrowed funds, and lease liabilities that are accrued but not yet paid. The Company classifies interest paid as cash flows from operating activities.

36 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Armenia in supervising the Company.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes other reserves.

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

As of 31 December 2022 and 2021 the amount of total capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
In thousand Armenian drams	**31 December 2022**	**31 December 2021**
Tier 1 capital	5,121,715	3,077,369
Risk-weighted assets	17,682,890	16,765,787
Capital adequacy ratio	28.9%	18.4%

The Company has complied with all externally imposed capital requirements through the period.

The Central Bank of Armenia has determined the minimal required regulatory capital at AMD 1,000,000 thousand for credit organizations conducting foreign currency transactions.

37 Events after the reporting period

On 16 February 2023, the Board of the Company decided to issue nominal non-convertible coupon, non-documentary bonds in the amount of up to 1,667,000,000 AMD (of which the maximum amount is up to 4,000,000 USD). On 26 April 2023, the Central Bank approved the prospectus of that issue.