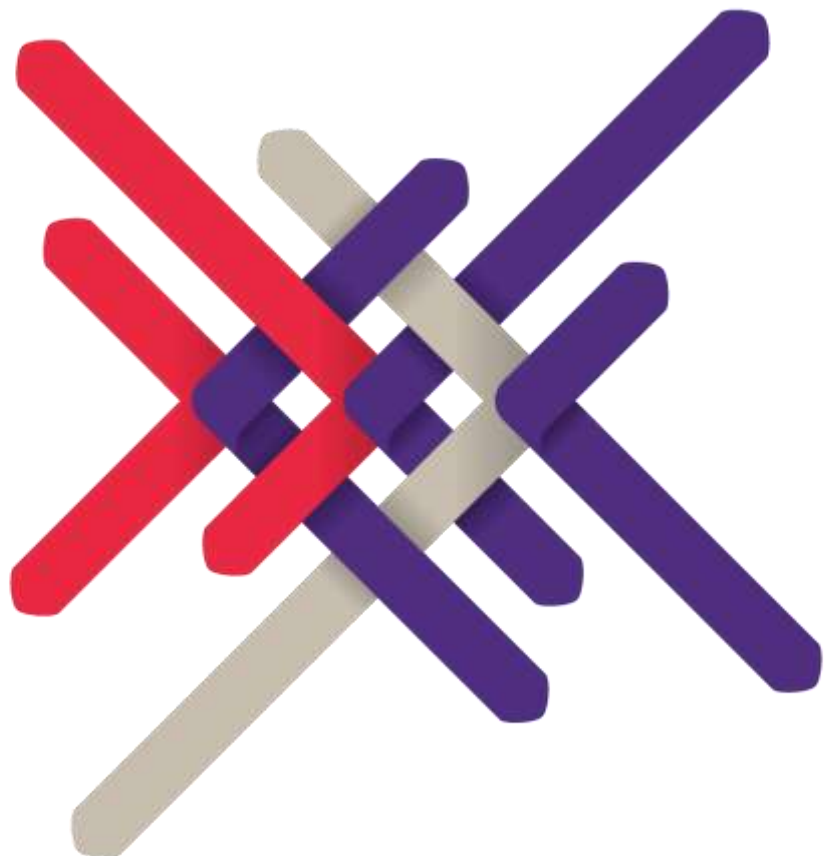


# **Financial Statements and Independent Auditor's Report**

## **“Farm Credit Armenia” universal credit organization commercial cooperative**

31 December 2021



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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 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as of 31 December 2021 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 Officer of "Grant Thornton" CJSC,  
Engagement Partner

25 May 2022



# Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2021	2020
Interest income calculated using effective interest rate	6	1,595,647	1,723,968
Interest expenses	6	(771,063)	(801,786)
Net interest income		<u>824,584</u>	<u>922,182</u>
Net trading loss	7	(43,628)	(3,893)
Income from grants received	8	5,638	5,031
Net income/ (loss) from foreign currency exchange of non-trading financial assets and liabilities		(77,499)	123,255
Other income	9	17,868	16,434
Impairment (loss)/reversal	10	27,848	(50,316)
Staff costs	11	(435,838)	(446,840)
Other expenses	12	(251,733)	(374,441)
Profit before income tax		67,240	191,412
Income tax expense	13	(38,708)	(26,503)
Profit for the year		<u>28,532</u>	<u>164,909</u>
Total comprehensive income for the year		<u>28,532</u>	<u>164,909</u>

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 50.

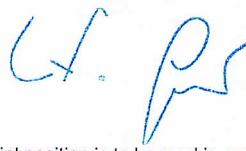
# Statement of financial position

In thousand Armenian drams

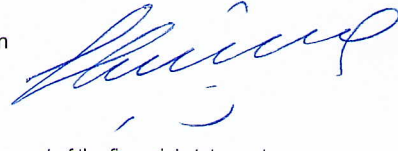
	Notes	31 December 2021	31 December 2020
<b>Assets</b>			
Cash and cash equivalents	14	395,378	722,209
Amounts due from financial institutions	15	241,607	785,088
Loans to customers	17	12,082,628	11,348,853
Property, equipment and intangible assets	18	812,026	164,922
Repossession assets	19	72,697	44,924
Prepaid income tax		13,211	-
Deferred income tax assets	13	-	15,410
Other assets	20	196,227	135,173
<b>Total assets</b>		<b>13,813,774</b>	<b>13,216,579</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Loans and borrowings	21	10,503,832	10,034,482
Derivative financial liabilities	16	8,343	-
Subordinated debt	22	888,557	884,531
Grants related to assets	23	2,704	3,777
Current income tax liabilities		-	1,674
Deferred income tax liabilities	13	5,171	-
Lease liabilities	27	50,180	76,403
Other liabilities	24	139,416	107,188
<b>Total liabilities</b>		<b>11,598,203</b>	<b>11,108,055</b>
<b>Equity</b>			
Charter capital	25	1,203,042	1,124,527
Retained earnings		1,012,529	983,997
<b>Total equity</b>		<b>2,215,571</b>	<b>2,108,524</b>
<b>Total liabilities and equity</b>		<b>13,813,774</b>	<b>13,216,579</b>

The financial statements were signed on 25 May 2022

Armen Gabrielyan  
General Director



Hrachuhi Hovhannisyants  
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 50.

# Statement of changes in equity

In thousand Armenian drams

	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total</b>
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
Balance as of 1 January 2020	1,043,014	819,088	1,862,102
Increase in charter capital	81,513	-	81,513
Transactions with owners	81,513	-	81,513
Profit for the year	-	164,909	164,909
Total comprehensive income for the year	-	164,909	164,909
Balance as of 31 December 2020	1,124,527	983,997	2,108,524

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 50.

# Statement of cash flows

In thousand Armenian drams

	2021	2020
<i>Cash flows from operating activities</i>		
Interests received	1,594,448	1,715,049
Interests paid	(755,138)	(750,406)
Net amounts from foreign currency transactions	(35,285)	(4,505)
Other income received	17,892	16,434
Income from grants	4,565	3,958
Staff and other general administrative expenses	(625,372)	(631,817)
<i>Cash flows before changes in operating assets and liabilities</i>	<u>201,110</u>	<u>348,713</u>
<i>(Increase)/decrease in operating assets</i>		
Amounts due from financial institutions	543,815	(783,885)
Loans to customers	(807,350)	932,617
Other assets	(40,802)	(66,200)
<i>Increase/(decrease) in operating liabilities</i>		
Other liabilities	23,048	72
Net cash flow from/(used in) operating activities before income tax	<u>(80,179)</u>	<u>431,317</u>
Income tax paid	(33,012)	(57,273)
Net cash from/(used in) operating activities	<u>(113,191)</u>	<u>374,044</u>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment	(706,227)	(5,616)
Sale of securities	-	301,501
Net cash from/(used in) investing activities	<u>(706,227)</u>	<u>295,885</u>
<i>Cash flow from financing activities</i>		
Loans and borrowings received	4,367,582	1,595,843
Loans and borrowings repaid	(3,865,351)	(2,838,558)
Subordinated debt received	-	838,440
Proceeds from issue of charter capital	86,081	79,802
Repayment of lease liabilities	(31,574)	(31,574)
Net cash from/(used in) financing activities	<u>556,738</u>	<u>(356,047)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(262,680)</u>	<u>313,882</u>
Cash and cash equivalents at the beginning of the year	722,209	304,624
Effect of exchange differences on cash and cash equivalents	(64,151)	103,703
Cash and cash equivalents at the end of the year (note 14)	<u>395,378</u>	<u>722,209</u>

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 50.



# 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 2021 the average number of employees in the Organization was 94 (2020: 80).

## 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.

2020 after the recession, the Armenian economy entered a phase of stable recovery. It is expected that the gradual improvement of the COVID-19 epidemic situation, the ceasefire agreement over disputed territories of Nagorno Karabakh, as well as the expansion of public-private investment will stimulate the growth of 2022. The government's efforts to improve the business environment, increase access to finance for SMEs and create opportunities for priority social spending, as well as an expanded action plan for capital market development, should contribute to the stability and development of the Armenian economy.

The Organization's management considers its current liquidity position to be sufficient for the sustainable functioning. The Organization monitors its liquidity position on daily basis and intends to use appropriate liquidity position instruments, if necessary.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

These events may have a further significant impact on the Organization's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Organization's operations may differ from the management's current expectations.

These financial statements do not reflect the potential future impact of the above on the Organization's operations.

## 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 Comparative Information

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income is the presentation of a separate line " Net income/ (loss) from foreign currency exchange of non-trading financial assets and liabilities ".

## 3.5 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 2021. 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 2021, did not have a material impact on the financial statements of the Organization.

- *COVID-19-related rent concessions beyond 30 June 2021 (Amendments to IFRS 16)*
- *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7).*

## 3.6 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.

- *Proceeds before intended use (Amendments to IAS 16)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*
- *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 income*

Net trading income 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 income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as 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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
AMD/1 US Dollar	480.14	522.59
AMD/1 EUR	542.61	641.11

## 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 32.1.2.

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 32.1.2.

### *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.

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 other 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 defined scope of the contract,
- the Organization has the right to direct the use of the identified asset throughout the period of use. The Organization assesses 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.

## **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 (%)
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.

## 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 29).

### *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 28).

### *Impairment of financial instruments*

The Organisation assesses 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 32.1.2), 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 26.

## **6 Interest and similar income and expense**

In thousand Armenian drams	2021	2020
<i>Interest income calculated using effective interest rate</i>		
Loans to customers	1,571,882	1,694,942
Cash and cash equivalents	23,765	15,991
Debt securities at amortised cost	-	13,035
Total interest and similar income	1,595,647	1,723,968
<hr/>		
Loans and borrowings	656,864	736,454
Lease liabilities	5,351	5,289
Subordinated debt	108,848	46,091
Interest expense from repurchase agreements	-	13,952
Total interest and similar expense	771,063	801,786

## 7 Net trading loss

In thousand Armenian drams	2021	2020
Net gains/(losses) from trading in foreign currencies	(26,366)	8,147
Net loss from trading of derivative instruments	(17,262)	(12,040)
Total net trading loss	(43,628)	(3,893)

## 8 Income from grants received

In thousand Armenian drams	2021	2020
Grants related to income	4,565	3,958
Grants related to assets (note 23)	1,073	1,073
Total income from grants	5,638	5,031

## 9 Other income

In thousand Armenian drams	2021	2020
Fines and penalties received	16,380	15,567
Net gains from sale of property and equipment	831	-
Net gains from sale of other assets	24	456
Other income	633	411
Total other income	17,868	16,434

## 10 Impairment loss/(reversal)

In thousand Armenian drams	2021				
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customerse	17	50,376	(21,325)	(56,899)	(27,848)
Total impairment loss/(reversal)		50,376	(20,325)	(57,609)	(27,848)

In thousand Armenian drams	2020				
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customerse	17	5,061	16,570	28,685	50,316
Total impairment losses		5,061	16,570	28,685	50,316

## 11 Staff costs

In thousand Armenian drams	2021	2020
Compensations of employees, related taxes included	435,204	446,541
Staff training costs	634	299
Total staff costs	435,838	446,840

## 12 Other expenses

In thousand Armenian drams	2021	2020
Loan cessions*	-	131,342
Depreciation and amortization	59,115	50,058
Maintenance and servicing expenses	35,207	18,663
Household equipment and utility services	20,138	19,365
Short-term lease expenses	22,986	22,215
Loan provision expenses	17,521	17,310
Computer software expenses	12,166	9,904
Insurance	10,876	10,442
Banking fees	7,864	6,493
Payments to Financial system mediator	9,253	9,273
Communication and information services	7,855	6,832
Business trip expenses	108	75
Audit and consulting services	5,900	8,820
Taxes, other than income tax, duties	11,966	7,326
Advertising and public relations	5,270	8,575
Office supplies	4,213	2,593
Membership fees	2,988	3,018
Representative expenses	874	60
Charitable donations	5,830	30,000
Loss from sale of property and equipment	-	230
Other	11,603	11,847
Total other expense	251,733	374,441

\*In 2020, the Organization forgave the loans of borrowers and their family members who went missing and died during the Artsakh war in the amount of AMD 131,342 thousand.



## 13 Income tax expense

In thousand Armenian drams	2021	2020
Current tax expense	18,127	34,056
Adjustments of current income tax of previous years	-	6,522
Deferred tax expense/(recovery)	20,581	(14,075)
Total income tax expense	38,708	26,503

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2020: 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 is provided below:

In thousand Armenian drams	2021	Effective rate (%)	2020	Effective rate (%)
Profit before tax	67,240	-	191,412	-
Income tax	12,103	18	34,454	18
Non-deductible expenses	12,655	19	7,713	4
Net loss/ (gain) from foreign currency exchange of non-trading financial assets and liabilities	13,950	21	(22,186)	(11)
Income tax adjustments of previous years	-	-	6,522	3
Total income tax expense	38,708	58	26,503	14

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2021				
	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	-
Finance lease	(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)

In thousand Armenian drams	31 December 2020				
	31 December 2019	Recognized in profit or loss	Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(478)	(2,219)	(2,697)	-	(2,697)
Loans to customers	(6,008)	13,696	7,688	-	7,688
Property and equipment	4,770	4,770	9,540	9,540	-
Other assets	(93)	(170)	(263)	-	(263)
Loans and borrowings	2,778	212	2,990	2,990	-
Finance lease	(3,568)	(4,731)	(8,299)	-	(8,299)
Other liabilities	3,934	2,517	6,451	6,451	-
Deferred tax asset/(liability)	1,335	14,075	15,410	18,981	(3,571)

## 14 Cash and cash equivalents

In thousand Armenian drams	31 December 2021	31 December 2020
Bank accounts	387,891	713,243
Other short-term amounts	7,487	8,966
Total cash and cash equivalents	395,378	722,209

As of 31 December 2021 the bank accounts in amounts of AMD 282,368 thousand (73%) (2020: AMD 647,783 thousand (90%) from one bank) were due from one commercial bank.

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

## 15 Amounts due from financial institutions

In thousand Armenian drams	31 December 2021	31 December 2020
Deposits in banks	241,607	785,088
Total amounts due from financial institutions	241,607	785,088

As of 31 December 2021 the deposit is placed in one commercial bank of the Republic of Armenia.

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

## 16 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 2021			31 December 2020		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
<i>Currency contracts</i>						
Currency swap contracts	599,342	-	8,343	-	-	-
Total derivative financial instruments	<u>599,342</u>	<u>-</u>	<u>8,343</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 17 Loans to customers

In thousand Armenian drams	31 December 2021			31 December 2020		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
<i>Agricultural lending</i>						
Horticulture	5,202,821	(137,691)	5,065,130	4,726,166	(148,499)	4,577,667
Cattle breeding	5,539,169	(126,676)	5,412,493	5,169,614	(149,712)	5,019,902
Fish farming	142,556	(2,810)	139,746	175,468	(3,831)	171,637
	<u>10,884,546</u>	<u>(267,177)</u>	<u>10,617,369</u>	<u>10,071,248</u>	<u>(302,042)</u>	<u>9,769,206</u>
<i>Other lending</i>						
Trade	960,971	(19,763)	941,208	969,234	(28,700)	940,534
Industry	52,281	(1,037)	51,244	303,119	(8,948)	294,171
Other	488,248	(15,441)	472,807	354,958	(10,015)	344,943
	<u>1,501,500</u>	<u>(36,241)</u>	<u>1,465,259</u>	<u>1,627,310</u>	<u>(47,663)</u>	<u>1,579,647</u>
Total	<u>12,386,046</u>	<u>(303,418)</u>	<u>12,082,628</u>	<u>11,698,558</u>	<u>(349,705)</u>	<u>11,348,853</u>

During the year ended 31 December 2021 the Organization obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 39,280 thousand (2020: AMD 9,631 thousand). The Organization intends to sell these assets in a short period.

As of 31 December 2021 the Organization had no borrower (2020: 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	2021			
	Stage 1	Stage 2	Stage 3	Total
<i>Agricultural lending</i>				
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	2021			
	Stage 1	Stage 2	Stage 3	Total
<i>Other lending</i>				
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

In thousand Armenian drams	2020			
	Stage 1	Stage 2	Stage 3	Total
<i>Agricultural lending</i>				
Balance as of 1 January 2021	10,364,900	187,835	86,479	10,639,214
New assets originated	6,613,477	168,012	6,560	6,788,049
Assets repaid	(7,232,415)	(168,174)	(66,324)	(7,466,913)
Transfer to Stage 1	81,688	(73,993)	(7,695)	-
Transfer to Stage 2	(361,772)	361,772	-	-
Transfer to Stage 3	(125,588)	(54,875)	180,463	-
Change in balance of asset from interest and foreign exchange	167,763	(33,466)	(33,392)	100,905
Net recovery during the year	-	-	9,993	9,993
Balance at 31 December 2020	9,508,053	387,111	176,084	10,071,248

	2020			
In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
<i>Other lending</i>				
Balance as of 1 January 2021	2,024,676	8,162	2,583	2,035,421
New assets originated	735,701	3,000	899	739,600
Assets repaid	(1,134,657)	(2,334)	(16,653)	(1,153,644)
Transfer to Stage 1	8,162	(8,162)	-	-
Transfer to Stage 2	(17,729)	17,729	-	-
Transfer to Stage 3	(26,267)	-	26,267	-
Change in balance of asset from interest and foreign exchange	852	1,618	(11,411)	(8,941)
Net recovery during the year	-	-	14,874	14,874
Balance at 31 December 2020	1,590,738	20,013	16,559	1,627,310

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

	2021			
In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
<i>Agricultural lending</i>				
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

	2021			
In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
<i>Other lending</i>				
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 recovery during the year	-	-	(1,898)	(1,898)
Balance at 31 December 2021	27,935	1,054	7,252	36,241

In thousand Armenian drams

				2020
	Stage 1	Stage 2	Stage 3	Total
<i>Agricultural lending</i>				
ECL allowance as of 1 January	193,535	7,040	33,805	234,380
Transfer to Stage 1	7,297	(3,195)	(4,102)	-
Transfer to Stage 2	(7,501)	7,501	-	-
Transfer to Stage 3	(12,471)	(1,841)	14,312	-
Net remeasurement of loss allowance	(86,941)	7,599	29,113	(50,229)
Net remeasurement of loss allowances on new originated financial assets	95,433	7,625	4,840	107,898
Net recovery during the year	-	-	9,993	9,993
Balance at 31 December 2020	189,352	24,729	87,961	302,042

In thousand Armenian drams

				2020
	Stage 1	Stage 2	Stage 3	Total
<i>Other lending</i>				
ECL allowance as of 1 January	38,363	1,274	505	40,142
Transfer to Stage 1	1,274	(1,274)	-	-
Transfer to Stage 2	(396)	396	-	-
Transfer to Stage 3	(455)	-	455	-
Net remeasurement of loss allowance	(14,657)	1,242	(6,205)	(19,620)
Net remeasurement of loss allowances on new originated financial assets	11,226	104	937	12,267
Net recovery during the year	-	-	14,874	14,874
Balance at 31 December 2020	35,355	1,742	10,566	47,663

As of 31 December 2021 loans to customers amounting to AMD 9,323,222 thousand (2020: AMD 8,410,428 thousand) are provided as collateral for loans issued by the Central Bank of Armenia (refer to note 21).

## 18 Property, equipment and intangible assets

In thousand Armenian drams

	Buildings	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
<i>Cost</i>							
At 1 January 2020	-	168,331	68,600	161,942	36,500	122,723	558,096
Additions	-	3,150	-	300	2,166	-	5,616
Disposals	-	(6,069)	(345)	-	-	-	(6,414)
At 31 December 2020	-	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

In thousand Armenian drams

	Buildings	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
<i>Cost</i>							
<i>Accumulated depreciation</i>							
At 1 January 2020	-	148,369	53,386	100,887	19,332	26,527	348,501
Expenses for the year	-	6,118	3,204	11,164	3,030	26,542	50,059
Disposals	-	(5,838)	(345)	-	-	-	(6,184)
At 31 December 2020	-	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
<i>Carrying amount</i>							
At 31 December 2021	624,126	72,682	18,976	39,948	13,182	43,112	812,026
At 31 December 2020	-	16,763	12,010	50,191	16,304	69,654	164,922

### *Fully depreciated items*

As of 31 December 2021 the cost of the property, equipment and intangible assets included fully depreciated assets amounted to AMD 234,859 thousand (2020: AMD 239,602 thousand).

### *Restrictions on title of fixed assets*

As of 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 2021 the Organization had contractual commitment of AMD 91,615 thousand for the acquisition of property and equipment (2020: AMD 8,400 thousand).

## 19 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	2021	2020
Property	70,429	42,656
Other property	2,268	2,268
	<u>72,697</u>	<u>44,924</u>

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.

## 20 Other assets

In thousand Armenian drams

	31 December 2021	31 December 2020
Debtors and other receivables	83,204	54,409
Total other financial assets	83,204	54,409
Prepayments to suppliers	85,840	60,906
Expenses of future periods	22,719	16,365
Prepayments on other taxes	-	1,119
Small value items	4,464	2,374
Total non-financial assets	113,023	80,764
Total other assets	196,227	135,173

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

## 21 Loans and borrowings

In thousand Armenian drams

	31 December 2021	31 December 2020
Loans from the CBA	8,313,447	7,535,552
Borrowings from state non-commercial organizations	2,189,420	2,498,893
Credit lines from banks	965	37
Total amounts due to financial institutions	10,503,832	10,034,482

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 17).

Borrowings 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.

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2020: either).

## 22 Subordinated debt

In thousand Armenian drams

	31 December 2021	31 December 2020
Subordinated debt provided by international financial institutions	888,557	884,531
Total subordinated debt	888,557	884,531



In 2021 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 (2020: either).

## 23 Assets related to grants

In thousand Armenian drams	2021	2020
Balance as of 1 January	3,777	4,850
Recognition of income (note 8)	(1,073)	(1,073)
Balance as of 31 December	2,704	3,777

## 24 Other liabilities

In thousand Armenian drams	31 December 2021	31 December 2020
Due to suppliers	10,145	8,817
Due to personnel	25,176	23,508
Other financial liabilities	24,230	4,032
Total other financial liabilities	59,551	36,357
Liabilities towards members on replenishment the charter capital	71,931	64,365
Other non-financial liabilities	7,934	6,466
Total other non-financial liabilities	79,865	70,831
Total other liabilities	139,416	107,188

## 25 Charter Capital

As of 31 December 2021 the Organization's registered and paid-in charter capital was AMD 1,203,042 thousand (2020: AMD 1,124,527 thousand). The Organization has 9,154 members (2020: 8,658 members).

As of 31 December 2021 the Organization's chapter capital amounts to AMD 561,252 thousand or 46.65%, which is the participation of "Village Corp Support" Foundation (as of 31 December 2020: AMD 561,252 thousand or 49.91%, 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 2021 and 2020, the Organization did not possess any of its own shares.

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

## 26 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

## **27 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 2021	31 December 2020
As of 1 January	76,403	102,688
Accretion of interest	5,351	5,289
Payments	(31,574)	(31,574)
Total lease liabilities as of 31 December	50,180	76,403

Lease liabilities are presented in the statement of financial position.

In 2021 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9% (2020 9%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of undiscounted lease liabilities as of 31 December 2021 is reflected in the note 32.3.

### *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).

## 28 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of 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	2021	2020
	Shareholders and parties related with them	Shareholders and parties related with them
<i>Statement of financial position</i>		
<i>Loans to customers</i>		
Loans outstanding at 1 January	233,348	228,655
Issued during the year	114,039	70,453
Repaid during the year	(93,237)	(65,760)
At 31 December	254,150	233,348
Impairment allowance	(4,703)	(1,144)
Loans outstanding at 31 December	249,447	232,204
<i>Statement of profit or loss and other comprehensive income</i>		
Interest income on loans	14,164	14,112
Impairment reversal	(3,559)	1,460
Public relations expenses	(4,000)	(4,040)

Loans to related parties are subject to repayment from 1 to 10 years and their interest rate is 2.1-21% (2020: 2.1-22.9%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2021	2020
Salaries and bonuses	153,736	158,657
Total key management compensation	153,736	158,657

## 29 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).

## 29.1 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 their fair value measurement is categorised.

In thousand Armenian drams	31 December 2021				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
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
<i>Financial liabilities</i>					
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

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	722,209	-	722,209	722,209
Amounts due from financial institutions	-	785,088	-	785,088	785,088
Loans to customers	-	11,244,413	-	11,244,413	11,348,853
Other assets	-	54,409	-	54,409	54,409
<i>Financial liabilities</i>					
Loans and borrowings	-	10,034,482	-	10,034,482	10,034,482
Lease liabilities	-	76,403	-	76,403	76,403
Subordinated debt	-	884,531	-	884,531	884,531
Other liabilities	-	36,357	-	36,357	36,357

### *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.

## 29.2 Financial instruments that are measured at fair value

In thousand Armenian drams

31 December 2020

	Level 1	Level 2	Level 3	Total
<i>Financial liabilities</i>				
Derivative financial liabilities	-	8,343	-	8,343
Total	-	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.

## 30 Offsetting of financial assets and financial liabilities

As of 31 December 2021 and 2020 the Organization does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

## 31 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 32.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian drams

31 December 2021

	<b>Demand and less than 1 month</b>	<b>From 1 to 12 months</b>	<b>Subtotal less than 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Subtotal over 12 months</b>	<b>Total</b>
<i>Assets</i>							
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
	<u>881,893</u>	<u>6,680,071</u>	<u>7,561,964</u>	<u>5,188,990</u>	<u>51,863</u>	<u>5,240,853</u>	<u>12,802,817</u>
<i>Liabilities</i>							
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
	<u>148,459</u>	<u>1,642,534</u>	<u>1,790,993</u>	<u>8,749,470</u>	<u>970,000</u>	<u>9,719,470</u>	<u>11,510,463</u>
Net position	<u>733,434</u>	<u>5,037,537</u>	<u>5,770,971</u>	<u>(3,560,480)</u>	<u>(918,137)</u>	<u>(4,478,617)</u>	<u>1,292,354</u>
Accumulated gap	<u>733,434</u>	<u>5,770,971</u>		<u>2,210,491</u>	<u>1,292,354</u>		

In thousand Armenian  
drams

31 December 2020

	<b>Demand and less than 1 month</b>	<b>From 1 to 12 months</b>	<b>Subtotal less than 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Subtotal over 12 months</b>	<b>Total</b>
<i>Assets</i>							
Cash and cash equivalents	722,209	-	722,209	-	-	-	722,209
Amounts due from financial institutions	-	785,088	785,088	-	-	-	785,088
Loans to customers	470,672	5,885,910	6,356,582	4,967,061	25,210	4,992,271	11,348,853
Other assets	54,409	-	54,409	-	-	-	54,409
	<u>1,247,290</u>	<u>6,670,998</u>	<u>7,918,288</u>	<u>4,967,061</u>	<u>25,210</u>	<u>4,992,271</u>	<u>12,910,559</u>

In thousand Armenian  
drams

31 December 2020

	<b>Demand and less than 1 month</b>	<b>From 1 to 12 months</b>	<b>Subtotal less than 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Subtotal over 12 months</b>	<b>Total</b>
<i>Liabilities</i>							
Loans and borrowings	113,853	1,895,213	2,009,066	6,811,273	1,214,143	8,025,416	10,034,482
Subordinated debt	46,091	-	46,091	279,480	558,960	838,440	884,531
Lease liabilities	2,365	26,015	28,380	48,023	-	48,023	76,403
Other liabilities	36,357	-	36,357	-	-	-	36,357
	<u>198,666</u>	<u>1,921,228</u>	<u>2,119,894</u>	<u>7,138,776</u>	<u>1,773,103</u>	<u>8,911,879</u>	<u>11,031,773</u>
Net position	<u>1,048,624</u>	<u>4,749,770</u>	<u>5,798,394</u>	<u>(2,171,715)</u>	<u>(1,747,893)</u>	<u>(3,919,608)</u>	<u>1,878,786</u>
Accumulated gap	<u>1,048,624</u>	<u>5,798,394</u>		<u>3,626,679</u>	<u>1,878,786</u>		

## 32 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 lending 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.

## 32.1 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.

### 32.1.1 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 32.1.2.

	31 December 2021			
In thousand Armenian drams				
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard	395,378	-	-	395,378
Net carrying amount	395,378	-	-	395,378
<i>Amounts due from financial institutions</i>				
Standard	241,607	-	-	241,607
Net carrying amount	241,607	-	-	241,607
<i>Agricultural lending</i>				
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
<i>Other lending</i>				
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
<i>Other financial assets</i>				
High	83,204	-	-	83,204
Net carrying amount	83,204	-	-	83,204

In thousand Armenian drams

31 December 2020

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard	722,209	-	-	722,209
Net carrying amount	722,209	-	-	722,209
<i>Amounts due from financial institutions</i>				
Standard	785,088	-	-	785,088
Net carrying amount	785,088	-	-	785,088
<i>Agricultural lending</i>				
High	9,477,126	-	-	9,477,126
Standard	30,927	387,111	-	418,038
Low	-	-	-	-
Non performing	-	-	176,084	176,084
Gross carrying amount	9,508,053	387,111	176,084	10,071,248
Impairment allowance	(189,352)	(24,729)	(87,961)	(302,042)
Net carrying amount	9,318,701	362,382	88,123	9,769,206
<i>Other lending</i>				
High	1,587,248	-	-	1,587,248
Standard	3,490	20,013	-	23,503
Low	-	-	-	-
Non-performing	-	-	16,559	16,559
Gross carrying amount	1,590,738	20,013	16,559	1,627,310
Loss allowance	(35,355)	(1,742)	(10,566)	(47,663)
Net carrying amount	1,555,383	18,271	5,993	1,579,647
<i>Other financial assets</i>				
High grade	54,409	-	-	54,409
Net carrying amount	54,409	-	-	54,409

### 32.1.2 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 forbore performing loan or forbore 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 unlikelihood 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 forbore 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, %
<i>Agricultural lending</i>	High	1.98-2.78	2.26-5.33
	Standard	3.98-86.09	2.26-27.95
	Substandard	66.81	-
	Non-Performing	100	100
<i>Other lending</i>	High	1.98-2.78	2.26-5.33
	Standard	3.98-9.00	3.33-27.95
	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)

### 32.1.3 Risk concentrations

#### *Geographical sectors*

Credit risk assets are fully located in the RA.

### 32.1.4 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

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 2021	31 December 2020
Loans collateralized by real estate	5,902,715	6,114,590
Loans collateralized by guarantees	5,144,543	4,540,109
Loans collateralized by moveable property and other property and equipment	331,058	773,386
Unsecured loans	1,007,730	270,473
Total loans and advances (gross)	12,386,046	11,698,558

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 2021 and 31 December 2020 unsecured loans are collateralized by guarantees of third parties.

## 32.2 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.

## 32.2.1 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 2021 and 2020 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 2021 and 31 December 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021			2020		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
<b>Interest earning assets</b>						
Deposits in banks	-	2.75	-	-	3.5	-
Loans to customers	12.76	12.98	-	14.51	12.73	-
Investment securities	-	-	-	-	-	-
<b>Interest earning liabilities</b>						
Loans from the CBA	7.14	-	-	8.81	-	-
Loans from state non-profit organizations	5.14	4.06	-	4.92	4.12	-
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 2021 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 2021		31 December 2020	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	+5	56,849	+5	77,989
EUR	+5	95	+5	47
USD	(5)	(56,849)	(5)	(77,989)
EUR	(5)	(95)	(5)	(47)

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

	31 December 2021		
In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
<i>Assets</i>			
Cash and cash equivalents	96,160	299,218	395,378
Amounts due from financial institutions	-	241,607	241,607
Loans to customers	11,742,967	339,661	12,082,628
Other assets	83,204	-	83,204
	11,922,331	880,486	12,802,817
<i>Liabilities</i>			
Loans and borrowings	10,171,221	332,611	10,503,832
Subordinated debt	888,557	-	888,557
Lease liabilities	50,180	-	50,180
Other liabilities	59,551	-	59,551
Total	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
Total financial assets	10,719,315	2,191,244	12,910,559
Total financial liabilities	10,401,242	630,531	11,031,773
Net position as of 31 December 2020	318,073	1,560,713	1,878,786

Freely convertible currencies represent mainly US dollar and Euro.

### 32.3 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 2021 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 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
<i>Non-derivative financial liabilities</i>						
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
<i>Derivative financial liabilities</i>						
Foreign exchange swap contracts						
Inflow	-	599,342	-	-	599,342	-
Outflow	-	(608,814)	-	-	(608,814)	(8,343)

In thousand Armenian drams	31 December 2020					
	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
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	119,784	2,411,822	7,686,841	1,410,868	11,629,315	10,034,482
Lease liabilities	2,631	28,942	54,487	-	86,060	76,403
Subordinated debt	50,375	53,011	707,377	612,557	1,423,320	884,531
Other liabilities	36,357	-	-	-	36,357	36,357
Total undiscounted non-derivative financial liabilities	209,147	2,493,775	8,448,705	2,023,425	13,175,052	11,031,773

## 32.4 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.

### 33 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 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
<i>Cash-flows</i>	502,231	(31,574)	-	86,081	556,738
Proceeds	4,367,582	-	-	-	4,367,582
Repayments	(3,865,351)	(31,574)	-	86,081	(3,810,844)
<i>Non-cash</i>	(32,881)	5,351	4,026	(78,515)	(102,019)
Increase in charter capital	-	-	-	(78,515)	(78,515)
Foreign exchange loss	(39,429)	-	-	-	(39,429)
Accumulated interest expense	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

	<b>Loans and borrowings</b>	<b>Lease liabilities</b>	<b>Subordinated debt</b>	<b>Liabilities to members related to capital replenishment</b>	<b>Total</b>
As of 1 January 2020	11,217,801	102,688	-	66,076	11,386,565
<i>Cash-flows</i>	(1,242,715)	(31,574)	838,440	79,802	(356,047)
Proceeds	1,595,843	-	838,440	79,802	2,514,085
Repayments	(2,838,558)	(31,574)	-	-	(2,870,132)
<i>Non-cash</i>	59,396	5,289	46,091	(81,513)	29,263
Increase in charter capital	-	-	-	(81,513)	(81,513)
Foreign exchange loss	59,396	-	-	-	59,396
Accumulated interest expense	-	5,289	46,091	-	51,380
As of 31 December 2020	10,034,482	76,403	884,531	64,365	11,059,781

## 34 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 profit.

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

## 35 Events after the reporting period

The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact on the world economy. United States and European countries have imposed severe sanctions against Russia.

Western powers are discussing widening existing sanctions. Russia is the main trading partner of Armenia, hence sanctions imposed as of now as well as escalation of those sanctions could have a drastical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold

The specific effect is hard to predict with certainty, however, management assesses that the above will not have a significant impact on the Organization's operations and its financial statements.