KAMURJ
Universal Credit Organization
Closed Joint Stock Company

Financial statements

Year ended 31 December 2022
together with independent auditor's report

Contents

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բարեկեցիկ աշխարհ

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Independent auditor's report

To the Shareholder and Board of
Kamurj UCO CJSC

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other matter

The financial statements of Kamurj UCO CJSC for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 20 May 2022.

Responsibilities of management and the Board 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.

The Board is 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.

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We communicate with the Board 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.

Ernst & Young CJSC
Yerevan, Armenia

General Director
Partner (Assurance) Eric Hayrapetyan

Responsible Auditor Yelena Adamyan

16 June, 2023

Statement of financial position

As of 31 December 2022

(thousands of Armenian drams)

	Note	2022	2021
Assets			
Cash and cash equivalents	5	224,383	489,816
Amounts due from financial institutions	6	1,036,427	1,196,690
Loans to customers	7	13,710,914	12,992,826
Property, equipment, intangible assets and right-of-use assets	8	317,458	370,615
Deferred income tax assets	9	42,321	124,516
Other assets	10	121,080	140,818
Total assets		**15,452,583**	**15,315,281**
Liabilities			
Loans and borrowings	11	8,210,823	8,549,891
Current income tax liabilities		33,832	–
Other liabilities	12	313,900	394,179
Total liabilities		**8,558,555**	**8,944,070**
Equity			
Share capital	13	5,000,000	5,000,000
Additional paid-in capital		193,044	193,044
Statutory general reserve	13	201,471	201,471
Retained earnings		1,499,513	976,696
Total equity		**6,894,028**	**6,371,211**
Total equity and liabilities		**15,452,583**	**15,315,281**

Signed and authorised for release on behalf of the Management of the Company.

Alexander Teryan Chief Executive Officer

Alexander Sahakyan Chief Accountant

16 June, 2023

The accompanying notes from 1 to 26 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

(thousands of Armenian drams)

	Note	2022	2021 (reclassified)
Interest revenue calculated using effective interest rate	15	2,113,835	1,892,538
Interest expense	15	(617,609)	(500,019)
Net interest income		**1,496,226**	**1,392,519**
Reversal of credit loss expense / (credit loss expense)	17	381,899	(256,654)
Net interest income after reversal of credit loss expense / credit loss expense		**1,878,125**	**1,135,865**
Net gains/(losses) from foreign currency transactions	16	6,211	(71,807)
Other operating income		20,443	20,493
Non-interest income/(loss)		**26,654**	**(51,314)**
Personnel expenses	18	(882,823)	(831,486)
Other operating expenses	18	(44,358)	(33,329)
Administrative expenses	19	(338,754)	(343,722)
Non-interest expense		**(1,265,935)**	**(1,208,537)**
Profit/(loss) before income tax expense		**638,844**	**(123,986)**
Income tax (expense)/recovery	9	(116,027)	7,119
Profit/(loss) for the year		**522,817**	**(116,867)**
Total comprehensive income/(loss) for the year		**522,817**	**(116,867)**

The accompanying notes from 1 to 26 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2022

(thousands of Armenian drams)

	Share capital	*Additional paid-in capital*	*Statutory general reserve*	*Retained earnings*	*Total*
Balance as at 1 January 2021	**5,000,000**	**193,044**	**201,471**	**1,093,563**	**6,488,078**
Loss for the year	–	–	–	(116,867)	**(116,867)**
Balance as at 31 December 2021	**5,000,000**	**193,044**	**201,471**	**976,696**	**6,371,211**
Profit for the year	–	–	–	522,817	**522,817**
Balance as at 31 December 2022	**5,000,000**	**193,044**	**201,471**	**1,499,513**	**6,894,028**

The accompanying notes from 1 to 26 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2022

(thousands of Armenian drams)

	Note	2022	2021(reclassified)
Cash flows from operating activities			
Interest received		2,103,578	1,916,948
Interest paid		(576,932)	(461,406)
Net receipt from foreign currency transactions		6,478	2,015
Net other expenses paid		(23,915)	(12,836)
Personnel expenses		(875,095)	(755,406)
Administrative expenses		(207,224)	(273,518)
Cash flows from operating activities before changes in operating assets and liabilities		**426,890**	**415,797**
Net (increase)/decrease in operating assets			
Amounts due from financial institutions		163,575	(1,200,610)
Loans to customers		(546,721)	(646,805)
Other assets		21,087	(17,614)
Net increase/(decrease) in operating liabilities			
Other liabilities		(78,013)	(24,917)
Net cash flows used in operating activities before income tax		**(13,182)**	**(1,474,149)**
Income tax paid		–	–
Net cash used in operating activities		**(13,182)**	**(1,474,149)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets	8	(32,027)	(86,768)
Net cash used in investing activities		**(32,027)**	**(86,768)**
Cash flows from financing activities			
Proceeds from loans and borrowings	25	2,240,156	5,383,066
Repayment of loans and borrowings	25	(2,149,810)	(3,160,760)
Repayment of lease liabilities	25	(75,033)	(78,093)
Net cash from financing activities		**15,313**	**2,144,213**
Effect of exchange rates changes on cash and cash equivalents		(235,537)	(137,161)
Net (decrease)/increase in cash and cash equivalents		**(265,433)**	**446,135**
Cash and cash equivalents at the beginning of the year	5	489,816	43,681
Cash and cash equivalents at the end of the year	5	**224,383**	**489,816**

The accompanying notes from 1 to 26 are an integral part of these financial statements.

(thousands of Armenian drams)

1. Principal activities

Kamurj Universal Credit Organization (the “Company”) is a closed joint stock company, which was incorporated by the Microenterprise Development Charitable Fund’s Board of Trustees’ decision on March 22, 2010 with the legal status of a limited liability company. The Company conducts its business under license N31, granted on April 27, 2010 by the Central Bank of Armenia (the “CBA”). On the January 30, 2012 Board of Trustees’ decision the Company was reorganized into a closed joint stock company.

The Company’s main activity is the provision of micro and medium-sized loans to individuals, sole proprietors and companies in consumer and business objectives in the Republic of Armenia (RA).

The head office of the Company is located in Yerevan, and 16 branches are located within different regions within RA. The registered office of the Company is located at: 11 Kalents, Yerevan 0033, RA.

The Microenterprise Development Charitable Fund is the only shareholder of the Company.

Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia. It is expected that the war will have a significant impact on the Armenian economy.

As a result of the war there was an influx of non-residents (especially from Russia) to Armenia contributing to significant increase in the volume of money inflows from Russia, Ukraine and Belarus and activation of plastic cards transactions, which has had positive impact on the Armenian economy with the resulting double-digit growth and increased inflation rate. The Company’s management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Company as there is uncertainty over the magnitude of the impact on the economy in general.

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

2. Basis of preparation

Statement of compliance

These financial statements 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”).

Basis of measurement

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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 and presentation currency is Armenian dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Company. These financial statements are presented in thousands of Armenian drams (“AMD”), unless otherwise indicated.

Financial information presented in AMD is rounded to the nearest thousand.

(thousands of Armenian drams)

2. Basis of preparation (continued)

Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. Explanatory notes were amended accordingly.

These reclassifications had no impact on net profit or equity as previously reported.

Certain amounts in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021 have been reclassified

	As previously reported	*Reclassification*	*As reclassified*
Other operating income	74,920	(54,427)	20,493
Interest revenue calculated using effective interest rate	1,838,111	54,427	1,892,538

Certain amounts in the statement of cash flows for the year ended 31 December 2021 have been reclassified

	As previously reported	*Reclassification*	*As reclassified*
Interest received	1,862,521	54,427	1,916,948
Net other income received/(expenses paid)	41,591	(54,427)	(12,836)
Other liabilities	18,803	(43,220)	(24,917)
Income tax paid	(43,220)	43,220	–

In addition, the Company changed composition of certain subtotals in the statement of profit or loss and other comprehensive income, with resulting reclassification in comparative information.

3. Summary of accounting policies

Changes in accounting policies

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB’s *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

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. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement.*

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Company cannot avoid because it has the contract) exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments did not have material impact on the Company.

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 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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.

Other income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Foreign currency

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

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

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included net gains/(losses) from foreign currency transactions - in gain/(loss) from foreign currency translation.

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

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

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

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

Financial instruments

Recognition and initial measurement

The Company initially recognises loans 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.

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 financial asset 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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 realized.

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.

Derecognition

Financial assets

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derecognition (continued)

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.

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 (see note 4) 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.

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.

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.

Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on financial assets measured at amortised cost.

No impairment loss is recognised on equity investments.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Impairment (continued)

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

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 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 20.

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

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, 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.

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.

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 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Impairment (continued)

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
- Observable data on the group of assets, such as the deterioration of the solvency of the borrowers or issuers in the group, or the economic conditions associated with the default of the borrowers or issuers in the given group.

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

Presentation of allowances for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- Loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, the 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. 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 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.

Cash

Cash comprise cash on hand and current accounts with banks. Cash are carried at amortised cost.

Amounts due from financial institutions

In the normal course of business, the Company maintains deposits for various periods of time with banks. Bank deposits with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Loans to customers

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

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loans are measured at amortised cost using the effective interest method. Loans 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.

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 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

The Company has leases for the head office, branches and some equipment. With the exception of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 8).

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

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

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

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

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	*Rate (%)*
Computers and communication	1-7	100.0-14.3
Office supplies	5	20.0
Leasehold improvement	2-10	50.0-10.0
Vehicles	5	20.0

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

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. The renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in operating profit.

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 life from 1 to10 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.

The Company does not have intangible assets with indefinite useful life.

Costs associated with maintaining computer software programmes and current maintenance fees of other intangible assets are recorded as an expense as incurred.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Repossessed assets (continued)

The Company's policy is to pursue timely realization of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations.

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 air 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 recognized.

Loans and borrowings

Attracted resources, which include loans from the RA Central Bank, RA banks and international and other financial institutions, 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.

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.

Additional paid-in capital

Additional paid-in capital is the difference between the fair value and the nominal value at the time of initial recognition of a loan with a below market interest rate provided by the Company's shareholder.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Company is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Company is currently assessing the impact of the amendments.

(thousands of Armenian drams)

4. Significant accounting judgments and estimates

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.

In the process of applying the Company's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognised in the financial statements:

Establish criteria for calculating impairment losses on loans to customers

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 as well as the key assumptions used in estimating recoverable cash flows (refer to note 20).

The measurement of impairment losses on loans to customers under IFRS 9 requires judgement, in particular the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies (see Note 20). Elements of the ECL models that are considered accounting judgements and estimates include:

- Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loans to customers impairment recognized in statement of financial position at 31 December 2022 was AMD 467,606 thousand (2021: AMD 747,917 thousand). More details are provided in Note 7.

5. Cash and cash equivalents

	2022	*2021*
Current accounts with banks	211,923	453,970
Cash on hand	12,460	35,846
Cash and cash equivalents	**224,383**	**489,816**

Impairment relating to cash and cash equivalents is not material and it is not disclosed.

Information about credit quality of cash and cash equivalents is presented in Note 20 "Risk management".

6. Amounts due from financial institutions

	2022	*2021*
Deposits in banks	1,037,990	1,200,610
Less: allowance for impairment	(1,563)	(3,920)
Amounts due from financial institutions	**1,036,427**	**1,196,690**

Deposits are short-term, but the maturities are periodically reviewed and extended. All balances of amounts due from financial institutions are allocated to Stage 1.

(thousands of Armenian drams)

6. Amounts due from financial institutions (continued)

An analysis of changes in the ECL allowances during the year is, as follows:

	2022	*2021*
ECL allowance as at 1 January	**3,920**	**–**
Changes in ECL	(2,357)	3,920
At 31 December	**1,563**	**3,920**

7. Loans to customers

	2022	*2021*
Agricultural loans	5,629,724	7,063,538
Mortgage loans	4,269,948	3,096,799
Consumer loans	1,957,241	1,851,547
Business loans	1,656,172	1,019,657
Housing improvement loans	665,435	661,132
Loans to financial institutions	–	48,070
Gross loans to customers at amortised cost	**14,178,520**	**13,740,743**
Less: allowance for impairment	(467,606)	(747,917)
Loans to customers at amortised cost	**13,710,914**	**12,992,826**

The Company's operations are primarily focused on financing agriculture in the country. The Company offers agricultural loans to individuals and legal entities engaged, or planning to be engaged, in agricultural production or processing. Agricultural loans are provided for agricultural long-term investments, as well as short-term financing needs.

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to agricultural loans during the year ended 31 December 2022 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**6,697,199**	**206,605**	**159,734**	**7,063,538**
New assets originated or purchased	2,122,779	–	–	**2,122,779**
Assets repaid	(3,269,055)	(71,156)	(225,091)	**(3,565,302)**
Transfers to Stage 1	47,755	(46,744)	(1,011)	**–**
Transfers to Stage 2	(60,596)	71,841	(11,245)	**–**
Transfers to Stage 3	(57,113)	(62,092)	119,205	**–**
Recoveries	–	–	328,539	**328,539**
Amounts written off	–	–	(288,808)	**(288,808)**
Foreign exchange adjustments	(11,360)	(4,290)	(15,372)	**(31,022)**
As at 31 December 2022	**5,469,609**	**94,164**	**65,951**	**5,629,724**

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**125,035**	**101,124**	**129,351**	**355,510**
New assets originated or purchased	36,526	–	–	**36,526**
Assets repaid	(82,385)	(25,542)	(181,802)	**(289,729)**
Transfers to Stage 1	37,957	(37,275)	(682)	**–**
Transfers to Stage 2	(3,726)	7,357	(3,631)	**–**
Transfers to Stage 3	(8,038)	(13,814)	21,852	**–**
Impact on period end ECL of exposures transferred between stages during the period	(7,148)	22,366	35,980	**51,198**
Unwinding of discount	–	–	4,074	**4,074**
Changes to models and inputs used for ECL calculations	(3,519)	(11,873)	10,258	**(5,134)**
Recoveries	–	–	328,539	**328,539**
Amounts written off	–	–	(288,808)	**(288,808)**
Foreign exchange adjustments	(1,726)	(1,653)	(3,502)	**(6,881)**
As at 31 December 2022	**92,976**	**40,690**	**51,629**	**185,295**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2022 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**3,031,337**	**50,535**	**14,927**	**3,096,799**
New assets originated or purchased	1,664,778	–	–	**1,664,778**
Assets repaid	(438,894)	(25,082)	(27,251)	**(491,227)**
Transfers to Stage 2	(56,859)	66,071	(9,212)	**–**
Transfers to Stage 3	(5,591)	(17,166)	22,757	**–**
Recoveries	–	–	11,816	**11,816**
Amounts written off	–	–	(8,427)	**(8,427)**
Foreign exchange adjustments	(3,596)	(195)	–	**(3,791)**
As at 31 December 2022	**4,191,175**	**74,163**	**4,610**	**4,269,948**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**7,989**	**23,610**	**13,295**	**44,894**
New assets originated or purchased	18,955	–	–	**18,955**
Assets repaid	(1,051)	(8,907)	(16,651)	**(26,609)**
Transfers to Stage 2	(13,095)	21,734	(8,639)	**–**
Transfers to Stage 3	(439)	(9,948)	10,387	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	(6,579)	1,516	**(5,063)**
Changes to models and inputs used for ECL calculations	(4,004)	11,164	–	**7,160**
Recoveries	–	–	11,816	**11,816**
Amounts written off	–	–	(8,427)	**(8,427)**
As at 31 December 2022	**8,355**	**31,074**	**3,297**	**42,726**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2022 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**1,605,647**	**149,176**	**96,724**	**1,851,547**
New assets originated or purchased	1,422,446	–	–	**1,422,446**
Assets repaid	(1,196,641)	(118,208)	(36,241)	**(1,351,090)**
Transfers to Stage 1	44,771	(44,771)	–	**–**
Transfers to Stage 2	(42,813)	107,249	(64,436)	**–**
Transfers to Stage 3	(21,740)	(8,397)	30,137	**–**
Recoveries	–	–	80,103	**80,103**
Amounts written off	–	–	(45,765)	**(45,765)**
As at 31 December 2022	**1,811,670**	**85,049**	**60,522**	**1,957,241**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**41,836**	**65,824**	**78,397**	**186,057**
New assets originated or purchased	55,915	–	–	**55,915**
Assets repaid	(23,798)	(43,277)	(14,246)	**(81,321)**
Transfers to Stage 1	25,562	(25,562)	–	**–**
Transfers to Stage 2	(2,610)	45,148	(42,538)	**–**
Transfers to Stage 3	(3,665)	(5,489)	9,154	**–**
Impact on period end ECL of exposures transferred between stages during the period	(41,355)	7,936	(23,797)	**(57,216)**
Unwinding of discount	–	–	5,062	**5,062**
Changes to models and inputs used for ECL calculations	1,955	(4,066)	4,744	**2,633**
Recoveries	–	–	80,103	**80,103**
Amounts written off	–	–	(45,765)	**(45,765)**
As at 31 December 2022	**53,840**	**40,514**	**51,114**	**145,468**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans during the year ended 31 December 2022 is as follows:

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**899,907**	**24,435**	**95,315**	**1,019,657**
New assets originated or purchased	1,188,030	–	–	**1,188,030**
Assets repaid	(449,449)	(39,175)	(49,357)	**(537,981)**
Transfers to Stage 1	16,928	(13,181)	(3,747)	**–**
Transfers to Stage 2	(19,600)	93,314	(73,714)	**–**
Transfers to Stage 3	(17,029)	(11,379)	28,408	**–**
Recoveries	–	–	32,707	**32,707**
Amounts written off	–	–	(18,470)	**(18,470)**
Foreign exchange adjustments	(18,608)	(8,012)	(1,151)	**(27,771)**
As at 31 December 2022	**1,600,179**	**46,002**	**9,991**	**1,656,172**

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**18,254**	**10,733**	**72,295**	**101,282**
New assets originated or purchased	37,709	–	–	**37,709**
Assets repaid	(10,547)	(13,270)	(24,199)	**(48,016)**
Transfers to Stage 1	8,179	(5,960)	(2,219)	**–**
Transfers to Stage 2	(9,568)	63,282	(53,714)	**–**
Transfers to Stage 3	(1,029)	(1,379)	2,408	**–**
Impact on period end ECL of exposures transferred between stages during the period	(9,772)	(35,755)	(1,058)	**(46,585)**
Unwinding of discount	–	–	627	**627**
Changes to models and inputs used for ECL calculations	(471)	2,258	(164)	**1,623**
Recoveries	–	–	32,707	**32,707**
Amounts written off	–	–	(18,470)	**(18,470)**
Foreign exchange adjustments	(958)	(3,310)	(837)	**(5,105)**
As at 31 December 2022	**31,797**	**16,599**	**7,376**	**55,772**

An analysis of changes in the gross carrying value and corresponding ECL in relation to housing improvement loans during the year ended 31 December 2022 is as follows:

Housing improvement loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**585,147**	**44,940**	**31,045**	**661,132**
New assets originated or purchased	381,830	–	–	**381,830**
Assets repaid	(313,551)	(23,915)	(47,661)	**(385,127)**
Transfers to Stage 1	8,834	(8,834)	–	**–**
Transfers to Stage 2	(22,833)	25,112	(2,279)	**–**
Transfers to Stage 3	(8,807)	(13,389)	22,196	**–**
Recoveries	–	–	39,458	**39,458**
Amounts written off	–	–	(31,351)	**(31,351)**
Foreign exchange adjustments	–	(466)	(41)	**(507)**
As at 31 December 2022	**630,620**	**23,448**	**11,367**	**665,435**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Housing improvement loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**13,492**	**20,624**	**24,330**	**58,446**
New assets originated or purchased	12,636	–	–	**12,636**
Assets repaid	(9,575)	(8,963)	(33,885)	**(52,423)**
Transfers to Stage 1	4,201	(4,201)	–	**–**
Transfers to Stage 2	(2,019)	3,684	(1,665)	**–**
Transfers to Stage 3	(2,021)	(6,610)	8,631	**–**
Impact on period end ECL of exposures transferred between stages during the period	(310)	3,751	1,131	**4,572**
Unwinding of discount	–	–	464	**464**
Changes to models and inputs used for ECL calculations	1,917	2,240	2,545	**6,702**
Recoveries	–	–	39,458	**39,458**
Amounts written off	–	–	(31,351)	**(31,351)**
Foreign exchange adjustments	–	(145)	(14)	**(159)**
As at 31 December 2022	**18,321**	**10,380**	**9,644**	**38,345**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to financial institutions during the year ended 31 December 2022 is as follows:

Loans to financial institutions	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**48,070**	**–**	**–**	**48,070**
Assets repaid	(46,692)	–	–	**(46,692)**
Foreign exchange adjustments	(1,378)	–	–	**(1,378)**
As at 31 December 2022	**–**	**–**	**–**	**–**

Loans to financial institutions	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**1,728**	**–**	**–**	**1,728**
Assets repaid	(1,728)	–	–	**(1,728)**
As at 31 December 2022	**–**	**–**	**–**	**–**

In 2022, the Company amended presentation of gross carrying value and ECL movements for the year ended 31 December 2021 to conform with current period presentation.

An analysis of changes in the gross carrying value and corresponding ECL in relation to agricultural loans during the year ended 31 December 2021 is as follows:

Agricultural loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2021	**6,701,967**	**338,870**	**341,648**	**7,382,485**
New assets originated or purchased	4,019,117	–	–	**4,019,117**
Assets repaid	(3,549,464)	(192,783)	(172,889)	**(3,915,136)**
Transfers to Stage 1	11,463	(10,492)	(971)	**–**
Transfers to Stage 2	(276,122)	288,529	(12,407)	**–**
Transfers to Stage 3	(134,177)	(246,230)	380,407	**–**
Recoveries	–	–	381,837	**381,837**
Amounts written off	–	–	(760,990)	**(760,990)**
Foreign exchange adjustments and other movements	(75,585)	28,711	3,099	**(43,775)**
As at 31 December 2021	**6,697,199**	**206,605**	**159,734**	**7,063,538**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**155,895**	**184,366**	**269,421**	**609,682**
New assets originated or purchased	67,784	–	–	**67,784**
Assets repaid	(72,291)	(27,070)	(77,787)	**(177,148)**
Transfers to Stage 1	6,279	(5,601)	(678)	**–**
Transfers to Stage 2	(7,285)	17,595	(10,310)	**–**
Transfers to Stage 3	(7,736)	(137,052)	144,788	**–**
Impact on period end ECL of exposure transferred between stages during the period	(2,176)	79,987	153,214	**231,025**
Changes to models and inputs used for ECL calculation	(15,662)	(10,067)	31,402	**5,673**
Recoveries	–	–	381,837	**381,837**
Amounts written off	–	–	(760,990)	**(760,990)**
Foreign exchange adjustments and other movements	227	(1,034)	(1,546)	**(2,353)**
As at 31 December 2021	**125,035**	**101,124**	**129,351**	**355,510**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2021 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**2,391,715**	**44,305**	**11,284**	**2,447,304**
New assets originated or purchased	953,260	–	–	**953,260**
Assets repaid	(289,657)	(2,537)	(2,271)	**(294,465)**
Transfers to Stage 1	10,253	(10,253)	–	**–**
Transfers to Stage 2	(19,475)	19,475	–	**–**
Transfers to Stage 3	(10,795)	–	10,795	**–**
Recoveries	–	–	36,274	**36,274**
Amounts written off	–	–	(41,558)	**(41,558)**
Foreign exchange adjustments and other movements	(3,964)	(455)	403	**(4,016)**
As at 31 December 2021	**3,031,337**	**50,535**	**14,927**	**3,096,799**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**7,357**	**20,750**	**10,311**	**38,418**
New assets originated or purchased	2,309	–	–	**2,309**
Assets repaid	(1,106)	(843)	(1,669)	**(3,618)**
Transfers to Stage 1	4,796	(4,796)	–	**–**
Transfers to Stage 2	(60)	60	–	**–**
Transfers to Stage 3	(33)	–	33	**–**
Impact on period end ECL of exposure transferred between stages during the period	(4,320)	8,516	9,998	**14,194**
Changes to models and inputs used for ECL calculation	(954)	(77)	(94)	**(1,125)**
Recoveries	–	–	36,274	**36,274**
Written off amounts	–	–	(41,558)	**(41,558)**
As at 31 December 2021	**7,989**	**23,610**	**13,295**	**44,894**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2021 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**1,897,098**	**102,660**	**182,644**	**2,182,402**
New assets originated or purchased	1,338,102	–	–	**1,338,102**
Assets repaid	(1,554,761)	(143,877)	(130,764)	**(1,829,402)**
Transfers to Stage 1	10,641	(7,838)	(2,803)	**–**
Transfers to Stage 2	(189,844)	192,020	(2,176)	**–**
Transfers to Stage 3	(80,482)	(51,466)	131,948	**–**
Recoveries	–	–	183,355	**183,355**
Amounts written off	–	–	(389,119)	**(389,119)**
Foreign exchange adjustments and other movements	184,893	57,677	123,639	**366,209**
As at 31 December 2021	**1,605,647**	**149,176**	**96,724**	**1,851,547**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**52,294**	**54,395**	**151,104**	**257,793**
New assets originated or purchased	25,171	–	–	**25,171**
Assets repaid	(28,229)	(29,160)	(72,126)	**(129,515)**
Transfers to Stage 1	6,056	(3,818)	(2,238)	**–**
Transfers to Stage 2	(5,782)	7,520	(1,738)	**–**
Transfers to Stage 3	(4,540)	(29,259)	33,799	**–**
Impact on period end ECL of exposure transferred between stages during the period	(2,857)	47,600	133,617	**178,360**
Changes to models and inputs used for ECL calculation	(277)	18,546	41,743	**60,012**
Recoveries	–	–	183,355	**183,355**
Written off amounts	–	–	(389,119)	**(389,119)**
As at 31 December 2021	**41,836**	**65,824**	**78,397**	**186,057**

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans during the year ended 31 December 2021 is as follows:

Business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**848,516**	**36,217**	**52,190**	**936,923**
New assets originated or purchased	600,323	–	–	**600,323**
Assets repaid	(417,540)	(23,944)	(40,534)	**(482,018)**
Transfers to Stage 1	12,518	(12,518)	–	**–**
Transfers to Stage 2	(34,108)	36,244	(2,136)	**–**
Transfers to Stage 3	(94,915)	(12,065)	106,980	**–**
Recoveries	–	–	56,537	**56,537**
Amounts written off	–	–	(70,276)	**(70,276)**
Foreign exchange adjustments and other movements	(14,887)	501	(7,446)	**(21,832)**
As at 31 December 2021	**899,907**	**24,435**	**95,315**	**1,019,657**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**17,411**	**13,366**	**32,423**	**63,200**
New assets originated or purchased	10,720	–	–	**10,720**
Assets repaid	(8,799)	(5,231)	(26,230)	**(40,260)**
Transfers to Stage 1	3,819	(3,819)	–	**–**
Transfers to Stage 2	(961)	2,435	(1,474)	**–**
Transfers to Stage 3	(2,902)	(5,483)	8,385	**–**
Impact on period end ECL of exposure transferred between stages during the period	(2,469)	8,439	72,283	**78,253**
Changes to models and inputs used for ECL calculation	1,637	(35)	542	**2,144**
Recoveries	–	–	56,537	**56,537**
Written off amounts	–	–	(70,276)	**(70,276)**
Foreign exchange adjustments and other movements	(202)	1,061	105	**964**
As at 31 December 2021	**18,254**	**10,733**	**72,295**	**101,282**

An analysis of changes in the gross carrying value and corresponding ECL in relation to housing improvement loans during the year ended 31 December 2021 is as follows:

Housing improvement loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2021	**651,029**	**66,487**	**99,057**	**816,573**
New assets originated or purchased	438,931	–	–	**438,931**
Assets repaid	(195,223)	(32,338)	(11,479)	**(239,040)**
Transfers to Stage 1	6,704	(3,506)	(3,198)	**–**
Transfers to Stage 2	(55,874)	64,403	(8,529)	**–**
Transfers to Stage 3	(23,199)	(30,801)	54,000	**–**
Recoveries			42,459	**42,459**
Amounts written off	–	–	(42,282)	**(42,282)**
Foreign exchange adjustments and other movements	(237,221)	(19,305)	(98,983)	**(355,509)**
As at 31 December 2021	**585,147**	**44,940**	**31,045**	**661,132**

Housing improvement loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**17,392**	**34,371**	**79,303**	**131,066**
New assets originated or purchased	10,601	–	–	**10,601**
Assets repaid	(13,233)	(17,018)	(10,225)	**(40,476)**
Transfers to Stage 1	4,110	(1,660)	(2,450)	**–**
Transfers to Stage 2	(1,887)	8,836	(6,949)	**–**
Transfers to Stage 3	(1,150)	(16,794)	17,944	**–**
Impact on period end ECL of exposure transferred between stages during the period	(1,902)	13,320	1,470	**12,888**
Changes to models and inputs used for ECL calculation	(414)	(404)	(54,856)	**(55,674)**
Recoveries			42,459	**42,459**
Amounts written off	–	–	(42,282)	**(42,282)**
Foreign exchange adjustments and other movements	(25)	(27)	(84)	**(136)**
As at 31 December 2021	**13,492**	**20,624**	**24,330**	**58,446**

(thousands of Armenian drams)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to financial institutions during the year ended 31 December 2021 is as follows:

Loans to financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**–**	**–**	**–**	**–**
New assets originated or purchased	76,185	–	–	**76,185**
Assets repaid	(23,924)	–	–	**(23,924)**
Foreign exchange adjustments and other movements	(4,191)	–	–	**(4,191)**
As at 31 December 2021	**48,070**	**–**	**–**	**48,070**

Loans to financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**–**	**–**	**–**	**–**
New assets originated or purchased	1,728	–	–	**1,728**
As at 31 December 2021	**1,728**	**–**	**–**	**1,728**

Collateral and other credit enhancements

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired assets.

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*				*Net exposure*	*Associated ECL*
		Property	*Other**	*Surplus collateral*	*Total collateral*		
31 December 2022							
Agricultural loans	65,951	83,480	–	(50,872)	32,608	33,343	51,629
Business loans	9,991	17,880	–	(12,997)	4,883	5,108	7,376
Mortgage loans	4,610	12,967	–	(8,357)	4,610	–	3,297
Consumer loans	60,522	–	–	–	–	60,522	51,114
Housing improvement loans	11,367	–	–	–	–	11,367	9,644
	152,441	**114,327**	**–**	**(72,226)**	**42,101**	**110,340**	**123,060**

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*				*Net exposure*	*Associated ECL*
		Property	*Other**	*Surplus collateral*	*Total collateral*		
31 December 2021							
Agricultural loans	159,734	70,520	2,000	(40,996)	31,524	128,210	129,351
Business loans	95,315	113,360	–	(42,969)	70,391	24,924	72,295
Mortgage loans	14,927	27,287	–	(12,360)	14,927	–	13,295
Consumer loans	96,724	23,070	901	(21,180)	2,791	93,933	78,397
Housing improvement loans	31,045	–	–	–	–	31,045	24,330
	397,745	**234,237**	**2,901**	**(117,505)**	**119,633**	**278,112**	**317,668**

* Other line represents precious jewels and stones.

(thousands of Armenian drams)

7. Loans to customers (continued)

Assets under lien

As of 31 December 2022 the right to claim loans in the amount of AMD 231,477 thousand (2021: AMD 358,213 thousand) were pledged to secure the borrowings received from state non-commercial organizations (refer to note 11).

Concentration of loans to customers

As of 31 December 2022 and 31 December 2021 the Company does not have material concentration of loans represented by third-party entities.

The loans are fully allocated in the territory of the Republic of Armenia. The analysis of the loan portfolio by economic sectors is presented below:

	2022	***2021***
Mortgage	4,269,948	3,096,799
Cattle breeding	3,509,560	4,405,548
Consumer	1,957,241	1,851,547
Crop production	1,924,806	2,449,456
Industry	806,393	194,824
Housing improvement loans	665,435	661,132
Trade	647,463	550,397
Other corporate	202,316	274,436
Other agriculture	195,358	208,534
Financial	–	48,070
Gross loans to customers at amortised cost	**14,178,520**	**13,740,743**
Less: allowance for impairment	(467,606)	(747,917)
Loans to customers at amortised cost	**13,710,914**	**12,992,826**

As of 31 December 2022 and 2021 the estimated fair value of loans to customers is disclosed in note 21.

Maturity analysis of loans to customers is disclosed in note 23. Credit, currency and interest rate analyses of loans provided are disclosed in note 20. The information on related party balances is disclosed in note 24.

(thousands of Armenian drams)

8. Property, equipment, intangible assets and right-of-use assets

The movements in property, equipment, intangible assets and right-of-use assets for 2022 and 2021 were as follows:

	Leasehold improvement	*Computers and communication*	*Vehicles*	*Office Supplies*	*Total Property and equipment*	*Intangible assets*	*Right-of-use assets Buildings*	*Right-of-use assets Equipment*	*Total*
Cost									
1 January 2022	**40,691**	**381,432**	**94,090**	**199,806**	**716,019**	**64,979**	**616,741**	**5,894**	**1,403,633**
Additions	–	1,395	16,300	1,965	**19,660**	12,367	–	–	**32,027**
Modification							37,948		**37,948**
Disposals and write-offs	–	(4,042)	–	(7,700)	**(11,742)**	(10,000)	(43,576)	–	**(65,318)**
31 December 2022	**40,691**	**378,785**	**110,390**	**194,071**	**723,937**	**67,346**	**611,113**	**5,894**	**1,408,290**
Accumulated depreciation and amortisation									
1 January 2022	**11,087**	**257,956**	**94,090**	**186,907**	**550,040**	**23,813**	**454,172**	**4,993**	**1,033,018**
Depreciation charge	4,556	23,386	1,189	4,726	**33,857**	15,209	73,613	451	**123,130**
Disposals and write-offs	–	(4,040)	–	(7,700)	**(11,740)**	(10,000)	(43,576)	–	**(65,316)**
31 December 2022	**15,643**	**277,302**	**95,279**	**183,933**	**572,157**	**29,022**	**484,209**	**5,444**	**1,090,832**
Net book value									
1 January 2022	**29,604**	**123,476**	**–**	**12,899**	**165,979**	**41,166**	**162,569**	**901**	**370,615**
31 December 2022	**25,048**	**101,483**	**15,111**	**10,138**	**151,780**	**38,324**	**126,904**	**450**	**317,458**

(thousands of Armenian drams)

8. Property, equipment, intangible assets and right-of-use assets (continued)

	Leasehold improvement	*Computers and communication*	*Vehicles*	*Office Supplies*	*Total Property and equipment*	*Intangible assets*	*Right-of-use assets Buildings*	*Right-of-use assets Equipment*	*Total*
Cost									
1 January 2021	**15,694**	**366,221**	**94,090**	**192,539**	**668,544**	**25,971**	**539,601**	**5,894**	**1,240,010**
Additions	24,997	15,211	–	7,551	**47,759**	39,008	98,496	–	**185,263**
Modification	–	–	–	–	**–**	–	(21,356)	–	**(21,356)**
Disposals and write-offs	–	–	–	(284)	**(284)**	–	–	–	**(284)**
31 December 2021	**40,691**	**381,432**	**94,090**	**199,806**	**716,019**	**64,979**	**616,741**	**5,894**	**1,403,633**
Accumulated depreciation and amortisation									
1 January 2021	**8,215**	**235,524**	**94,090**	**180,532**	**518,361**	**20,594**	**405,022**	**4,542**	**948,519**
Depreciation charge	2,872	22,432	–	6,659	**31,963**	3,219	49,150	451	**84,783**
Disposals and write-offs	–	–	–	(284)	**(284)**	–	–	–	**(284)**
31 December 2021	**11,087**	**257,956**	**94,090**	**186,907**	**550,040**	**23,813**	**454,172**	**4,993**	**1,033,018**
Net book value									
1 January 2021	**7,479**	**130,697**	**–**	**12,007**	**150,183**	**5,377**	**134,579**	**1,352**	**291,491**
31 December 2021	**29,604**	**123,476**	**–**	**12,899**	**165,979**	**41,166**	**162,569**	**901**	**370,615**

Fully depreciated items

As of 31 December 2022 property, equipment and intangible assets included fully depreciated assets in amount of AMD 493,822 thousand (2021: AMD 494,978 thousand).

Contractual commitments

As of 31 December 2022 the Company had AMD 12,500 thousand contractual commitment in respect of acquisition of intangible assets (2021: did not have any).

(thousands of Armenian drams)

9. Taxation

The corporate income tax expense comprises:

	2022	*2021*
Current tax charge	33,832	−
Deferred tax charge/(credit) − origination and reversal of temporary differences	82,195	(7,119)
Income tax expense/(recovery)	**116,027**	**(7,119)**

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 for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

Numerical reconciliation between the tax expense/(recovery) and accounting profit/(loss) is provided below:

	2022	*2021*
Profit/(loss) before tax	**638,844**	**(123,986)**
Statutory tax rate	18%	18%
Theoretical income tax expense/(benefit) at the statutory rate	**114,992**	**(22,317)**
Non-deductible expenses	672	758
Foreign exchange losses	48	13,288
Privilege for disabled employees	(1,429)	(1,733)
Loan cessions	1,744	2,885
Income tax expense/ (recovery)	**116,027**	**(7,119)**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	1 January 2021	*Recognized In the statement of profit or loss*	*31 December 2021*	*Recognized In the statement of profit or loss*	*31 December 2022*
Amounts due from financial institutions	−	(1,455)	(1,455)	(132)	(1,587)
Loans to customers	93,565	(82,194)	11,371	12,126	23,497
Property, equipment, intangible assets and right-of-use assets	(28,297)	7,676	(20,621)	5,662	(14,959)
Other assets	(238)	(721)	(959)	625	(334)
Loans and borrowings	254	(2,553)	(2,299)	1,408	(891)
Other liabilities	12,405	1,864	14,269	3,618	17,887
Lease liabilities	39,708	(14,083)	25,625	(6,917)	18,708
Tax losses carried forward	−	98,585	98,585	(98,585)	−
Deferred tax asset	**117,397**	**7,119**	**124,516**	**(82,195)**	**42,321**

(thousands of Armenian drams)

10. Other assets

Other assets comprise:

	2022	*2021*
Other financial assets		
Receivables from the RA Government for subsidized loans	34,370	39,794
Receivables on cash transfers	13,782	9,041
Debtors and other receivables	7,511	1,465
Other financial assets	**55,663**	**50,300**
Less: allowance for impairment of other financial assets	(29)	(1,376)
Total other financial assets	**55,634**	**48,924**
Other non-financial assets		
Repossessed assets	26,172	26,172
Prepayments	25,957	8,729
Future expenses	7,037	6,451
Materials	5,607	6,586
Prepaid taxes other than income tax	673	43,908
Other non-financial assets	–	48
Total other non-financial assets	**65,446**	**91,894**
Other assets	**121,080**	**140,818**

11. Loans and borrowings

Loans and borrowings received consisted of the following:

	2022	*2021*
Loans from refinancing credit organizations	2,795,186	2,489,242
Loans from the CBA	2,221,698	1,868,146
Loans from international financial institutions	1,829,629	2,419,619
Borrowings from state non-commercial organizations	1,364,310	1,772,884
Loans and borrowings	**8,210,823**	**8,549,891**

Loans from financial institutions have fixed interest rates.

As of 31 December 2022 the Company had loans and borrowings from five borrowers (31 December 2021: six borrowers) the balance of which exceeds 10% of equity. As of 31 December 2022 these balances amounted to AMD 7,575,335 thousand (2021: AMD 8,056,012 thousand).

As of 31 December 2022 borrowings attracted from state non-commercial organizations are secured by the right to claim loans in the amount of AMD 231,477 thousand (2021: AMD 358,213 thousand).

12. Other liabilities

Other liabilities comprise:

	2022	*2021*
Other financial liabilities		
Lease liabilities	161,113	198,198
Due to personnel	83,808	76,080
Accounts payables	7,554	57,851
Other financial liabilities	15,600	7,200
Total other financial liabilities	**268,075**	**339,329**
Other non-financial liabilities		
Tax payable, other than income tax	29,255	35,658
Prepayments received	14,950	16,606
Other non-financial liabilities	1,620	2,586
Total other non-financial liabilities	**45,825**	**54,850**
Other liabilities	**313,900**	**394,179**

(thousands of Armenian drams)

12. Other liabilities (continued)

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

	2022	*2021*
As at 1 January	**198,198**	**199,151**
Additions	–	98,496
Modification	37,948	(21,356)
Accretion of interest	18,645	16,213
Payments	(93,678)	(94,306)
As at 31 December	**161,113**	**198,198**

The Company had total cash outflows for leases of AMD 95,112 thousand in 2022 (2021: AMD 95,730 thousand).

In 2022 the Company also had non-cash additions to right-of-use assets in amount of AMD 37,948 thousand and additions to lease liabilities in amount of AMD 37,948 thousand (2021: AMD 98,496 thousand each of them).

13. Equity

As at 31 December 2022 and 31 December 2021 the Company's registered and paid-in share capital was AMD 5,000,000 thousand. In accordance with the Company's statues, the share capital consists of 20,000 ordinary shares, all of which have a par value of AMD 250 thousand each.

The Microenterprise Development Charitable Fund is the only shareholder of the Company.

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.

For these purposes reserve fund has been created in accordance with the Company's statutes, which should be replenished through the allocation of min 5% of profit of the reporting period until it becomes not less than 15% of share capital.

14. Commitments and 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.

(thousands of Armenian drams)

14. Commitments and contingencies (continued)

Insurance

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

15. Net interest income

Net interest income comprises:

	2022	*2021*
Financial assets measured at amortized cost		
Loans to customers	2,055,222	1,891,956
Amounts due from financial institutions	58,613	582
Total interest revenue	**2,113,835**	**1,892,538**
Loans and borrowings	(598,964)	(483,806)
Lease liabilities	(18,645)	(16,213)
Total interest expense	**(617,609)**	**(500,019)**
Net interest income	**1,496,226**	**1,392,519**

16. Net gains/(losses) from foreign currency transactions

	2022	*2021*
Net gain from foreign exchange trading activities	6,478	2,015
Net loss from foreign exchange translation	(267)	(73,822)
Net gains/(losses) from foreign currencies	**6,211**	**(71,807)**

17. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Amounts due from financial institutions	6	2,357	–	–	**2,357**
Loans to customers	7	30,050	108,517	239,628	**378,195**
Other assets	10	1,347	–	–	**1,347**
Total credit loss expense/(reversal)		**33,754**	**108,517**	**239,628**	**381,899**

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Amounts due from financial institutions	6	(3,920)	–	–	**(3,920)**
Loans to customers	7	34,739	(86,503)	(201,282)	**(253,046)**
Other assets	10	312	–	–	**312**
Total credit loss expense/(reversal)		**31,131**	**(86,503)**	**(201,282)**	**(256,654)**

(thousands of Armenian drams)

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2022	*2021*
Salaries	855,962	803,176
Other expenses	26,861	28,310
Personnel expenses	**882,823**	**831,486**
Credit service costs	41,710	31,154
Expenses on payment and settlement systems	1,664	1,532
Other	984	643
Other operating expenses	**44,358**	**33,329**

19. Administrative expenses

Administrative expenses comprise:

	2022	*2021*
Amortisation and depreciation	123,130	84,783
Utility and office supplies	44,501	36,618
Fixed assets maintenance	42,283	38,469
Security	33,020	30,204
Taxes, other than income tax, duties	24,049	24,896
Litigation costs	15,939	17,441
Consulting and other services	15,600	7,800
Communications	13,508	13,653
Financial mediator office expenses	8,861	8,483
Advertising costs	5,932	11,795
Transportation expenses	4,142	6,075
Expenses of low value assets leases	1,434	1,424
Lawsuit compensation for damages	−	47,139
Other	6,355	14,942
Administrative expenses	**338,754**	**343,722**

The Company recognised rent expense from leases of low-value assets of AMD 1,434 thousand for the year ended 31 December 2022 (2021 − rent expense from leases of low-value assets of AMD 1,424 thousand).

20. 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. The Company 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

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

(thousands of Armenian drams)

20. Risk management (continued)

Director

The Director has the responsibility to monitor the overall risk process within the Company. He is responsible for the management of the Company's assets and liabilities. He is also responsible for managing the Company's liquidity risk and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for risk management in the lending process.

Company's Accounting unit

The Company's accounting unit is responsible for the current operations of the Company's assets and liabilities, as well as for the entire financial system. The financial department is also responsible for the Company's liquidity risk and finance risk.

Controller

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

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.

Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans provision. The credit risk management and control are centralized in credit risk management team of Company's Risk Management Department and reported to the Company's Management.

Forward-looking information and multiple economic scenarios

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- Consumer Price inflation;
- Armenian dram to U.S. dollar exchange rate;
- Total bank loans.

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Company's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*31 December 2023*	*31 December 2024*	*31 December 2025*
Consumer Price inflation, %					
	Upside	0.15	0.50%	0.10%	0.10%
	Base case	0.70	4.40%	3.80%	4.00%
	Downside	0.15	7.50%	6.90%	7.10%
Armenian dram to U.S. dollar exchange rate					
	Upside	0.15	418	445	460
	Base case	0.70	438	465	490
	Downside	0.15	458	485	520
Total bank loans, thousand AMD					
	Upside	0.15	5,321,847,528	6,024,025,587	6,726,203,647
	Base case	0.70	4,808,637,985	5,365,512,082	5,922,386,180
	Downside	0.15	4,577,122,105	4,840,033,521	5,102,944,937

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.

The following table provides information on the credit quality of gross loans to legal entities and individuals as at 31 December 2022 and 31 December 2021:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total loans**
Agricultural loans				
− not overdue	5,465,178	75,868	3,005	**5,544,051**
− overdue of less than 30 days	4,431	3,963	1,216	**9,610**
− overdue of 30-89 days	−	14,333	10,722	**25,055**
− overdue of 90-179 days	−	−	9,380	**9,380**
− overdue of 180-270 days	−	−	37,993	**37,993**
− overdue more than 270 days	−	−	3,635	**3,635**
Total gross Agricultural loans	**5,469,609**	**94,164**	**65,951**	**5,629,724**
Credit loss allowance	(92,976)	(40,690)	(51,629)	**(185,295)**
Total net Agricultural loans	**5,376,633**	**53,474**	**14,322**	**5,444,429**
Mortgage loans				
− not overdue	4,191,175	74,163	4,019	**4,269,357**
− overdue of less than 30 days	−	−	−	**−**
− overdue of 30-89 days	−	−	−	**−**
− overdue of 90-179 days	−	−	591	**591**
− overdue of 180-270 days	−	−	−	**−**
Total gross mortgage loans	**4,191,175**	**74,163**	**4,610**	**4,269,948**
Credit loss allowance	(8,355)	(31,074)	(3,297)	**(42,726)**
Total net mortgage loans	**4,182,820**	**43,089**	**1,313**	**4,227,222**

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total loans**
Business loans				
− not overdue	1,600,179	3,409	−	**1,603,588**
− overdue of less than 30 days	−	7,141	−	**7,141**
− overdue of 30-89 days	−	35,452	−	**35,452**
− overdue of 90-179 days	−	−	5,298	**5,298**
− overdue of 180-270 days	−	−	2,640	**2,640**
− overdue more than 270 days	−	−	2,053	**2,053**
Total gross Business loans	**1,600,179**	**46,002**	**9,991**	**1,656,172**
Credit loss allowance	(31,797)	(16,599)	(7,376)	**(55,772)**
Total net Business loans	**1,568,382**	**29,403**	**2,615**	**1,600,400**
Consumer loans				
− not overdue	1,796,801	51,022	2,591	**1,850,414**
− overdue of less than 30 days	14,869	5,859	215	**20,943**
− overdue of 30-89 days	−	28,168	−	**28,168**
− overdue of 90-179 days	−	−	18,792	**18,792**
− overdue of 180-270 days	−	−	23,970	**23,970**
− overdue more than 270 days	−	−	14,954	**14,954**
Total gross Consumer loans	**1,811,670**	**85,049**	**60,522**	**1,957,241**
Credit loss allowance	(53,840)	(40,514)	(51,114)	**(145,468)**
Total net Consumer loans	**1,757,830**	**44,535**	**9,408**	**1,811,773**
Housing improvement loans				
− not overdue	626,818	21,911	−	**648,729**
− overdue of less than 30 days	3,802	538	−	**4,340**
− overdue of 30-89 days	−	999	−	**999**
− overdue of 90-179 days	−	−	3,310	**3,310**
− overdue of 180-270 days	−	−	5,930	**5,930**
− overdue more than 270 days	−	−	2,127	**2,127**
Total gross Housing improvement loans	**630,620**	**23,448**	**11,367**	**665,435**
Credit loss allowance	(18,321)	(10,380)	(9,644)	**(38,345)**
Total net Housing improvement loans	**612,299**	**13,068**	**1,723**	**627,090**
Total gross loans to customers	**13,703,253**	**322,826**	**152,441**	**14,178,520**
Credit loss allowance	(205,289)	(139,257)	(123,060)	**(467,606)**
Total net loans to customers	**13,497,964**	**183,569**	**29,381**	**13,710,914**

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total loans**
Agricultural loans				
− not overdue	6,688,239	182,906	6,334	**6,877,479**
− overdue of less than 30 days	8,960	4,596	−	**13,556**
− overdue of 30-89 days	−	19,103	4,291	**23,394**
− overdue of 90-179 days	−	−	77,774	**77,774**
− overdue of 180-270 days	−	−	45,661	**45,661**
− overdue more than 270 days	−	−	25,674	**25,674**
Total gross Agricultural loans	**6,697,199**	**206,605**	**159,734**	**7,063,538**
Credit loss allowance	(125,035)	(101,124)	(129,351)	**(355,510)**
Total net Agricultural loans	**6,572,164**	**105,481**	**30,383**	**6,708,028**

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total loans**
Mortgage loans				
− not overdue	3,031,337	49,822	4,212	**3,085,371**
− overdue of less than 30 days	−	713	−	**713**
− overdue of 30-89 days	−	−	−	**−**
− overdue of 90-179 days	−	−	−	**−**
− overdue of 180-270 days	−	−	2,785	**2,785**
− overdue more than 270 days	−	−	7,930	**7,930**
Total gross Mortgage loans	**3,031,337**	**50,535**	**14,927**	**3,096,799**
Credit loss allowance	(7,989)	(23,610)	(13,295)	**(44,894)**
Total net Mortgage loans	**3,023,348**	**26,925**	**1,632**	**3,051,905**
Business loans				
− not overdue	898,663	12,831	1,624	**913,118**
− overdue of less than 30 days	1,244	847	−	**2,091**
− overdue of 30-89 days	−	10,757	−	**10,757**
− overdue of 90-179 days	−	−	70,178	**70,178**
− overdue of 180-270 days	−	−	7,007	**7,007**
− overdue more than 270 days	−	−	16,506	**16,506**
Total gross Business loans	**899,907**	**24,435**	**95,315**	**1,019,657**
Credit loss allowance	(18,254)	(10,733)	(72,295)	**(101,282)**
Total net Business loans	**881,653**	**13,702**	**23,020**	**918,375**
Consumer loans				
− not overdue	1,585,220	125,011	4,910	**1,715,141**
− overdue of less than 30 days	20,427	7,385	−	**27,812**
− overdue of 30-89 days	−	16,780	1,329	**18,109**
− overdue of 90-179 days	−	−	19,692	**19,692**
− overdue of 180-270 days	−	−	28,870	**28,870**
− overdue more than 270 days	−	−	41,923	**41,923**
Total gross Consumer loans	**1,605,647**	**149,176**	**96,724**	**1,851,547**
Credit loss allowance	(41,836)	(65,824)	(78,397)	**(186,057)**
Total net Consumer loans	**1,563,811**	**83,352**	**18,327**	**1,665,490**
Housing improvement loans				
− not overdue	585,147	30,226	(1,210)	**614,163**
− overdue of less than 30 days	−	3,515	−	**3,515**
− overdue of 30-89 days	−	11,199	−	**11,199**
− overdue of 90-179 days	−	−	12,962	**12,962**
− overdue of 180-270 days	−	−	10,169	**10,169**
− overdue more than 270 days	−	−	9,124	**9,124**
Total gross Housing improvement loans	**585,147**	**44,940**	**31,045**	**661,132**
Credit loss allowance	(13,492)	(20,624)	(24,330)	**(58,446)**
Total net Housing improvement loans	**571,655**	**24,316**	**6,715**	**602,686**

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total loans
Financial institutions loans				
− not overdue	48,070	–	–	**48,070**
− overdue of less than 30 days	–	–	–	**–**
− overdue of 30-89 days	–	–	–	**–**
− overdue of 90-179 days	–	–	–	**–**
− overdue of 180-270 days	–	–	–	**–**
− overdue more than 270 days	–	–	–	**–**
Total gross financial institutions loans	**48,070**	**–**	**–**	**48,070**
Credit loss allowance	(1,728)	–	–	**(1,728)**
Total net financial institutions loans	**46,342**	**–**	**–**	**46,342**
Total gross loans to customers	**12,867,307**	**475,691**	**397,745**	**13,740,743**
Credit loss allowance	(208,334)	(221,915)	(317,668)	**(747,917)**
Total net loans to customers	**12,658,973**	**253,776**	**80,077**	**12,992,826**

Credit quality per class of financial assets

As at 31 December 2022:

	Note		*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage1	211,923	211,923
Amounts due from financial institutions	6	Stage1	1,037,990	1,037,990
Total			**1,249,913**	**1,249,913**

As at 31 December 2021:

	Note		*Standard grade*	*Total*
Cash and cash equivalents	5	Stage1	453,970	453,970
Amounts due from financial institutions	6	Stage1	1,200,610	1,200,610
Total			**1,654,580**	**1,654,580**

The table below shows the mapping of the Company's grading system and external ratings of the counterparties under cash and cash equivalents, amounts due from banks and investment securities as at 31 December 2022 and 31 December 2021.

International external rating agency (Moody's) rating	*Internal rating description*
Aaa to A3	High grade
Baa1 to B3	Standard
Caa1 to Ca	Sub-standard grade
C	Impaired

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.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience.

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

For loans portfolio the Company uses backstop of 30 days past due criterion for determining whether there has been a significant increase in credit risk.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposure for term deposits and cash accounts. For not rated companies the Company adjusts ratings by the country's rating grade where the company operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 60 months.

Determining whether credit risk has increased significantly

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

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due because the estimated PD increased significantly. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

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

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 of 6 months is used.

Collective assessment

The Company calculates ECLs on a collective basis.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that includes only instrument type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Definition of default

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

- ► The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- ► The borrower is past due more than 90 days on any material credit obligation to the Company; or
- ► It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

- ► Qualitative;
- ► Quantitative; and
- ► Based on data developed internally and obtained from external sources.

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

(thousands of Armenian drams)

20. Risk management (continued)

Credit risk (continued)

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.

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 customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised.

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.

	2022	*2021*
Amortised costs of financial assets modified during the period	–	27,882
Net modification loss	–	(10,692)

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.

Loss given default (LGD)

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

Exposure at default (EAD)

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

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For business loans, real estate and vehicles;
- For commercial lending, charges over real estate properties, movable properties and jewelry;
- For retail lending, mortgages over residential properties.

(thousands of Armenian drams)

20. Risk management (continued)

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.

Interest rate risk

The interest rate risk arises from the fact that the change in interest rates will directly affect the cash flow of the Company's financial instruments and their fair value. As of 31 December 2022 and 31 December 2021, the Company has no financial assets and liabilities with floating interest rate.

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 below 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). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2022*	*Effect on profit before tax 2022*	*Change in currency rate in % 2021*	*Effect on profit before tax 2021*
USD	+12.6	(26,876)	+5.0	(6,430)
EUR	+21.3	463	+5.0	103
RUB	+18.6	440	+5.0	96

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, the Company manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. 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.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company’s undiscounted financial liabilities as of 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 23 for the expected maturities of these liabilities.

(thousands of Armenian drams)

20. Risk management (continued)

Liquidity risk (continued)

	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*
Loans and borrowings	102,808	2,481,640	5,586,180	1,557,361	9,727,989	8,210,823
Other financial liabilities (except for lease liabilities)	14,569	92,393	–	–	106,962	106,962
Lease liabilities	7,836	69,156	102,065	–	179,057	161,113
Total undiscounted financial liabilities as at 31 December 2022	**125,213**	**2,643,189**	**5,688,245**	**1,557,361**	**10,014,008**	**8,478,898**
Loans and borrowings	60,820	1,761,629	6,983,025	1,421,257	10,226,731	8,549,891
Other financial liabilities (except for lease liabilities)	65,051	76,080	–	–	141,131	141,131
Lease liabilities	7,685	80,939	153,194	4,288	246,106	198,198
Total undiscounted financial liabilities as at 31 December 2021	**133,556**	**1,918,648**	**7,136,219**	**1,425,545**	**10,613,968**	**8,889,220**

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 Controller. The results of Controller's reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

(thousands of Armenian drams)

21. Fair value measurements

Fair value measurement procedures

The Company's management determines the policies and procedures for fair value measurement.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets.

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

Financial and non-financial assets and liabilities 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).

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.

	At 31 December 2022				
	Level 1	***Level 2***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets					
Loans to customers	–	–	13,114,637	13,114,637	13,710,914
Financial liabilities					
Loans and borrowings	–	–	8,137,997	8,137,997	8,210,823

	At 31 December 2021				
	Level 1	***Level 2***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets					
Loans to customers	–	–	12,957,898	12,957,898	12,992,826
Financial liabilities					
Loans and borrowings	–	–	8,549,891	8,549,891	8,549,891

Amounts due from and to financial institutions

For assets and liabilities 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.

The management considers that the fair values of Company's cash and cash equivalents, amounts due from financial institutions and other financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(thousands of Armenian drams)

21. Fair value measurements (continued)

Financial instruments that are not measured at fair value (continued)

Loans to customers

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 10.6% to 25.5% per annum (2021: 6.5% to 24% per annum).

Loans and borrowings

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

22. Offsetting of financial assets and financial liabilities

As of 31 December 2022 and 2021 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 "Risk management" for the Company's contractual undiscounted repayment obligations.

	2022			*2021*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	224,383	–	**224,383**	489,816	–	**489,816**
Amounts due from financial institutions	1,036,427	–	**1,036,427**	1,196,690	–	**1,196,690**
Loans to customers	4,741,300	8,969,614	**13,710,914**	3,281,352	9,711,474	**12,992,826**
Property, equipment, intangible assets and right-of-use assets	–	317,458	**317,458**	–	370,615	**370,615**
Deferred income tax assets	–	42,321	**42,321**	–	124,516	**124,516**
Other assets	55,637	65,443	**121,080**	48,924	91,894	**140,818**
Total	**6,057,747**	**9,394,836**	**15,452,583**	**5,016,782**	**10,298,499**	**15,315,281**
Loans and borrowings	2,490,503	5,720,320	**8,210,823**	1,274,875	7,275,016	**8,549,891**
Current income tax liabilities	33,832	–	**33,832**	–	–	–
Other liabilities except for lease liabilities	136,217	16,570	**152,787**	176,789	19,192	**195,981**
Lease liabilities	72,705	88,408	**161,113**	60,825	137,373	**198,198**
Total	**2,733,257**	**5,825,298**	**8,558,555**	**1,512,489**	**7,431,581**	**8,944,070**
Net	**3,324,490**	**3,569,538**	**6,894,028**	**3,504,293**	**2,866,918**	**6,371,211**

(thousands of Armenian drams)

24. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The ultimate controlling party of the Company is the Microenterprise Development Charitable Fund.

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

	2022		*2021*	
	Parent	***Key management personnel***	***Parent***	***Key management personnel***
Statement of financial position				
Loans to customers				
Loans outstanding at 1 January, gross	**25,607**	**141,412**	**–**	**40,421**
Loans issued during the year	20,700	116,177	25,900	152,400
Loan repayments during the year	(3,274)	(28,706)	(293)	(51,409)
Interest accrual and foreign exchange effect	2,386	15,581	–	–
Loans outstanding at 31 December, gross	**45,419**	**244,464**	**25,607**	**141,412**
Less: allowance for impairment at 31 December	(90)	(1,147)	(67)	(806)
Loans outstanding at 31 December, net	**45,329**	**243,317**	**25,540**	**140,606**
Property, equipment, intangible assets and right-of-use assets				
Right-of-use assets at 1 January	**37,239**	**–**	**3,751**	**–**
Right-of-use assets' additions	–	–	35,731	–
Right-of-use assets' depreciation expenses	(8,260)	–	(2,243)	–
Right-of-use assets at 31 December	**28,979**	**–**	**37,239**	**–**
Other liabilities				
Lease liabilities at 1 January	39,310	–	5,856	–
Increase in lease liabilities during the year	3,800	–	37,018	–
Payments of lease liabilities during the year	(10,142)	–	(3,564)	–
Lease liabilities at 31 December	**32,968**	**–**	**39,310**	**–**
Accounts payables at 31 December	**1,020**	**–**	**–**	**–**
Statement of profit or loss and other comprehensive income				
Interest revenue calculated using effective interest rate				
Loans to customers	2,386	17,707	1,338	4,655
Interest expense				
Lease liabilities	(3,800)	–	(1,297)	–
Credit loss expense	(23)	(341)	(67)	(112)
Administrative expenses	(1,179)	–	–	–

Compensation of key management personnel was comprised of the following:

	2022	*2021*
Salaries and bonuses	92,149	91,162
Total key management personnel compensation	**92,149**	**91,162**

The loans issued to the related party of the Company are repayable from 5 to 20 years and have interest rates of 7,5-14% (2021: 7.5-14%, repayable from 1 to 20 years).

(thousands of Armenian drams)

25. Changes in liabilities arising from financing activities

	Note	*Loans and borrowings*	*Lease liabilities*	*Total liabilities from financing activities*
Carrying amount at 31 December 2020	11, 12	**6,432,407**	**199,151**	**6,631,558**
Proceeds		5,383,066	–	5,383,066
Redemption		(3,160,760)	(78,093)	(3,238,853)
Foreign currency translation		(143,435)	–	(143,435)
Non-cash transactions		–	77,140	77,140
Other		38,613	–	38,613
Carrying amount at 31 December 2021	11, 12	**8,549,891**	**198,198**	**8,748,089**
Proceeds		2,240,156	–	2,240,156
Redemption		(2,149,810)	(75,033)	(2,224,843)
Foreign currency translation		(451,446)	–	(451,446)
Non-cash transactions		–	37,948	37,948
Other		22,032	–	22,032
Carrying amount at 31 December 2022	11, 12	**8,210,823**	**161,113**	**8,371,936**

The "Other" line includes the effect of accrued but not yet paid interest. The Company classifies interest paid as cash flows from operating activities.

26. 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 Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted 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 maintains 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. No changes were made in the objectives, polices and processes from the previous years.

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/loss, and general reserve.

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 regulatory capital, risk-weighted assets and capital adequacy ratio are provided below.

	2022	*2021*
Tier 1 capital	6,894,028	6,371,211
Tier 2 capital	–	–
Total regulatory capital	**6,894,028**	**6,371,211**
Risk weighted assets	**14,162,729**	**13,429,581**
Capital adequacy ratio	**48.7%**	**47.4%**

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