Financial Statements and Independent Auditor's Report

“Farm Credit Armenia” universal credit organization commercial cooperative

31 December 2022

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Independent auditor's report

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To the participants and Board of Directors of “Farm Credit Armenia” universal credit organization commercial cooperative:

Opinion

We have audited the financial statements of “Farm Credit Armenia” universal credit organization commercial cooperative (the “Organization”), which comprise the statement of financial position as of 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the financial statements

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

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

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

Auditor’s Responsibilities for the Audit of the financial statements

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

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

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

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

Armen Hovhannisyan
Chief Executive Offier of "Grant Thornton" CJSC

Narine Atchemyan
Engagement Partner

30 May 2023

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2022	2021
Interest income calculated using effective interest rate	6	1,805,128	1,595,647
Other interest income	6	25,019	-
Interest expenses	6	(894,908)	(771,063)
Net interest income		935,239	824,584
Net trading loss	7	(79,624)	(43,628)
Income from grants received	8	5,189	5,638
Net loss from foreign currency exchange of non-trading financial assets and liabilities		(159,676)	(77,499)
Other income	9	16,370	17,868
Reversal of credit loss expense	10	54,622	27,848
Personnel expenses	11	(525,676)	(435,838)
Other expenses	12	(365,791)	(251,733)
Profit/(loss) before income tax		(119,347)	67,240
Income tax expense	13	(25,371)	(38,708)
Profit/(loss) for the year		(144,718)	28,532
Total comprehensive income for the year		(144,718)	28,532

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	14	427,371	395,378
Amounts due from financial institutions	15	-	241,607
Investment securities	16	537,353	-
Securities pledged under repurchase agreements	16	410,902	-
Loans to customers	18	12,080,481	12,082,628
Finance lease receivables	19	497,323	-
Property, equipment and intangible assets	20	987,360	812,026
Repossessed assets	21	27,713	72,697
Prepaid income tax		-	13,211
Deferred income tax assets	13	10,678	-
Other assets	22	123,468	196,227
Total assets		15,102,649	13,813,774
Liabilities and equity			
Liabilities			
Loans and borrowings	23	11,815,414	10,503,832
Derivative financial liabilities	17	7,305	8,343
Subordinated debt	24	888,651	888,557
Grants related to assets	25	1,730	2,704
Current income tax liabilities		23,634	-
Deferred income tax liabilities	13	-	5,171
Lease liabilities	29	62,129	50,180
Other liabilities	26	142,739	139,416
Total liabilities		12,941,602	11,598,203
Equity			
Charter capital	27	1,293,236	1,203,042
Retained earnings		867,811	1,012,529
Total equity		2,161,047	2,215,571
Total liabilities and equity		15,102,649	13,813,774

The financial statements were signed on 30 May 2023:

Armen Gabrielyan
General Director

Tatevik Atchemyan
Deputy Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of changes in equity

In thousand Armenian drams	Charter capital	Retained earnings	Total
Balance as of 1 January 2022	1,203,042	1,012,529	2,215,571
Increase in charter capital	90,194	-	90,194
Transactions with owners	90,194	-	90,194
Loss for the year	-	(144,718)	(144,718)
Total comprehensive income for the year	-	(144,718)	(144,718)
Balance as of 31 December 2022	1,293,236	867,811	2,161,047
Balance as of 1 January 2021	1,124,527	983,997	2,108,524
Increase in charter capital	78,515	-	78,515
Transactions with owners	78,515	-	78,515
Profit for the year	-	28,532	28,532
Total comprehensive income for the year	-	28,532	28,532
Balance as of 31 December 2021	1,203,042	1,012,529	2,215,571

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of cash flows

In thousand Armenian drams

	2022	2021
Cash flows from operating activities		
Interests received	1,829,421	1,594,448
Interests paid	(831,711)	(755,138)
Net amounts from foreign currency transactions	(80,662)	(35,285)
Other income received	15,563	17,892
Income from grants	4,215	4,565
Staff and other general administrative expenses	(738,364)	(625,372)
Cash flows before changes in operating assets and liabilities	198,462	201,110
(Increase)/decrease in operating assets		
Amounts due from financial institutions	241,607	543,815
Loans to customers	(40,991)	(807,350)
Finance lease receivables	(506,265)	-
Other assets	15,201	(40,802)
Increase/(decrease) in operating liabilities		
Other liabilities	6,329	23,048
Net cash flow used in operating activities before income tax	(85,657)	(80,179)
Income tax paid	(4,376)	(33,012)
Net cash used in operating activities	(90,033)	(113,191)
Cash flows from investing activities		
Purchase of property and equipment	(156,207)	(706,227)
Sale of property and equipment	1,417	-
Acquisition of securities	(1,053,794)	-
Net cash used in investing activities	(1,208,584)	(706,227)
Cash flow from financing activities		
Loans and borrowings received	6,260,590	4,367,582
Loans and borrowings repaid	(4,924,177)	(3,865,351)
Proceeds from issue of charter capital	83,018	86,081
Repayment of lease liabilities	(32,462)	(31,574)
Net cash from financing activities	1,386,969	556,738
Net increase/(decrease) in cash and cash equivalents	88,352	(262,680)
Cash and cash equivalents at the beginning of the year	395,378	722,209
Effect of exchange differences on cash and cash equivalents	(56,359)	(64,151)
Cash and cash equivalents at the end of the year (note 14)	427,371	395,378

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Notes to the financial statements

1 Principal activities

"Farm Credit Armenia" universal credit organization commercial cooperative (the "Organization") was founded in the Republic of Armenia in 2007 as a universal credit organization commercial cooperative and is regulated by the legislation of the Republic of Armenia (RA). The Organization was registered on 18 September 2007 under license number 20, granted by the Central Bank of Armenia (the "CBA").

The Organization's main activity is the extension of small and medium size agricultural loans to individuals and legal entities. The Organization mainly extends loans and provides other financial services to farms in the regions of RA.

The head office of the Organization is located in Yerevan, 9 branches are located in different regions of the RA. The legal address of the Organization is 9/16 Tbilisyan Highway, Arabkir, Yerevan.

In 2022 the average number of employees in the Organization was 96 (2021: 94).

2 Armenian business environment

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

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

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

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

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

3.5 Standards and interpretations not yet applied by the Organization

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

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

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, refer to note 4.4.5.

Fee and commission income

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

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

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

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

Net trading gain/loss

Net trading gain/loss comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

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

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

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

4.3 Taxation

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

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

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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Organisation initially recognises loans and advances, deposits, debts and subordinated liabilities 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 Organisation becomes a party to the contractual provisions of the instrument.

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

4.4.2 Classification

Financial assets

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Organisation 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 Organisation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Organisation 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 Organisation'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 Organisation's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organisation'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 Organisation changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at 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 Organisation is recognised as a separate asset or liability.

The Organisation enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Organisation retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Organisation 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 Organisation 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.

In certain transactions, the Organisation retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Organisation recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.5), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

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

4.4.5 Impairment

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

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments and financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

The Organisation considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade.

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

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

Measurement of ECL

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

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

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

- Stage 1: When loans are first recognised, the Organisation 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 Organisation 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 Organisation records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

- **PD (the Probability of Default)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD (the Exposure at Default)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest,

whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- **LGD (the Loss Given Default)** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

Restructured financial assets

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

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

Credit-impaired financial assets

At each reporting date, the Organisation 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 Organisation on terms that the Organisation would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

Presentation of allowances for ECL in the statement of financial position.

Loss 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 Organisation estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. 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 Organisation cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group 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 Organisation's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Organisation estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Organisation 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 Organisation's procedures for recovery of amounts due.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise accounts in banks and other short-term amounts.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Loans to customers

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

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

4.8 Investment securities

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

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

For debt securities measured at amortised cost, gains and losses are recognised in profit or loss:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

4.9 Leases

For any new contracts entered into, the Organization 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 Organization 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 Organization,
- the Organization has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies atned scope of the contract,
- the Organization has the right to direct the use of the identified asset throughout the period of use. The Organization 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

Organization as a lessee

At lease commencement date, the Organization 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 Organization, 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 Organization 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 Organization 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 Organization 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 Organization's incremental borrowing rate.

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

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

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

The Organization 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 Organization 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.

Organization as a lessor

As a lessor the Organization classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Upon commencement of a finance lease, the Bank recognie the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

Finance lease income is recognised based on pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

When the Organization takes possession of finance lease assets under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

4.10 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 (%)
Buildings	20	5
Computer equipment	1-5	20-100
Household equipment	1-8	12.5-100
Vehicles	8	12.5

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. Major 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.

4.11 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Organization can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.12 Repossessed assets

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

4.13 Grants

Grants relating to the assets are initially recognised as deferred income at fair value, when there is a reasonable assurance that grants will be received and the Organization will satisfy the conditions associated with grants, later they are recognised in profit or loss as income during useful life of asset.

Grants relating to income should be recognized in profit in the periods in which the Organization recognizes the related costs as an expense.

4.14 Loans and borrowings

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

4.15 Equity

Charter capital

Charter capital consists of participants' shares.

Retained earnings

Include accumulated profit of current and previous periods.

4.16 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the 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 Organization’s trading activity.

5 Critical accounting estimates and judgements

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

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

5.1 Judgements

Classification of financial assets:

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

Establish criteria for calculating ECL

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

5.2 Assumptions and estimations uncertainty

Measurement of fair values

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

Useful Life of property and equipment

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

Related party transactions

In the normal course of business, the Organisation enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 30).

Impairment of financial instruments

The Organisation assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 34.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.5).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 28.

6 Interest and similar income and expense

In thousand Armenian drams	2022	2021
Interest income calculated using effective interest rate		
Loans to customers	1,761,397	1,571,882
Cash and cash equivalents	8,490	23,765
Debt securities at amortised cost	35,241	-
	1,805,128	1,595,647
Other interest income		
Finance lease receivables	25,019	-
Total interest and similar income	1,830,147	1,595,647

Loans and borrowings	766,358	656,864
Lease liabilities	10,807	5,351
Subordinated debt	109,192	108,848
Interest expense from repurchase agreements	8,551	-
Total interest and similar expense	894,908	771,063

7 Net trading loss

In thousand Armenian drams	2022	2021
Net losses from trading in foreign currencies	(44,415)	(26,366)
Net loss from derivative instruments	(35,209)	(17,262)
Total net trading loss	(79,624)	(43,628)

8 Income from grants received

In thousand Armenian drams	2022	2021
Grants related to income	4,215	4,565
Grants related to assets (note 25)	974	1,073
Total income from grants	5,189	5,638

9 Other income

In thousand Armenian drams	2022	2021
Fines and penalties received	15,395	16,380
Net gains from sale of property and equipment	807	831
Net gains from sale of other assets	-	24
Other income	168	633
Total other income	16,370	17,868

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

					2022
In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customerse	18	50,063	11,730	(124,919)	(63,126)
Finance lease receivables	19	8,504	-	-	8,504
Total credit loss expense/(reversal of credit loss expense)		58,567	11,730	(124,919)	(54,622)

					2021
In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customerse	18	50,376	(21,325)	(56,899)	(27,848)
Total credit loss expense/(reversal of credit loss expense)		50,376	(20,325)	(57,609)	(27,848)

11 Personnel expenses

In thousand Armenian drams	2022	2021
Compensations of employees, related taxes included	523,781	435,204
Staff training costs	1,895	634
Total personnel expenses	525,676	435,838

12 Other expenses

In thousand Armenian drams	2022	2021
Depreciation and amortization	92,447	59,115
Maintenance and servicing expenses	38,003	35,207
Household equipment and utility services	40,783	20,138
Short-term lease expenses	11,813	22,986
Loan provision expenses	17,672	17,521
Computer software expenses	12,867	12,166
Insurance	13,059	10,876
Banking fees	4,067	7,864
Payments to Financial system mediator	9,665	9,253
Communication and information services	7,818	7,855
Business trip expenses	6,554	108
Audit and consulting services	5,400	5,900
Taxes, other than income tax, duties	12,327	11,966
Advertising and public relations	9,135	5,270
Office supplies	5,094	4,213
Membership fees	2,487	2,988
Representative expenses	2,497	874
Charitable donations	260	5,830
Loss from sale of property and equipment	18,412	-
Loss from initial recognition of loans	37,730	-
Other	17,701	11,603
Total other expense	365,791	251,733

13 Income tax expense

In thousand Armenian drams	2022	2021
Current tax expense	41,220	18,127
Deferred tax expense/(recovery)	(15,849)	20,581
Total income tax expense	25,371	38,708

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 income tax expenses and accounting profit/(loss) is provided below:

In thousand Armenian drams	2022	Effective rate (%)	2021	Effective rate (%)
Profit/(loss) before tax	(119,347)	-	67,240	-
Income tax	(21,482)	(18)	12,103	18
Non-deductible expenses	18,112	15	12,655	19
Net loss from foreign currency exchange of non-trading financial assets and liabilities	28,741	24	13,950	21
Total income tax expense	25,371	21	38,708	58

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams			31 December 2022		
	31 December 2021	Recognized in profit or loss	Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(1,133)	364	(769)	-	(769)
Loans to customers	(12,550)	11,124	(1,426)	-	(1,426)
Finance lease receivables	-	1,531	1,531	1,531	-
Property and equipment	14,310	(22,858)	(8,548)	-	(8,548)
Other assets	(771)	(1,294)	(2,065)	-	(2,065)
Loans and borrowings	2,738	1,800	4,538	4,538	-
Lease liabilities	(13,020)	24,203	11,183	11,183	-
Other liabilities	5,255	979	6,234	6,234	-
Deferred tax asset/(liability)	(5,171)	15,849	10,678	23,486	(12,808)

			31 December 2021		
In thousand Armenian drams	31 December 2020	Recognized in profit or loss	Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(2,697)	1,564	(1,133)	-	(1,133)
Loans to customers	7,688	(20,238)	(12,550)	-	(12,550)
Property and equipment	9,540	4,770	14,310	14,310	-
Other assets	(263)	(508)	(771)	-	(771)
Loans and borrowings	2,990	(252)	2,738	2,738	-
Lease liabilities	(8,299)	(4,721)	(13,020)	-	(13,020)
Other liabilities	6,451	(1,196)	5,255	5,255	-
Deferred tax asset/(liability)	15,410	(20,581)	(5,171)	22,303	(27,474)

14 Cash and cash equivalents

In thousand Armenian drams	31 December 2022	31 December 2021
Bank accounts	427,371	387,891
Other short-term amounts	-	7,487
Total cash and cash equivalents	427,371	395,378

As of 31 December 2022 the bank accounts in amounts of AMD 290,055 thousand (68%) (2021: AMD 282,368 thousand (73%) from one bank) were due from one commercial bank.

Expected credit losses for cash and cash equivalents are insignifant and therefore, are not disclosed.

15 Amounts due from financial institutions

In thousand Armenian drams	31 December 2022	31 December 2021
Deposits in banks	-	241,607
Total amounts due from financial institutions	-	241,607

As of 31 December 2022 the Organization did not posses deposits placed. As of 31 December 2021 deposits are placed in one commercial bank of the Republic of Armenia.

Expected credit losses for amounts due from financial institutions are insignifant and therefore, are not disclosed.

16 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2022	31 December 2021
Investment securities measured at amortised cost		
RA state bonds	537,353	-
Total investment securities at amortised cost	537,353	-
Investment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	410,902	-
Total investment securities at amortised cost pledged under repurchase agreements	410,902	-
Total investment securities at amortised cost	948,255	-

The pledged securities are those financial assets pledged under repurchase agreements with other banks with the right to sell or re-pledge by the counterparties in the absence of default by the Organization, but the counterparty has an obligation to return the securities at the maturity of the contract. The Organization has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. The financial assets that have been pledged as collateral for liabilities are presented in note 23.

Credit losses on investment securities measured at amortized cost are are insignifant and therefore, are not disclosed.

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

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

All debt securities have fixed coupons.

The Organization has not reclassified any financial assets measured at amortised cost rather than fair value during the year.

17 Derivative financial instruments

Currency swaps are commitments to exchange one set of cash flows for another. The Organization's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

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

Fair values of derivative financial instruments are presented below.

In thousand Armenian drams	31 December 2022			31 December 2021		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Currency contracts						
Currency swap contracts	197,265	-	7,305	599,342	-	8,343
Total derivative financial instruments	197,265	-	7,305	599,342	-	8,343

18 Loans to customers

In thousand Armenian drams	31 December 2022			31 December 2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Agricultural lending						
Horticulture	4,398,632	(115,059)	4,283,573	5,202,821	(137,691)	5,065,130
Cattle breeding	6,071,753	(135,855)	5,935,898	5,539,169	(126,676)	5,412,493
Fish farming	175,646	(3,521)	172,125	142,556	(2,810)	139,746
	10,646,031	(254,435)	10,391,596	10,884,546	(267,177)	10,617,369
Other lending						
Trade	1,031,340	(48,428)	982,912	960,971	(19,763)	941,208
Industry	103,751	(2,051)	101,700	52,281	(1,037)	51,244
Consumer	297,880	(5,077)	292,803	231,720	(3,928)	227,792
Other	318,816	(7,346)	311,470	256,528	(11,513)	245,015
	1,751,787	(62,902)	1,688,885	1,501,500	(36,241)	1,465,259
Total	12,397,818	(317,337)	12,080,481	12,386,046	(303,418)	12,082,628

During the year ended 31 December 2022 the Organization has not obtained assets by taking possession of collateral for loans to customers (2021: AMD 39,280 thousand). The Organization intends to sell these assets in a short period.

As of 31 December 2022 the Organization had no borrower (2021: either) whose credit balances exceeds 10% of total equity.

An analysis of changes in ECL allowances in relation to agricultural and other lending:

In thousand Armenian drams	2022			
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
Balance as of 1 January 2022	10,656,583	146,171	81,792	10,884,546
New assets originated	8,061,398	62,979	7,680	8,132,057
Assets repaid	(8,232,241)	(42,954)	(116,070)	(8,391,265)
Transfer to Stage 1	16,361	(14,295)	(2,066)	-
Transfer to Stage 2	(51,378)	57,490	(6,112)	-
Transfer to Stage 3	(87,087)	(80,230)	167,317	-
Change in balance of asset from interest and foreign exchange	(23,285)	(11,979)	(10,723)	(45,987)
Net recovery during the year	-	-	66,680	66,680
Balance at 31 December 2022	10,340,351	117,182	188,498	10,646,031

In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
				2022
Other lending				
Balance as of 1 January 2022	1,431,608	18,736	51,156	1,501,500
New assets originated	1,432,755	2,757	-	1,435,512
Assets repaid	(1,135,019)	(2,762)	(13,957)	(1,151,738)
Transfer to Stage 1	9,749	(1,669)	(8,080)	-
Transfer to Stage 2	(404)	5,608	(5,204)	-
Transfer to Stage 3	(45,551)	(601)	46,152	-
Change in balance of asset from interest and foreign exchange	(14,312)	(15,260)	(14,280)	(43,852)
Net recovery during the year	-	-	10,365	10,365
Balance at 31 December 2022	1,678,826	6,809	66,152	1,751,787

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
Balance as of 1 January 2021	9,508,053	387,111	176,084	10,071,248
New assets originated	9,149,809	19,270	32,945	9,202,024
Assets repaid	(8,195,958)	(39,165)	(96,250)	(8,331,373)
Transfer to Stage 1	164,486	(157,829)	(6,657)	-
Transfer to Stage 2	(112,234)	150,948	(38,714)	-
Transfer to Stage 3	(180,893)	(41,822)	222,715	-
Change in balance of asset from interest and foreign exchange	323,320	(172,342)	(191,790)	(40,812)
Net amounts written-off during the year	-	-	(16,541)	(16,541)
Balance at 31 December 2021	10,656,583	146,171	81,792	10,884,546

In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
				2021
Other lending				
Balance as of 1 January 2021	1,590,738	20,013	16,559	1,627,310
New assets originated	1,106,514	4,000	-	1,110,514
Assets repaid	(1,163,151)	(9,129)	(33,968)	(1,206,248)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(3,073)	8,545	(5,472)	-
Transfer to Stage 3	(91,171)	33,425	57,746	-
Change in balance of asset from interest and foreign exchange	(8,249)	(38,118)	18,189	(28,178)
Net amounts written-off during the year	-	-	(1,898)	(1,898)
Balance at 31 December 2021	1,431,608	18,736	51,156	1,501,500

An analysis of changes in ECL allowances in relation to agricultural and other loans are as follows.

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural lending				
ECL allowance as of 1 January	203,231	15,480	48,466	267,177
Transfer to Stage 1	348	(305)	(43)	-
Transfer to Stage 2	(2,295)	2,509	(214)	-
Transfer to Stage 3	(32,742)	(24,810)	57,552	-
Net remeasurement of loss allowance	(91,324)	9,650	(110,274)	(191,948)
Net remeasurement of loss allowances on new originated financial assets	107,190	2,748	2,588	112,526
Net recovery during the year	-	-	66,680	66,680
Balance at 31 December 2022	184,408	5,272	64,755	254,435

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other lending				
ECL allowance as of 1 January	27,935	1,054	7,252	36,241
Transfer to Stage 1	219	(33)	(186)	-
Transfer to Stage 2	(10)	209	(199)	-
Transfer to Stage 3	(29,592)	(324)	29,916	-
Net remeasurement of loss allowance	11,963	(698)	(17,233)	(5,968)
Net remeasurement of loss allowances on new originated financial assets	22,234	30	-	22,264
Net recovery during the year	-	-	10,365	10,365
Balance at 31 December 2022	32,749	238	29,915	62,902

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural lending				
ECL allowance as of 1 January	189,352	24,729	87,961	302,042
Transfer to Stage 1	1,710	(1,628)	(82)	-
Transfer to Stage 2	(12,973)	14,095	(1,122)	-
Transfer to Stage 3	(25,314)	(1,453)	26,767	-
Net remeasurement of loss allowance	(87,035)	(21,107)	(61,797)	(169,939)
Net remeasurement of loss allowances on new originated financial assets	137,491	844	13,280	151,615
Net amounts written-off during the year	-	-	(16,541)	(16,541)
Balance at 31 December 2021	203,231	15,480	48,466	267,177

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Other lending				
ECL allowance as of 1 January	35,355	1,742	10,566	47,663
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(259)	374	(115)	-
Transfer to Stage 3	(7,081)	-	7,081	-
Net remeasurement of loss allowance	(16,492)	(1,195)	(8,382)	(26,069)
Net remeasurement of loss allowances on new originated financial assets	16,412	133	-	16,545
Net amounts written-off during the year	-	-	(1,898)	(1,898)
Balance at 31 December 2021	27,935	1,054	7,252	36,241

As of 31 December 2022 loans to customers amounting to AMD 9,673,942 thousand (2021: AMD 9,323,222 thousand) are provided as collateral for loans issued by the Central Bank of Armenia (refer to note 23).

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

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

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

19 Finance lease receivables

In thousand Armenian drams	31 December 2022	31 December 2021
Privately held companies	216,340	-
Retail customers	86,760	-
Sole proprietors	202,727	-
	505,827	-
ECL allowance	(8,504)	-
Total finance lease receivables	497,323	-

An analysis of changes in carrying amounts in relation to finance lease receivables are as follows:

In thousand Armenian drams		2022
	Stage 1	Total
Balance at of 1 January	-	-
New assets originated	560,174	560,174
Assets repaid	(53,776)	(53,776)
Change in balance of asset from interest and foreign exchange	(571)	(571)
Balance as of 31 December	505,827	505,827

An analysis of changes in ECL allowances in relation to finance lease are as follows:

In thousand Armenian drams	2022	
	Stage 1	Total
ECL allowance as at 1 January	-	-
Net remeasurement of loss allowance on new assets originated	8,504	8,504
Balance at 31 December	8,504	8,504

The analysis of finance lease receivables by maturity terms is as follows:

In thousand Armenian drams	Not later than 1 year	1-5 years	Later than 5 years	Total
Gross investments on finance lease at 31 December 2022	176,554	477,672	3,567	657,793
Unearned finance income	(56,291)	(95,472)	(203)	(151,966)
Gross investments present value on finance lease at 31 December 2022	120,263	382,200	3,364	505,827

Finance lease receivables by economic sectors are as follows:

In thousand Armenian drams	2022	2021
Construction	180,383	-
Horticulture	164,815	-
Animal husbandry	47,245	-
Trade	31,423	-
Industry	27,787	-
Other	54,174	-
Total finance lease receivables	505,827	-

As of 31 December 2022, the Organization has no lessees whose financial lease receivable balances exceed 10% of equity.

20 Property, equipment and intangible assets

In thousand Armenian drams	Buildings	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
Cost							
At 1 January 2021	-	165,412	68,255	162,242	38,666	122,723	557,298
Additions	624,126	70,745	10,286	1,070	-	-	706,227
Disposals	-	(126)	(353)	(6,036)	-	-	(6,515)
At 31 December 2021	624,126	236,031	78,188	157,276	38,666	122,723	1,257,010
Additions	151,359	46,406	31,317	5,705	-	-	234,787
Remeasurement	-	-	-	-	-	33,604	33,604
Disposals	-	-	-	(3,856)	-	(27,064)	(30,920)
At 31 December 2022	775,485	282,437	109,505	159,125	38,666	129,263	1,494,481
Accumulated depreciation							
At 1 January 2021	-	148,649	56,245	112,051	22,362	53,069	392,376
Expenses for the year	-	14,826	3,314	11,311	3,122	26,542	59,115
Disposals	-	(126)	(347)	(6,034)	-	-	(6,507)
At 31 December 2021	-	163,349	59,212	117,328	25,484	79,611	444,984
Expenses for the year	22,275	21,059	6,138	10,925	2,882	29,168	92,447
Disposals	-	-	-	(3,246)	-	(27,064)	(30,310)
At 31 December 2022	22,275	184,408	65,350	125,007	28,366	81,715	507,121
Carrying amount							
At 31 December 2022	753,210	98,029	44,155	34,118	10,300	47,548	987,360
At 31 December 2021	624,126	72,682	18,976	39,948	13,182	43,112	812,026

Fully depreciated items

As of 31 December 2022 the cost of the property, equipment and intangible assets included fully depreciated assets amounted to AMD 258,653 thousand (2021: AMD 234,859 thousand).

Restrictions on title of fixed assets

As of 31 December 2022 and 31 December 2021 the Organization has not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2022 the Organization has not had contractual commitments for the acquisition of property and equipment (2021: AMD 91,615 thousand).

21 Repossessed assets

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

In thousand Armenian drams	2022	2021
Property	25,445	70,429
Other property	2,268	2,268
	27,713	72,697

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

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

22 Other assets

In thousand Armenian drams	31 December 2022	31 December 2021
Debtors and other receivables	86,906	83,204
Total other financial assets	86,906	83,204
Prepayments to suppliers	9,478	85,840
Expenses of future periods	22,148	22,719
Small value items	4,936	4,464
Total non-financial assets	36,562	113,023
Total other assets	123,468	196,227

Expected credit losses on other assets are insignificant, so they are not disclosed.

23 Loans and borrowings

In thousand Armenian drams	31 December 2022	31 December 2021
Loans from the CBA	8,775,281	8,313,447
Loans from state non-commercial organizations	1,825,367	2,189,420
Loans from banks	801,558	-
Loans from banks under repurchase agreements	408,153	-
Credit lines from banks	5,055	965
Total loans and borrowings	11,815,414	10,503,832

Loans from the Central Bank of the Republic of Armenia include loans received from the KfW bank in the scope of "RA agricultural sector support program", amounts received from the Asian Development Bank in the scope of "Women's entrepreneurship support sector development program", as well as loans received from the World

Bank in the scope of lending programs. The aim of loans is the extension of loans to agricultural sector for which is pledged the total amount of loans extended to sub-borrowers by the Organization (refer to note 18).

Loans received from RA non-commercial organizations include borrowings from International Financial Program Management Centre (previous Millennium Challenge Fund – Armenian program), Rural Finance Facility-Project Implementation Unit state institution.

Loans from banks represents the loans attracted from BANK IM BISTUM ESSEN eG. The loan was provided to micro, small, medium and low-profit enterprises.

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2021: either).

24 Subordinated debt

In thousand Armenian drams	31 December 2022	31 December 2021
Subordinated debt provided by international financial istitutions	888,651	888,557
Total subordinated debt	888,651	888,557

In 2020 the Organization received a subordinated debt of AMD 838,440 thousand from the "French Development Agency" at 12.75% per annum payable monthly with contractual maturity in 15 July 2026.

Subordinate debt represents a long term borrowing agreement, which, in case of the Organization’s default, would be secondary to the Organization’s other obligations.

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

25 Assets related to grants

In thousand Armenian drams	2022	2021
Balance as of 1 January	2,704	3,777
Recognition of income (note 8)	(974)	(1,073)
Balance as of 31 December	1,730	2,704

26 Other liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
Due to suppliers	6,674	10,145
Due to personnel	29,690	25,176
Other financial liabilities	29,681	24,230
Total other financial liabilities	66,045	59,551
Liabilities towards members on the replenishment of charter capital	64,755	71,931
Other non-financial liabilities	11,939	7,934
Total other non-financial liabilities	76,694	79,865
Total other liabilities	142,739	139,416

27 Charter Capital

As of 31 December 2022 the Organization’s registered and paid-in charter capital was AMD 1,293,236 thousand (2021: AMD 1,203,042 thousand). The Organization has 9,702 members (2021: 9,154 members).

As of 31 December 2022 the Organization's chapter capital amounts to AMD 561,252 thousand or 43,40%, which is the participation of "Village Corp Support" Foundation (as of 31 December 2021: AMD 561,252 thousand or 46.65%, which is the participation of "Village Corp Support" Foundation). The participation of each other members does not exceed 1%.

The Organization's each participant are entitled to one vote per share regardless of the size of participation shares (number of shares).

As of 31 December 2022 and 2021, the Organization did not possess any of its own shares.

During members meeting in 2022 and 2021 the Organization has not declared dividends.

28 Contingent liabilities and commitments

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 management were successful in enforcing their interpretations, could be significant.

Management believes that the Organization 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 Organization, will not have a material adverse impact on the financial condition or results of future operations of the Organization. Therefore, the Organization has not made any respective provision related to such tax and legal matters.

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

29 Leases

The Organization has leases for the head office and branches. With the exception of short-term leases, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Organization classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 20).

Leases of for the building and office area are generally limited to a lease term of 5 years. Lease payments are generally fixed.

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

Organization must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Lease liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
As of 1 January	50,180	76,403
Remeasurement	33,604	-
Accretion of interest	10,807	5,351
Payments	(32,462)	(31,574)
Total lease liabilities as of 31 December	62,129	50,180

Lease liabilities are presented in the statement of financial position.

In 2022 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 12.9% (2021: 9%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of undiscounted lease liabilities as of 31 December 2022 is reflected in the note 34.3.

Lease payments not recognised as a liability

The Organization has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis (refer to note 12).

30 Transactions with related parties

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

The Organization does not have ultimate controlling party.

A number of organizational transactions are entered into with related parties in the normal course of business. Those transactions include loans and etc.

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

In thousand Armenian drams	2022	2021
	Shareholders and parties related with them	Shareholders and parties related with them
Statement of financial position		
Loans to customers		
Loans outstanding at 1 January	254,150	233,348
Issued during the yaer	423,906	114,039
Repaid during the year	(136,113)	(93,237)
Loans outstanding at 31 December	541,943	254,150
ECL allowance	(10,641)	(4,703)
Loans outstanding at 31 December	531,302	249,447

In thousand Armenian drams	2022	2021
	Shareholders and parties related with them	**Shareholders and parties related with them**
Statement of profit or loss and other comprehensive income		
Interest income on loans	27,340	14,164
Credit loss expense	(5,938)	(3,559)
Public relations expenses	(4,300)	(4,000)

Loans to related parties are subject to repayment from 1 to 10 years and their interest rate is 2.1-23% (2021: 2.1-21%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2022	2021
Salaries and bonuses	168,168	153,736
Total key management compensation	168,168	153,736

31 Fair value measurement

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

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

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

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

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					31 December 2022
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and cash equivalents	-	427,371	-	427,371	427,371
Loans to customers	-	12,114,673	-	12,114,673	12,080,481
Finance lease receivables	-	497,323	-	497,323	497,323
Investment securities at amortised cost	-	565,494		565,494	537,353
Investment securities at amortised cost pledged under repurchase agreements	-	408,097	-	408,097	410,902
Other assets	-	86,906	-	86,906	86,906

In thousand Armenian drams	31 December 2022				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial liabilities					
Loans and borrowings	-	11,815,414	-	11,815,414	11,815,414
Subordinated debt	-	888,651	-	888,651	888,651
Lease liabilities	-	62,129		62,129	62,129
Other liabilities	-	66,045	-	66,045	66,045

In thousand Armenian drams	31 December 2021				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	395,378	-	395,378	395,378
Amounts due from financial institutions	-	241,607	-	241,607	241,607
Loans to customers	-	11,975,399	-	11,975,399	12,082,628
Other assets	-	83,204	-	83,204	83,204
Financial liabilities					
Loans and borrowings	-	10,503,832	-	10,503,832	10,503,832
Lease liabilities	-	50,180	-	50,180	50,180
Subordinated debt	-	888,557		888,557	888,557
Other liabilities	-	59,551	-	59,551	59,551

Cash and cash equivalents

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.

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

Loans and borrowings

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

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities	-	7,305	-	7,305
Toal	-	7,305	-	7,305
Net fair value	-	(7,305)	-	(7,305)

In thousand Armenian drams	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities	-	8,343	-	8,343
Toal	-	8,343	-	8,343
Net fair value	-	(8,343)	-	(8,343)

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

32 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2022					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (notes 16, 23)	408,153	-	408,153	(410,902)	-	(2,749)
Total financial liabilities	408,153	-	408,153	(410,902)	-	(2,749)

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be matured.

Refer to note 34.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2022						
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash and cash equivalents	427,371	-	*427,371*	-	-	-	427,371
Investment securities at amortised cost	-	17,917	*17,917*	519,436	-	*519,436*	537,353
Investment securities under repurchase agreements	-	410,902	*410,902*	-	-	-	410,902
Loans to customers	488,117	6,513,664	*7,001,781*	4,966,894	111,806	*5,078,700*	12,080,481
Finance lease receivables	9,841	108,401	*118,242*	375,775	3,306	*379,081*	497,323
Other assets	86,906	-	*86,906*	-	-	-	86,906
	1,012,235	7,050,884	*8,063,119*	5,862,105	115,112	*5,977,217*	14,040,336
Liabilities							
Loans and borrowings	416,410	2,616,496	*3,032,906*	7,802,727	979,781	*8,782,508*	11,815,414
Subordinated debt	-	-	-	888,651	-	*888,651*	888,651
Lease liabilities	2,495	26,158	*28,653*	33,476	-	*33,476*	62,129
Derivative financial liabilities	-	7,305	*7,305*	-	-	-	7,305
Other liabilities	66,045	-	*66,045*	-	-	-	66,045
	484,950	2,649,959	*3,134,909*	8,724,854	979,781	*9,704,635*	12,839,544
Net position	527,285	4,400,925	*4,928,210*	(2,862,749)	(864,669)	*(3,727,418)*	1,200,792
Accumulated gap	527,285	4,928,210		2,065,461	1,200,792		

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash and cash equivalents	395,378	-	*395,378*	-	-	-	395,378
Amounts due from financial institutions	-	241,607	*241,607*	-	-	-	241,607
Loans to customers	403,311	6,438,464	*6,841,775*	5,188,990	51,863	*5,240,853*	12,082,628
Other assets	83,204	-	*83,204*	-	-	-	83,204
	881,893	6,680,071	*7,561,964*	5,188,990	51,863	*5,240,853*	12,802,817

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
							31 December 2021
Liabilities							
Loans and borrowings	36,335	1,610,645	*1,646,980*	7,886,852	970,000	*8,856,852*	10,503,832
Subordinated debt	50,117	-	*50,117*	838,440	-	*838,440*	888,557
Lease liabilities	2,456	23,546	*26,002*	24,178	-	*24,178*	50,180
Derivative financial liabilities	-	8,343	*8,343*	-	-	-	8,343
Other liabilities	59,551	-	*59,551*	-	-	-	59,551
	148,459	1,642,534	*1,790,993*	8,749,470	970,000	*9,719,470*	11,510,463
Net position	733,434	5,037,537	*5,770,971*	(3,560,480)	(918,137)	*(4,478,617)*	1,292,354
Accumulated gap	733,434	5,770,971		2,210,491	1,292,354		

34 Risk management

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

The aim of the Organization’s risk management policy is to identify and analyse risks and manage them efficiently. The Organization periodically revises risk management policy and systems to reflect in the market and follow the best practice.

Risk management is performed by the Management of the Organization according to the lending policy and internal regulation approved by the Board of the Organization. The Management identifies, assesses and undertakes measures for mitigating financial risks.

Risk management structure

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

Board of the Organization

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

General Director

General Director has the responsibility to monitor the overall risk process within the Organization, is responsible for the management of the Organization’s assets and liabilities. Also is responsible for the Organization’s liquidity risk and for the financial risk management.

Credit Committee

The Credit Committee is responsible for the general risk management in the landing process.

Internal Audit

Risk management processes throughout the Organization are audited by the Internal auditor, that examines both the adequacy of the procedures and the Organization’s compliance with the procedures. Internal auditor discusses the results of all assessments with management, and reports its findings and recommendations to the Board.

Monitoring and controlling risks is primarily performed based on the Organization's business strategy and market environment, as well as the level of risk that the Organization is willing to accept, with additional emphasis on selected industries.

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 Organization's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Organization's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

The most important risks are credit risk, liquidity risk, market risk and other operating risk. Market risk includes interest rate risk, currency risk and other price risks.

34.1 Credit risk

The Organization takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Organization by failing to discharge an obligation. Credit risk is the most important risk for the Organization's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Organization's asset portfolio. The credit risk management and control are centralised in credit risk management team of Organization and reported to the Organization's management regularly.

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

34.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 34.1.2.

In thousand Armenian drams				**31 December 2022**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Standard	427,371	-	-	427,371
Net carrying amount	427,371	-	-	427,371
Investment securities at amortised cost				
Standard	537,353	-	-	537,353
Net carrying amount	537,353	-	-	537,353
Investment securities at amortised cost pledged under repurchase agreements				
Standard	410,902	-	-	410,902
Net carrying amount	410,902	-	-	410,902

In thousand Armenian drams				31 December 2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Agricultural lending				
High	10,340,032	-	-	10,340,032
Standard	319	111,129	-	111,448
Low	-	6,053	-	6,053
Non performing	-	-	188,498	188,498
Gross carrying amount	10,340,351	117,182	188,498	10,646,031
Impairment allowance	(184,408)	(5,272)	(64,755)	(254,435)
Net carrying amount	10,155,943	111,910	123,743	10,391,596
Other lending				
High	1,678,826	-	-	1,678,826
Low	-	6,809	-	6,809
Non performing	-	-	66,152	66,152
Gross carrying amount	1,678,826	6,809	66,152	1,751,787
Impairment allowance	(32,749)	(238)	(29,915)	(62,902)
Net carrying amount	1,646,077	6,571	36,237	1,688,885
Finance lease				
High	505,827	-	-	505,827
Gross carrying amount	505,827	-	-	505,827
Impairment allowance	(8,504)	-	-	(8,504)
Net carrying amount	497,323	-	-	497,323
Other financial assets				
High	86,906	-	-	86,906
Net carrying amount	86,906	-	-	86,906

In thousand Armenian drams				31 December 2021
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Standard	395,378	-	-	395,378
Net carrying amount	395,378	-	-	395,378
Amounts due from financial institutions				
Standard	241,607	-	-	241,607
Net carrying amount	241,607			241,607
Agricultural lending				
High	10,652,977	-	-	10,652,977
Standard	3,606	-	63,170	66,776
Low	-	-	18,622	18,622
Non performing	-	146,171	-	146,171
Gross carrying amount	10,656,583	146,171	81,792	10,884,546
Impairment allowance	(203,231)	(15,480)	(48,466)	(267,177)
Net carrying amount	10,453,352	130,691	33,326	10,617,369

In thousand Armenian drams	31 December 2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other lending				
High	1,431,608	-	-	1,431,608
Standard	-	-	51,156	51,156
Low	-	-	-	-
Non-performing	-	18,736	-	18,736
Gross carrying amount	1,431,608	18,736	51,156	1,501,500
Impairment allowance	(27,935)	(1,054)	(7,252)	(36,241)
Net carrying amount	1,403,673	17,682	43,904	1,465,259
Other financial assets				
High grade	83,204	-	-	83,204
Net carrying amount	83,204	-	-	83,204

34.1.2 Impairment assessment

The references below show where the Organisation's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.5).

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

The Organisation considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

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

Criteria for loans to customers

Below are presented the quantitative criteria for determining significant increase in credit risk for loans and advances to customers.

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

Exit criteria from significant deterioration stage

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

Credit risk grades

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

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

	Grade	12 month PD range, %	12 month PD range, %
Agricultural lending	High	1.88%-2.42%	1.98%-2.78%
	Standard	1.88%-8.56%	3.98%-11.89%
	Substandard	60.95%-69.77	66.81%
	Non-Performing	100%	100%
Other lending	High	1.88%-2.42%	1.98%-2.78%
	Standard	5.65%	3.98%-9.00%
	Substandard	-	73.36%
	Non-Performing	100%	100%

Collective or individual assessment

The Organisation calculates expected credit losses on individual or collective basis. Asset classes where the Organisation calculates ECL on an individual basis include:

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

The Organisation groups those assets for which ECL is not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

- Loan size
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

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

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

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

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Organisation's policy to consider a financial instrument as 'cured' and therefore reclassifies

- Stage 3 loans to stage 2, if at the date of calculation of the provision or three months before, the loans are overdue for maximum 1-30 days
- Stage 3 loans to Stage 1, if at the date of the calculation of the provision or three months before, the loans are not overdue

Forborne and modified loan

Forborne or modified loans due to financial difficulties of the borrower are considered as defaulted by the Organisation.

The Organisation 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 Organisation 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.

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

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)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

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

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

Forward looking information

An overview of the approach to estimating ECLs is set out in Note 4.4.5, estimates and assumptions. To ensure completeness and accuracy, the Organisation obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Organisation determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Organisation uses a wide range of forecast information as economic inputs for its models, including:

- Consumer price index
- Net current transfers from abroad
- Economic activity
- USD exchange rate
- Real estate prices (average price in Yerevan)

34.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

34.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- Real estate
- Working assets of companies
- Movable property – vehicles, agricultural equipment, other equipment
- Finance lease receivables-guarantees

In order to minimise the credit loss, the Organisation will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances

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

In thousand Armenian drams	31 December 2022	31 December 2021
Loans collateralized by real estate	5,414,150	5,902,715
Loans collateralized by guarantees	5,583,721	5,144,543
Loans collateralized by moveable property and other property and equipment	401,496	331,058
Unsecured loans	998,451	1,007,730
Total loans and advances (gross)	12,397,818	12,386,046

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

As of 31 December 2022 and 31 December 2021 unsecured loans are collateralized by guarantees of third parties.

34.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Except for the concentrations within foreign currency, the Organization has no other significant concentration of market risk.

34.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. At 31 December 2022 and 2021 the Organization does not hold floating rate financial assets or liabilities.

Average effective interest rates

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

	2022			2021		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Deposits in banks	-	-	-	-	2.75	-
Loans to customers	12.96	9.43	-	12.76	12.98	-
Finance lease receivables	13,46	14.93		-	-	-
Investment securities	-	7.55	-	-	-	-
Interest earning liabilities						
Loans from the CBA	7.11	-	-	7.14	-	-
Loans from state non-profit organizations	4.80	6.32	-	5.14	4.06	-
Term borrowings from banks	-	7.22	-	-	-	-
Loans from banks under repurchase agreements	12	-	-	-	-	-
Subordinated debt	13.16	-	-	13.16	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

In thousand Armenian drams	31 December 2022		31 December 2021	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	26,867	+5	56,849
EUR	+5	163	+5	95
USD	(5)	(26,867)	(5)	(56,849)
EUR	(5)	(163)	(5)	(95)

The Organization's foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
			31 December 2022
Assets			
Cash and cash equivalents	12,552	414,819	427,371
Investment securities at amortised cost	-	537,353	537,353
Investment securities under repurchase agreements	410,902	-	410,902
Loans to customers	11,664,249	416,232	12,080,481
Finance lease receivables	399,724	97,599	497,323
Other assets	86,906	-	86,906
	12,574,333	1,466,003	14,040,336
Liabilities			
Loans and borrowings	10,693,230	1,122,184	11,815,414
Subordinated debt	888,651	-	888,651
Lease liabilities	62,129	-	62,129
Other liabilities	65,549	496	66,045
Total	11,709,559	1,122,680	12,832,239
Total effect of derivative financial instruments	(204,570)	197,265	(7,305)
Net position as of 31 December 2022	660,204	540,588	1,200,792
Total financial assets	11,922,331	880,486	12,802,817
Total financial liabilities	11,169,509	332,611	11,502,120
Total effect of derivative financial instruments	(603,848)	595,505	(8,343)
Net position as of 31 December 2021	148,974	1,143,380	1,292,354

Freely convertible currencies represent mainly US dollar and Euro.

34.3 Liquidity risk

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

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

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Organization.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Organization's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. See note 33 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams						31 December 2022
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	427,576	2,704,481	9,195,553	1,288,693	13,616,303	11,815,414
Subordinated debt	-	-	1,263,244	-	1,263,244	888,651
Lease liabilities	2,798	29,442	42,562	-	74,802	62,129
Other liabilities	66,045	-	-	-	66,045	66,045
Total undiscounted non-derivative financial liabilities	496,419	2,733,923	10,501,359	1,288,693	15,020,394	12,832,239
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	-	197,265	-	-	197,265	
Outflow	-	(204,857)	-	-	(204,857)	(7,305)

In thousand Armenian drams						31 December 2021
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	36,675	2,013,242	8,873,737	1,123,605	12,047,259	10,503,832
Subordinated debt	53,890	53,011	1,213,033	-	1,319,934	888,557
Lease liabilities	2,631	25,442	26,413	-	54,486	50,180
Other liabilities	59,551	-	-	-	59,551	59,551
Total undiscounted non-derivative financial liabilities	152,747	2,091,695	10,113,183	1,123,605	13,481,230	11,502,120
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	-	599,342	-	-	599,342	-
Outflow	-	(608,814)	-	-	(608,814)	(8,343)

34.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organization'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 Organization's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Organization's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. 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;
- 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;
- risk mitigation.

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

35 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	31 December 2022				
	Loans and borrowings	**Lease liabilities**	**Subordinated debt**	**Liabilities to members related to capital replenishment**	**Total**
As of 1 January 2022	10,503,832	50,180	888,557	71,931	11,514,500
Proceeds	6,260,590	-	-	83,018	6,343,608
Repayments	(4,924,177)	(32,462)	-	-	(4,956,639)
Increase in charter capital	-	-	-	(90,194)	(90,194)
Remeasurement of lease liabilities	-	33,604	-	-	33,604
Foreign exchange differences	(77,127)	-	-	-	(77,127)
Accrued interests	52,296	10,807	94	-	63,197
As of 31 December 2022	11,815,414	62,129	888,651	64,755	12,830,949

In thousand Armenian drams	31 December 2021				
	Loans and borrowings	**Lease liabilities**	**Subordinated debt**	**Liabilities to members related to capital replenishment**	**Total**
As of 1 January 2021	10,034,482	76,403	884,531	64,365	11,059,781
Proceeds	4,367,582	-	-	86,081	4,453,663
Repayments	(3,865,351)	(31,574)	-	-	(3,896,925)
Increase in charter capital	-	-	-	(78,515)	(78,515)
Foreign exchange differences	(39,429)	-	-	-	(39,429)
Accrued interests	6,548	5,351	4,026	-	15,925
As of 31 December 2021	10,503,832	50,180	888,557	71,931	11,514,500

36 Capital adequacy

The Organization maintains an actively managed capital base to cover risks inherent in the business. The Organization’s capital is controlled by using rules and normative approved by the Central Bank of RA.

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

The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital consists of Tier 1 capital, which comprises charter capital, retained earnings including current year loss.

The Central Bank of Armenia has set for credit organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.