

Financial Statements and Independent Auditor's Report

Farm Credit Armenia universal credit
organization commercial cooperative

31 December 2024

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Independent Auditor's Report

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To the shareholders 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 at 31 December 2024, 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 material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as at 31 December 2024 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 these ethical requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for expected credit loss

See Note 4.6 of the financial statements for a description of the accounting policies and to Note 33.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying

different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Organization's financial results.

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

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

- We read the Organization's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Organization's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Organization's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Organization and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Organization's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as at 31 December 2024. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Organization, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Organization for the year ended 31 December 2024, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is

materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not

be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Narine Atchemyan.

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton"
CJSC

Narine Atchemyan

Engagement Partner

25 April 2025



Statement of profit or loss and other comprehensive income

In thousand AMD

	Notes	2024	2023
Interest income calculated using effective interest rate	5	2,163,814	1,781,193
Other interest income	5	209,595	100,655
Interest expense	5	(1,094,495)	(887,036)
Net interest income		1,278,914	994,812
Net trading loss	6	(11,143)	(13,576)
Income from grants received	7	789	941
Net gains (losses) from foreign exchange on non-trading assets and liabilities		(16,006)	36,375
(Credit loss expense) reversal of credit loss expense	9	(60,182)	43,592
Other operating income	8	24,677	27,040
Net operating income		1,217,049	1,089,184
Personnel expenses	10	(614,636)	(560,996)
Other expenses	11	(365,678)	(308,865)
Profit before income tax		236,735	219,323
Income tax expense	12	(55,272)	(34,570)
Profit for the year		181,463	184,753
Total comprehensive income for the year		181,463	184,753

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 11 to 59.

Statement of financial position

In thousand AMD

Notes

31 December
2024

31 December
2023

Assets			
Cash and cash equivalents	13	256,328	174,018
Reverse repurchase agreements	14	-	284,168
Investment securities	15	600,749	86,671
Investment securities pledged under repurchase agreements	15	727,336	895,121
Loans to customers	16	14,245,929	11,869,075
Finance lease receivables	17	1,655,584	1,198,952
Property and equipment and intangible assets	18	995,797	926,877
Repossessed assets	19	28,985	30,261
Prepaid income taxes		-	9,357
Other assets	20	133,910	176,286
Total assets		18,644,618	15,650,786
Liabilities and equity			
Liabilities			
Loans and borrowings	21	13,488,279	12,094,174
Debt securities issued	22	1,224,087	-
Subordinated debt	23	888,441	887,997
Grants related to assets	24	-	789
Current income tax liabilities		26,036	-
Deferred income tax liabilities	12	11,814	4,892
Lease liabilities	28	135,188	50,810
Other liabilities	25	180,889	189,198
Total liabilities		15,954,734	13,227,860
Equity			
Charter capital	26	1,455,857	1,370,362
Retained earnings		1,234,027	1,052,564
Total equity		2,689,884	2,422,926
Total liabilities and equity		18,644,618	15,650,786

The financial statements were approved on 25 April 2025 by:

Armen Gabrielyan
Chief Executive Officer

Hrachul Hachadnisian
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 11 to 59.

Statement of changes in equity

In thousand AMD

	Charter capital	Retained earnings	Total
Balance at 1 January 2024	1,370,362	1,052,564	2,422,926
Increase in charter capital	85,495	-	85,495
Total transactions with owners	85,495	-	85,495
Profit for the year	-	181,463	181,463
Total comprehensive income for the year	-	181,463	181,463
Balance at 31 December 2024	1,455,857	1,234,027	2,689,884
Balance at 1 January 2023	1,293,236	867,811	2,161,047
Increase in charter capital	77,126	-	77,126
Total transactions with owners	77,126	-	77,126
Profit for the year	-	184,753	184,753
Total comprehensive income for the year	-	184,753	184,753
Balance at 31 December 2023	1,370,362	1,052,564	2,422,926

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 11 to 59.

Statement of cash flows

In thousand AMD

	2024	2023
Cash flows from operating activities		
Interest received	2,340,326	1,815,904
Interest paid	(1,062,029)	(889,414)
Net amounts from foreign currency transactions	(11,143)	(20,881)
Other income received	23,420	28,050
Staff and other general administrative expenses	(878,248)	(765,407)
Cash flows from operating activities before changes in operating assets and liabilities	412,326	168,252
Increase (decrease) in operating assets		
Reverse repurchase agreements	277,020	(271,316)
Loans to customers	(2,412,642)	344,651
Finance lease receivables	(467,863)	(704,214)
Other assets	42,415	(55,809)
Increase (decrease) in operating liabilities		
Other liabilities	8,807	34,514
Net cash flow used in operating activities before income tax	(2,139,937)	(483,922)
Income tax paid	(12,957)	(51,991)
Net cash used in operating activities	(2,152,894)	(535,913)
Cash flows from investing activities		
Purchase of property and equipment	(58,857)	(9,814)
Proceeds from sale of property and equipment	3,096	-
Acquisition of securities	(356,375)	-
Net cash used in investing activities	(412,136)	(9,814)
Cash flows from financing activities		
Loans and borrowings received	14,701,477	15,189,791
Loans and borrowings repaid	(13,274,462)	(14,949,115)
Debt securities issued	1,200,000	-
Proceeds from issue of charter capital	68,129	83,123
Repayment of lease liabilities	(42,930)	(38,190)
Net cash from financing activities	2,652,214	285,609
Net increase (decrease) in cash and cash equivalents	87,184	(260,118)
Cash and cash equivalents at the beginning of the year	174,018	427,371
Foreign exchange effect on cash and cash equivalents	(4,874)	6,765
Cash and cash equivalents at the end of the year (Note 13)	256,328	174,018

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 11 to 59.

Notes to the financial statements

“Farm Credit Armenia” universal credit organization commercial cooperative

For the year ended 31 December 2024 (expressed in thousands of Armenian drams (AMD))

1 Nature of operations

“Farm Credit Armenia” universal credit organization commercial cooperative’s (the “Organization”) 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.

2 General information, statement of compliance with IFRS and going concern assumption

“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 head office of the Organization is located in Yerevan, 10 branches are located in different regions of the RA. The legal address of the Organization is 9/16 Tbilisyan Highway, Arabkir, Yerevan.

In 2024 the average number of employees in the Organization was 92 (2023: 91).

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 financial statements are prepared on a going concern basis, as management is satisfied that the Organization has adequate resources to continue as a going concern for the foreseeable future. In making this assessment, management has considered a wide range of information including projection of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Organization.

Business environment

Armenia's business environment faces challenges due to geopolitical tensions, particularly ongoing aggression from Azerbaijan, and regional instability. The war in Ukraine has further complicated the situation, causing disruptions in trade, sanctions on Russia, and global inflation. Armenia's reliance on Russia has strained, affecting trade, remittances, and security guarantees, urging Armenia to diversify its economic relationships, though this comes with its own risks.

The Armenian dram is stronger than expected, controlling inflation but creating difficulties for exporters and businesses with foreign-currency liabilities. Global inflation and rising energy costs pressure Armenia's economy, especially due to reliance on imports.

Despite these challenges, businesses are diversifying supply chains and exploring new markets, while the government's reform efforts provide a path for long-term stability. However, Armenia's success will depend on its businesses' ability to navigate these risks effectively.

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

2.1 Presentation of financial statements

The Organization presents its statement of financial position in order of liquidity based on the Organization's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 32.

3 New or revised standards or interpretations

3.1 New standards adopted as at 1 January 2024

In the current year the Organization has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2024.

New standards and amendments described below and applied for the first time in 2024 did not have a material impact on the annual financial statements of the Organization:

- “*Classification of Liabilities as Current or Non-current*” (Amendments to IAS 1)
- “*Lease Liability in a Sale and Leaseback*” (Amendments to IFRS 16)
- “*Supplier Finance Arrangements*” (Amendments to IAS 7 and IFRS 7)
- “*Non-current Liabilities with Covenants*” (Amendments to IAS 1)

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Organization

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Organization.

Management anticipates that all of the relevant pronouncements will be adopted in the Organization’s accounting policies for the first period beginning on or after the effective date of the pronouncement, which are presented below:

- “*Lack of Exchangeability*” (Amendments to IAS 21)
- IFRS 19 “*Subsidiaries without Public Accountability: Disclosures*”
- “*Classification and Measurement of Financial Instruments*” (Amendments to IFRS 9 and IFRS 7)
- IFRS 18 “*Presentation and Disclosures in Financial Statements*”

Management does not anticipate a material impact on the Organization’s financial statements from these Standards and Amendments except for the Standards presented below, which are in the process of assessment.

“*Classification and Measurement of Financial Instruments*” (Amendments to IFRS 9 and IFRS 7)

In May 2024, the International Accounting Standards Board (IASB) issued Amendments to the classification and Measurement of Financial Instruments which amended IFRS 9 and IFRS 7.

The requirements will be effective for annual reporting periods beginning on or after 1 January 2026, with early application permitted, and are related to:

- settling financial liabilities using electronic payments system; and
- assessing contractual cash flow characteristics of financial assets, including those with sustainability-linked features.

The Organization is in the process of assessing the impact of the new amendments.

IFRS 18 “*Presentation and Disclosures in Financial Statements*”

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after 1 January 2027. The new standard introduces the following key new requirements.

- Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly-defined operating profit subtotal. Entities’ net profit will not change.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.

- Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Organization is still in the process of assessing the impact of the new standard, particularly with respect to the structure of the Organization's statement of profit or loss, the statement of cash flows and the additional disclosures required for MPMs. The Organization is also assessing the impact on how information is grouped in the financial statements, including for items currently labelled as 'other'.

4 Material accounting policies

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

4.1 Basis of preparation

The financial statements have been prepared on an accruals basis and under the historical cost convention. The financial instruments are stated at present discounted value of future cash flows as well as at fair value.

4.2 Climate-related matters

The Organization and its customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change. The key sources of climate risks have been identified as physical and transition risks.

Physical risks arise as the result of acute weather events such as floods, droughts and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves and droughts.

Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

4.3 Foreign currency

Functional and presentation currency

The national currency of Armenia is the Armenian dram ("AMD"), which is the Organization's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Organization.

These financial statements are presented in AMD (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in AMD has been rounded to the nearest thousand.

Foreign currency transactions

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 directly in the statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

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 net income from trading in foreign currencies in net trading income.

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

	31 December 2024	31 December 2023
AMD/1 USD	396.56	404.79
AMD/1 EUR	413.89	447.90

4.4 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 net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

For information on when financial assets are credit-impaired, see Note 4.6 (vi).

Other interest income

In calculating other interest income, the nominal interest rate is applied to the gross asset value on a straight-line basis.

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 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 Organization'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 Organization 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.

4.5 Income tax

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

Current tax

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

Deferred tax

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

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

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

4.6 Financial instruments

i) Recognition and initial measurement

Financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Organization 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.

ii) 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 Organization 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 Organization 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 Organization 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 Organization's management;
- the risks that affect the performance of the 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 Organization '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 Organization 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 Organization considers:

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

Financial liabilities

The Organization classifies its financial liabilities as measured at amortised cost.

iii) Derecognition

Financial assets

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see Note 4.6 (vi)), 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 Organization 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 Organization is recognised as a separate asset or liability.

The Organization 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 Organization retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Organization 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 Organization 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 Organization 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 Organization derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Organization evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see Note 4.6 (iii)) 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 Organization 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 (see Note 4.6 (vi)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Organization 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.

v) Offsetting

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

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

vi) Impairment

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

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

- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

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

The Organization 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 33.1.2.

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

- Stage 1: When loans are first recognised, The Organization 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 Organization 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 Organization records an allowance for the LTECLs.
- POCl: Purchased or originated credit impaired (POCl) assets are financial assets that are credit impaired on initial recognition. POCl 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 33.1.2.

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 (see Note 4.6 (iii)) 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 Organization 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 Organization on terms that The Organization would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; 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 Organization considers the following factors.

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

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
 - When estimating LTECLs for undrawn loan commitments, The Organization estimates the expected portion of the loan commitment that will be drawn down over its expected life. Expected credit losses are subsequently based on the present value of the expected cash flow shortfall if the loan were 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 Organization cannot identify the ECL on the loan commitment component separately from those on

the drawn component: The Organization presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;

- the Organization'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 Organization 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 Organization determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Both the total carrying amount of the asset and the impairment allowance (if any) are written off directly. A write-off represents a partial or complete derecognition. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts due.

4.6.1 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6.2 Loans to costumers

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

Loans granted by the Organization 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.

4.6.3 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.

4.6.4 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged

under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

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

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

4.7 Leases

For any new contracts 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, plant and equipment and lease liabilities have been included in the other liabilities.

Organization as a lessor

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

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

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

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

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

4.8 Property and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	30	3.33
Computer equipment	1-10	10-100
Household equipment	5-8	12.5-20
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 disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.9 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 to 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.

4.10 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.

4.11 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

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

4.12 Loans, borrowings and debt securities issued

Loans and borrowings and debt securities issued 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.

4.13 Equity

Charter capital

Charter capital consists of participants' shares.

Retained earnings

Retained earnings include accumulated profit or current and previous periods.

4.14 Significant management judgement in applying accounting policies and estimation uncertainty

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.

4.14.1 Significant judgements in applying accounting policies

The following are the judgements made by management in applying the accounting policies that have the most significant effect on the financial statements.

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 (see Note 4.6 (ii)).

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.

4.14.2 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 (see Note 30).

Useful Life of property and equipment

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

Impairment of financial instruments

The Organization 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 (see Note 33.1.2), as well as the key assumptions used in estimating recoverable cash flows (see Note 4.6 (vi)).

Tax legislation

Armenian tax legislation is subject to varying interpretations. See Note 27.

5 Net interest income and expense

	2024	2023
Interest income calculated using effective interest rate		
Loans to customers	2,065,967	1,690,398
Cash and cash equivalents	9,229	8,207
Debt securities at amortised cost	77,642	73,645
Reverse repurchase agreements	10,976	8,943
Total interest income calculated using effective interest rate	2,163,814	1,781,193

	2024	2023
Other interest income		
Finance lease receivables	209,595	100,655
Total interest income and similar income	2,373,409	1,881,848
Loans and borrowings	825,471	717,963
Lease liabilities	14,411	4,273
Subordinated debt	109,988	108,331
Interest expenses from repurchase agreements	47,039	56,469
Interest expenses from interest securities issued	97,586	-
Total interest and similar expense	1,094,495	887,036
Total net interest income	1,278,914	994,812

6 Net trading loss

	2024	2023
Net loss from trading in foreign currencies	(6,196)	(11,417)
Net loss from derivative instruments	(4,947)	(2,159)
Total net trading income	(11,143)	(13,576)

7 Income from grants received

	2024	2023
Grants related to assets (Note 24)	789	941
Total income from grants	789	941

8 Other income

	2024	2023
Fines and penalties received	9,792	17,057
Other commissions from insurance companies	3,397	-
Net gains from sale of property and equipment	1,257	-
Other income	10,231	9,983
Total other income	24,677	27,040

9 Credit loss expense (reversal of credit loss expense)

					2024
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	16	30,913	2,572	20,901	54,386
Finance lease receivables	17	7,884	(2,088)	-	5,796
Total credit loss expense (reversal of credit loss expense)		38,797	484	20,901	60,182

		2023			
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	16	(58,229)	(1,749)	4,693	(55,285)
Finance lease receivables	17	9,557	814	1,322	11,693
Total credit loss expense (reversal of credit loss expense)		(48,672)	(935)	6,015	(43,592)

10 Personnel expenses

	2024	2023
Compensations of employees, related taxes included	611,557	558,251
Personnel training costs	3,079	2,745
Total personnel expenses	614,636	560,996

11 Other expenses

	2024	2023
Depreciation and amortization	100,995	91,885
Repair and maintenance expenses	48,176	35,121
Household equipment and utility services	22,919	19,308
Short-term lease expenses	9,552	10,089
Loan provision expenses	20,095	18,321
Computer software expenses	16,663	12,106
Insurance	13,977	19,701
Banking fees	3,299	3,479
Payments to Financial system mediator	10,962	10,639
Communication and information services	11,686	8,880
Business trip expenses	13,866	10,881
Professional services	10,520	8,400
Custody costs	8,784	-
Taxes, other than income tax, duties	12,395	12,607
Advertising and public relations	27,639	13,318
Office supplies	3,157	2,967
Membership fees	4,177	3,839
Representative expenses	7,813	6,590
Loss from sale of other assets	-	124
Other	19,003	20,610
Total other expenses	365,678	308,865

12 Income tax expense

	2024	2023
Current tax expense	46,681	19,000
Adjustments of current income tax of prior years	1,669	-
Deferred tax	6,922	15,570
Total income tax expense	55,272	34,570

Notes to the Financial Statements

For the year ended 31 December 2024 (expressed in thousands of Armenian drams (AMD))

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2023: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

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

	2024	Effective tax rate (%)	2023	Effective tax rate (%)
Profit before taxation	236,735		219,323	
Income tax	42,612	18	39,478	18
Non-deductible expenses	8,108	3	1,640	1
Foreign exchange net (gain) loss	2,881	1	(6,548)	(3)
Adjustments of current income tax of prior years	1,669	1	-	-
Total income tax expense	55,270	23	34,570	16

Deferred tax calculation in respect of temporary differences:

	2024				
	2023	Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(824)	363	(461)	-	(461)
Loans to customers	(13,748)	(3,570)	(17,318)	-	(17,318)
Finance lease receivables	3,635	1,044	4,679	4,679	-
Property and equipment	(8,328)	(14,114)	(22,442)	-	(22,442)
Other assets	(4,881)	(1,461)	(6,342)	-	(6,342)
Loans and borrowings	3,714	(5,776)	(2,062)	-	(2,062)
Lease liabilities	9,146	15,188	24,334	24,334	-
Other liabilities	6,394	1,404	7,798	7,798	-
Deferred tax asset (liability)	(4,892)	(6,922)	(11,814)	36,811	(48,625)

	2023				
	2022	Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(769)	(55)	(824)	-	(824)
Loans to customers	(1,426)	(12,322)	(13,748)	-	(13,748)
Finance lease receivables	1,531	2,104	3,635	3,635	-
Property and equipment	(8,548)	220	(8,328)	-	(8,328)
Other assets	(2,065)	(2,816)	(4,881)	-	(4,881)
Loans and borrowings	4,538	(824)	3,714	3,714	-
Lease liabilities	11,183	(2,037)	9,146	9,146	-
Other liabilities	6,234	160	6,394	6,394	-
Deferred tax asset (liability)	10,678	(15,570)	(4,892)	22,889	(27,781)

13 Cash and cash equivalents

	31 December 2024	31 December 2023
Bank accounts	256,046	173,746
Other short-term amounts	282	272
Total cash and cash equivalents	256,328	174,018

As at 31 December 2024 the bank accounts in amounts of AMD 225,215 thousand (88%) (2023: AMD 160,223 thousand (92%) from four banks) were due from one commercial bank.

Expected credit losses for cash and cash equivalents are close to zero and therefore, are not disclosed.

14 Reverse repurchase agreements

	31 December 2024	31 December 2023
Reverse repurchase agreements with RA banks	-	284,168
Total reserve repurchase agreements	-	284,168

Expected credit losses for reverse repurchase agreements are insignificant and therefore, are not disclosed.

Fair value of securities purchased under reverse repurchase agreements and carrying value of loans provided as at 31 December 2023 are presented as follows:

	2023	
	Fair value of collateral	Carrying value of loans
RA state securities	336,753	284,168
Total assets pledged and loans under reverse repurchase agreements	336,753	284,168

15 Investment securities

Investment securities measured at amortised cost

	31 December 2024	31 December 2023
Investment securities measured at amortised cost		
RA state bonds	600,749	86,671
Total investment securities at amortised cost	600,749	86,671

Investment securities measured at amortised cost pledged under repurchase agreements

	31 December 2024	31 December 2023
RA state bonds	727,336	895,121
Total investment securities at amortised cost pledged under repurchase agreements	727,336	895,121

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparties in the absence of default by the Organization, but the counterparty has an obligation to return the securities at the maturity of the contract. The Organization has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. The total amount of financial assets that have been pledged as collateral for liabilities are presented in Note 21.

Notes to the Financial Statements

For the year ended 31 December 2024 (expressed in thousands of Armenian drams (AMD))

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

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

	31 December 2024		31 December 2023	
	%	Maturity	%	Maturity
RA state bonds	3.95 - 7.15	2025-2029	7.15	2025

All debt securities have fixed coupons.

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

16 Loans to customers

	31 December 2024			31 December 2023		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Agricultural lending						
Horticulture	4,144,642	(85,510)	4,059,132	4,130,324	(67,305)	4,063,019
Cattle breeding	4,686,806	(96,898)	4,589,908	5,318,158	(100,467)	5,217,691
Fish farming	69,114	(1,109)	68,005	89,068	(1,388)	87,680
	8,900,562	(183,517)	8,717,045	9,537,550	(169,160)	9,368,390
Other lending						
Trade	1,454,569	(32,496)	1,422,073	1,073,669	(17,589)	1,056,080
Industry	112,687	(2,761)	109,926	105,597	(2,030)	103,567
Consumer	3,600,226	(49,055)	3,551,171	1,103,733	(18,804)	1,084,929
Financial sector	119,275	(2,069)	117,206	-	-	-
Other	334,178	(5,670)	328,508	265,319	(9,210)	256,109
	5,620,935	(92,051)	5,528,884	2,548,318	(47,633)	2,500,685
Total	14,521,497	(275,568)	14,245,929	12,085,868	(216,793)	11,869,075

As at 31 December 2024 the Organization did not possess assets by taking possession of collateral for loans to customers (2023: the Organization obtained assets by taking possession of collateral for loans to customers, the carrying amount of these assets amounted to AMD 10,899 thousand). The Organization is intended to sell these assets in a short period.

As at 31 December 2024, the Organization has no borrower (2023: neither) whose credit exceeds 10% of total equity.

An analysis of changes in gross carrying amounts in relation to agricultural and other lending:

	2024			
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
Balance at 1 January	9,429,773	32,646	75,131	9,537,550
New assets originated or purchased	7,051,609	83,169	4,500	7,139,278
Assets repaid	(7,669,990)	(57,852)	(65,960)	(7,793,802)
- Transfer to Stage 1	16,902	(11,353)	(5,549)	-
- Transfer to Stage 2	(70,666)	89,838	(19,172)	-
- Transfer to Stage 3	(101,818)	(2,515)	104,333	-
Change in balance of asset from interest and foreign exchange	7,558	-	203	7,761
Net recovery during the year	-	-	9,775	9,775
Balance at 31 December	8,663,368	133,933	103,261	8,900,562

	2024			
	Stage 1	Stage 2	Stage 3	Total
Other lending				
Balance at 1 January	2,534,091	2,763	11,464	2,548,318
New assets originated or purchased	4,672,945	12,314	400	4,685,659
Assets repaid	(1,595,115)	(3,867)	(13,134)	(1,612,116)
- Transfer to Stage 2	(7,779)	7,779	-	-
- Transfer to Stage 3	(13,074)	(2,763)	15,837	-
Change in balance of asset from interest and foreign exchange	4,338	-	122	4,460
Net amounts written-off during the year	-	-	(5,386)	(5,386)
Balance at 31 December	5,595,406	16,226	9,303	5,620,935

	2023			
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
Balance at 1 January	10,340,351	117,182	188,498	10,646,031
New assets originated or purchased	6,850,903	16,840	17,094	6,884,837
Assets repaid	(7,766,990)	(68,341)	(130,822)	(7,966,153)
- Transfer to Stage 1	83,811	(41,536)	(42,275)	-
- Transfer to Stage 2	(22,892)	24,060	(1,168)	-
- Transfer to Stage 3	(41,744)	(15,374)	57,118	-
Change in balance of asset from interest and foreign exchange	(13,666)	(185)	(821)	(14,672)
Net amounts written-off during the year	-	-	(12,493)	(12,493)
Balance at 31 December	9,429,773	32,646	75,131	9,537,550

Notes to the Financial Statements

For the year ended 31 December 2024 (expressed in thousands of Armenian drams (AMD))

				2023
	Stage 1	Stage 2	Stage 3	Total
Other lending				
Balance at 1 January	1,678,826	6,809	66,152	1,751,787
New assets originated or purchased	2,072,379	3,000	6,106	2,081,485
Assets repaid	(1,219,963)	(532)	(25,299)	(1,245,794)
- Transfer to Stage 1	16,850	(5,204)	(11,646)	-
- Transfer to Stage 3	(7,716)	(1,201)	8,917	-
Change in balance of asset from interest and foreign exchange	(6,285)	(109)	-	(6,394)
Net amounts written-off during the year	-	-	(32,766)	(32,766)
Balance at 31 December	2,534,091	2,763	11,464	2,548,318

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

				2024
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
ECL allowance at 1 January	140,255	1,192	27,713	169,160
- Transfer to Stage 1	4,648	(361)	(4,287)	-
- Transfer to Stage 2	(1,030)	7,008	(5,978)	-
- Transfer to Stage 3	(1,585)	(97)	1,682	-
Net remeasurement of loss allowance	(92,501)	(3,645)	13,036	(83,110)
Net remeasurement of loss allowances on new originated financial assets	80,496	4,890	2,306	87,692
Net recovery during the year	-	-	9,775	9,775
Balance at 31 December	130,283	8,987	44,247	183,517

				2024
	Stage 1	Stage 2	Stage 3	Total
Other lending				
ECL allowance at 1 January	38,839	385	8,409	47,633
- Transfer to Stage 2	(110)	110	-	-
- Transfer to Stage 3	(189)	(385)	574	-
Net remeasurement of loss allowance	(16,244)	94	5,487	(10,663)
Net remeasurement of loss allowances on new originated financial assets	59,162	1,233	72	60,467
Net amounts written-off during the year	-	-	(5,386)	(5,386)
Balance at 31 December	81,458	1,437	9,156	92,051

				2023
	Stage 1	Stage 2	Stage 3	Total
Agricultural lending				
ECL allowance at 1 January	184,408	5,272	64,755	254,435
- Transfer to Stage 1	16,916	(1,913)	(15,003)	-
- Transfer to Stage 2	(386)	933	(547)	-
- Transfer to Stage 3	(838)	(975)	1,813	-
Net remeasurement of loss allowance	(140,330)	(2,812)	(13,422)	(156,564)
Net remeasurement of loss allowances on new originated financial assets	80,485	687	2,610	83,782
Net amounts written-off during the year	-	-	(12,493)	(12,493)
Balance at 31 December	140,255	1,192	27,713	169,160

				2023
	Stage 1	Stage 2	Stage 3	Total
Other lending				
ECL allowance at 1 January	32,749	238	29,915	62,902
- Transfer to Stage 1	4,614	(199)	(4,415)	-
- Transfer to Stage 3	(140)	(30)	170	-
Net remeasurement of loss allowance	(24,169)	(9)	8,908	(15,270)
Net remeasurement of loss allowances on new originated financial assets	25,785	385	6,597	32,767
Net amounts written-off during the year	-	-	(32,766)	(32,766)
Balance at 31 December	38,839	385	8,409	47,633

As at 31 December 2024 the right to claim loans to customers in gross amount of AMD 1,539,274 thousand (2023: AMD 657,851 thousand) are provided as collateral for loans from credit organizations and the right to claim loans in gross amount of AMD 6,933,527 thousand (2023: AMD 6,837,082 thousand) are provided as collateral for loans from the Central Bank of Armenia (see Note 21).

As at 31 December 2024 and 2023 the estimated fair value of loans to customers approximates its carrying amount. See Note 30.

Maturity analysis of loans and advances to customers are disclosed in Note 32.

Credit, currency and interest rate analyses of loans to customers are disclosed in Note 33.

The information on related party balances is disclosed in Note 29.

17 Finance lease receivables

	31 December 2024	31 December 2023
Privately held companies	615,888	439,346
Retail customers	351,402	271,233
Sole proprietors	714,287	508,570
	1,681,577	1,219,149
ECL allowance	(25,993)	(20,197)
Total finance lease receivables	1,655,584	1,198,952

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

				2024
	Stage 1	Stage 2	Stage 3	Total
Net investments on finance lease before impairment allowance				
Balance at 1 January	1,209,320	7,496	2,333	1,219,149
New assets originated or acquired	879,111	-	-	879,111
Assets repaid	(412,180)	(8,465)	-	(420,645)
- Transfer to Stage 2	(766)	3,099	(2,333)	-
Change in balance of asset from interest and foreign exchange	3,962	-	-	3,962
Balance at 31 December	1,679,447	2,130	-	1,681,577

				2023
	Stage 1	Stage 2	Stage 3	Total
Net investments on finance lease before impairment allowance				
Balance at 1 January	505,827	-	-	505,827
New assets originated or acquired	887,981	7,496	2,333	897,810
Assets repaid	(293,282)	(836)	(344)	(294,462)
Change in balance of asset from interest and foreign exchange	108,794	836	344	109,974
Balance at 31 December	1,209,320	7,496	2,333	1,219,149

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

				2024
	Stage 1	Stage 2	Stage 3	Total
Net investments on finance lease				
ECL allowance as at 1 January	18,061	814	1,322	20,197
- Transfer to Stage 2	(11)	1,333	(1,322)	-
New remeasurement of loss allowance	(3,853)	(2,088)	-	(5,941)
Net remeasurement of loss allowance on new assets originated	11,737	-	-	11,737
Balance at 31 December	25,934	59	-	25,993

				2023
	Stage 1	Stage 2	Stage 3	Total
Net investments on finance lease				
ECL allowance as at 1 January	8,504	-	-	8,504
New remeasurement of loss allowance	(3,684)	-	-	(3,684)
Net remeasurement of loss allowance on new assets originated	13,241	814	1,322	15,377
Balance at 31 December	18,061	814	1,322	20,197

As at 31 December 2024 and 31 December 2023 the analysis of finance lease receivables (gross) by maturity terms is as follows:

	2024			
	Not later than 1 year	1-5 years	Later than 5 years	Total
Gross investments on finance lease	605,879	1,517,387	43,137	2,166,403
Unearned finance income	(199,031)	(279,529)	(6,266)	(484,826)
Net investments on finance lease before impairment allowance	406,848	1,237,858	36,871	1,681,577

	2023			
	Not later than 1 year	1-5 years	Later than 5 years	Total
Gross investments on finance lease	392,650	1,173,121	27,282	1,593,053
Unearned finance income	(141,307)	(227,048)	(5,549)	(373,904)
Net investments on finance lease before impairment allowance	251,343	946,073	21,733	1,219,149

Finance lease receivables by economic sectors are as follows:

	31 December 2024	31 December 2023
Constructions	432,228	253,447
Transport and communication	236,187	171,573
Horticulture	409,416	359,400
Animal husbandry	71,179	76,114
Trade	206,484	147,929
Industry	220,707	129,490
Other	105,376	81,196
Total net investments on finance lease before impairment allowance	1,681,577	1,219,149

As at 31 December 2024 the Organization has no lessees (2023: either) whose financial lease receivable balances exceed 10% of equity.

As at 31 December 2024 and 2023 the estimated fair value of finance lease receivables approximates its carrying amount. See Note 30.

Maturity analysis of finance lease receivables are disclosed in Note 32.

Credit, currency and interest rate analysis lease receivables are disclosed in Note 33.

18 Property, equipment and intangible assets

	Buildings	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
Cost							
At 1 January 2023	775,485	282,437	109,505	159,125	38,666	129,263	1,494,481
Additions	-	-	8,940	-	874	-	9,814
Remeasurement	-	-	-	-	-	22,598	22,598
Disposals	-	(4,562)	(4,696)	(5,710)	-	-	(14,968)
At 31 December 2023	775,485	277,875	113,749	153,415	39,540	151,861	1,511,925
Additions	4,295	19,927	11,950	22,685	-	9,995	68,852
Disposals	-	(2,989)	(1,262)	(12,428)	-	-	(16,679)
Remeasurement	-	-	-	-	-	102,902	102,902
At 31 December 2024	779,780	294,813	124,437	163,672	39,540	264,758	1,667,000
Accumulated depreciation							
At 1 January 2023	22,275	184,408	65,350	125,007	28,366	81,715	507,121
Expenses for the year	25,906	20,049	8,689	10,699	2,680	23,862	91,885
Disposal	-	(4,562)	(4,446)	(4,950)	-	-	(13,958)
At 1 January 2023	48,181	199,895	69,593	130,756	31,046	105,577	585,048
Expenses for the year	25,926	19,886	8,886	10,952	2,587	34,499	102,736
Disposals	-	(2,989)	(1,164)	(12,428)	-	-	(16,581)
At 31 December 2024	74,107	216,792	77,315	129,280	33,633	140,076	671,203
Carrying amount							
At 31 December 2023	727,304	77,980	44,156	22,659	8,494	46,284	926,877
At 31 December 2024	705,673	78,021	47,122	34,392	5,907	124,682	995,797

Fully depreciated items

As at 31 December 2024 the cost of the property, equipment and intangible assets included fully depreciated assets in amount of AMD 318,595 thousand (2023: AMD 269,715 thousand).

Restrictions on title of fixed assets

As at 31 December 2024 the Organization's property were pledged as collateral for the borrowings from two banks (2023: either) (see Note 21).

Contractual commitments

As at 31 December 2024 the Organization did not have contractual commitments for the acquisition of property and equipment (2023: neither).

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 at 31 December are presented below:

	31 December 2024	31 December 2023
Property	26,717	27,993
Other property	2,268	2,268
Other repossessed assets	28,985	30,261

As at 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

	31 December 2024	31 December 2023
Debtors and other receivables	66,857	53,580
Total other financial assets	66,857	53,580
Prepayments on assets to be acquired for finance lease purposes	26,033	101,644
Prepayments to suppliers	354	1,001
Expenses of future periods	37,204	16,771
Small value items	3,462	3,290
Total non-financial assets	67,053	122,706
Total other assets	133,910	176,286

Expected credit losses on other assets are close to zero, and therefore they are not disclosed.

21 Loans and borrowings

	31 December 2024	31 December 2023
Loans from the CBA	7,486,300	7,400,117
Loans from state non-commercial organizations	2,140,463	1,945,074
Loans from banks	642,509	1,024,146
Loans from banks under repurchase agreements	752,122	908,224
Loans from credit organizations	1,600,068	593,945
Credit lines from banks	373	149,782
Loans from credit organizations	786,643	-
Term borrowings from state non-commercial organizations	79,801	72,886
Total loans and borrowings	13,488,279	12,094,174

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" and "SME support program", loan program financed by the World Bank, amounts received from the Asian Development Bank in the scope of "Women's entrepreneurship support sector development program". 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 (see Note 16).

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

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

Loans from international financial organizations are represented by the loan received from MIKROFINANZFONDS.

As at 31 December 2024 the loan received from two banks is secured by pledging the Organization's property (2023: loan from one bank) (see Note 18).

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2023: neither).

22 Debt securities issued

	31 December 2024	31 December 2023
Bonds issued	1,224,087	-
Total bonds issued	1,224,087	-

As at 31 December 2024, the Organization had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
02/05/2024	AMD	100,000	12,000	12.25	02/11/2026	1,200,000

The Organization's bonds are listed on the "NASDAQ OMX Armenia" stock exchange.

The Organization has not repurchased any of its own debt during the year.

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

23 Subordinated debt

	31 December 2024	31 December 2023
Subordinated debt provided by international financial institutions	888,441	887,997
Total subordinated debt	888,441	887,997

In 2020 the Organization received a subordinated debt of AMD 838,440 thousand from the "French Development Agency" at 12.75% per annum payable monthly with contractual maturity in 15 July 2030.

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 (2023: neither).

24 Assets related to grants

	31 December 2024	31 December 2023
Balance at 1 January	789	1,730
Recognition of income	(789)	(941)
Balance at 31 December	-	789

25 Other liabilities

	31 December 2024	31 December 2023
Due to suppliers	8,827	14,765
Due to personnel	43,330	42,259
Other financial liabilities	45,314	36,009
Total other financial liabilities	97,471	93,033
Liabilities towards members on the replenishment of charter capital	53,386	70,752
Other non-financial liabilities	30,032	25,413
Total other non-financial liabilities	83,418	96,165
Total other liabilities	180,889	189,198

26 Charter Capital

As at 31 December 2024 the Organization's registered and paid-in charter capital was AMD 1,455,857 thousand (2023: AMD 1,370,362 thousand). The Organization has 10,839 members (2023: 10,234 members).

As at 31 December 2024 the Organization's charter capital amounts to AMD 561,252 thousand or 38.6%, which is the participation of "Village Corp Support" Foundation (as at 31 December 2023: AMD 561,252 thousand or 41%, which is the participation of "Village Corp Support" Foundation). The participation of each other members does not exceed 1%.

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

As at 31 December 2024 and 2023, the Organization did not possess any of its own shares.

During members meeting in 2024 and 2023 the Organization has not declared dividends.

27 Contingencies

Tax and legal matters

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

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

Management believes that the 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. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Organization's operations and financial position.

Contractual commitments for property to be acquired for the purpose of providing financial leasing as at 31 December 2024 amount to AMD 28,661 thousand (2023: AMD 30,812 thousand).

28 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 (see Note 18).

Leases of for the property 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.

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

	31 December 2024	31 December 2023
As at 1 January	50,810	62,129
Additions	9,995	-
Remeasurement	102,902	22,598
Accretion of interest	14,411	4,273
Payments	(42,930)	(38,190)
Total lease liabilities as at 31 December	135,188	50,810

Lease liabilities are presented in the statement of financial position.

In 2024 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 12.7% (2023: 12.1%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of undiscounted lease liabilities as at 31 December 2024 is reflected in the Note 33.3.

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 (see Note 11).

29 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. These include loans and other transactions.

	2024	2023
	Key management and parties related with them	Key management and parties related with them
Statement of financial position		
Loans to customers		
Loans outstanding at 1 January	296,727	541,943
Issued during the year	180,841	301,579
Repaid during the year	(86,642)	(546,795)
Loans outstanding at 31 December	390,926	296,727
Credit loss allowance	(6,368)	(4,644)
Loans outstanding at 31 December	384,558	292,083
Finance lease receivables		
Finance lease outstanding at 1 January	7,565	2,336
Issued during the year	-	6,143
Repaid during the year	(1,330)	(914)
Balance at 31 December	6,235	7,565
Credit loss allowance	(94)	(109)
Balance at 31 December	6,141	7,456
Statement of profit or loss and other comprehensive income		
Interest income on loans	18,198	21,285
Interest income on finance lease	905	859
(Credit loss expense) reversal of credit loss expense	(1,709)	5,926
Public relations expenses	(11,400)	(11,200)

Loans to related parties are subject to repayment from 1 to 9 years and their interest rate is 2-31.9% (2023: 2-23.9%). Low-interest loans are initially recognized using market interest rates and are presented in the financial statements at fair value.

Amounts on finance lease provided to related parties are subject to repayment from 3 to 6 years and their interest rate is 12-13.4% (2023: 12.2-13.4%).

Compensation of key management personnel was comprised of the following:

	31 December 2024	31 December 2023
Salaries and bonuses	170,742	168,405
Total key management compensation	170,742	168,405

30 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).

30.1 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 each fair value measurement is categorised.

31 December 2024					
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	256,328	-	256,328	256,328
Loans to customers	-	14,157,023	-	14,157,023	14,245,929
Finance lease receivables	-	1,655,584	-	1,655,584	1,655,584
Investment securities	-	600,749	-	600,749	600,749
Investment securities pledged under repurchase agreements	-	727,336	-	727,336	727,336
Other assets	-	66,857	-	66,857	66,857

Financial liabilities					
Loans and borrowings	-	13,488,279	-	13,488,279	13,488,279
Debt securities issued	-	1,246,860	-	1,246,860	1,224,087
Subordinated debt	-	888,441	-	888,441	888,441
Lease liabilities	-	135,188	-	135,188	135,188
Other liabilities	-	97,471	-	97,471	97,471

31 December 2023					
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	174,018	-	174,018	174,018
Reverse repurchase agreements	-	284,168	-	284,168	284,168
Loans to customers	-	11,820,863	-	11,820,863	11,869,075
Finance lease receivables	-	1,198,952	-	1,198,952	1,198,952
Investment securities	-	71,105	-	71,105	86,671
Investment securities pledged under repurchase agreements	-	932,730	-	932,730	895,121
Other assets	-	53,580	-	53,580	53,580

Financial liabilities					
Loans and borrowings	-	12,094,174	-	12,094,174	12,094,174
Subordinated debt	-	887,997	-	887,997	887,997
Lease liabilities	-	50,810	-	50,810	50,810
Other liabilities	-	93,033	-	93,033	93,033

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 appraisers.

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.

Debt securities issued

The estimated fair value of debt securities issued is determined based on the calculation of expected future cash flows, which are discounted at the relevant interest rates prevailing at the year-end, which generally coincide with current interest rates.

31 Offsetting of financial assets and financial liabilities

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

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

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	31 December 2024		
				Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (Notes 15, 21)	752,122	-	752,122	(727,336)	-	24,786
Total	752,122	-	752,122	(727,336)	-	24,786

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	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	31 December 2023		
				Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements with RA banks (Note 14)	284,168	-	284,168	-	284,168	-
Total	284,168	-	284,168	-	284,168	-
Financial liabilities						
Loans from banks under repurchase agreements (Notes 15, 21)	908,224	-	908,224	(895,121)	-	13,103
Total	908,224	-	908,224	(895,121)	-	13,103

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured at amortized cost in the statement of financial position.

32 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.

See Note 33.3 for the Organization's contractual undiscounted repayment obligations.

	31 December 2024						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	256,328	-	256,328	-	-	-	256,328
Investment securities at amortised cost	-	600,749	600,749	-	-	-	600,749
Investment securities under repurchase agreements	-	370,368	370,368	356,968	-	356,968	727,336
Loans to customers	345,294	5,266,262	5,611,556	7,871,582	762,791	8,634,373	14,245,929
Finance lease receivables	34,085	366,474	400,559	1,218,724	36,301	1,255,025	1,655,584
Other assets	66,857	-	66,857	-	-	-	66,857
	702,564	6,603,853	7,306,417	9,447,274	799,092	10,246,366	17,552,783
Liabilities							
Loans and borrowings	910,893	3,544,757	4,455,650	7,547,724	1,484,905	9,032,629	13,488,279
Debt securities issued	-	24,087	24,087	1,200,000	-	1,200,000	1,224,087
Subordinated debt	50,454	-	50,454	279,329	558,658	837,987	888,441
Lease liabilities	3,209	35,415	38,624	96,564	-	96,564	135,188
Other liabilities	97,471	-	97,471	-	-	-	97,471
	1,062,027	3,604,259	4,666,286	9,123,617	2,043,563	11,167,180	15,833,466
Net position	(359,463)	2,999,594	2,640,131	323,657	(1,244,471)	(920,814)	1,719,317
Accumulated gap	(359,463)	2,640,131		2,963,788	1,719,317		

31 December 2023

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	174,018	-	174,018	-	-	-	174,018
Reverse repurchase agreements	-	284,168	284,168	-	-	-	284,168
Investment securities at amortised cost	-	18,427	18,427	68,244	-	68,244	86,671
Investment securities under repurchase agreements	-	895,121	895,121	-	-	-	895,121
Loans to customers	339,354	5,656,415	5,995,769	5,681,240	192,066	5,873,306	11,869,075
Finance lease receivables	23,258	223,921	247,179	930,400	21,373	951,773	1,198,952
Other assets	53,580	-	53,580	-	-	-	53,580
	590,210	7,078,052	7,668,262	6,679,884	213,439	6,893,323	14,561,585
Liabilities							
Loans and borrowings	18,815	5,179,530	5,198,345	5,924,517	971,312	6,895,829	12,094,174
Subordinated debt	49,887	-	49,887	-	838,110	838,110	887,997
Lease liabilities	2,434	13,859	16,293	34,517	-	34,517	50,810
Other liabilities	93,033	-	93,033	-	-	-	93,033
	164,169	5,193,389	5,357,558	5,959,034	1,809,422	7,768,456	13,126,014
Net position	426,041	1,884,663	2,310,704	720,850	(1,595,983)	(875,133)	1,435,571
Accumulated gap	426,041	2,310,704		3,031,554	1,435,571		

33 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.

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

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

Risk management structure

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

Board of 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 annually by the internal auditor, that examines both the adequacy of the procedures and the Organization's compliance with the procedures. Internal Audit 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.

Risk measurement and reporting systems

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

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

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

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.

33.1 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's and reported to the Organization's management regularly.

33.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the

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Organization's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of internal rating grades is included in Note 33.1.2.

Internal rating grade
31 December 2024

	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Standard	256,328	-	-	256,328
Net carrying amount	256,328	-	-	256,328
Investment securities at amortised cost				
Standard	600,749	-	-	600,749
Net carrying amount	600,749	-	-	600,749
Investment securities at amortised cost pledged under repurchase agreements				
Standard	727,336	-	-	727,336
Net carrying amount	727,336	-	-	727,336
Agricultural lending				
High	8,658,826	-	-	8,658,826
Standard	4,542	128,061	-	132,603
Low	-	5,872	-	5,872
Non-performing	-	-	103,261	103,261
Gross carrying amount	8,663,368	133,933	103,261	8,900,562
Credit loss allowance	(130,283)	(8,987)	(44,247)	(183,517)
Net carrying amount	8,533,085	124,946	59,014	8,717,045
Other lending				
High	5,590,456	-	-	5,590,456
Standard	4,950	16,226	-	21,176
Non-performing	-	-	9,303	9,303
Gross carrying amount	5,595,406	16,226	9,303	5,620,935
Credit loss allowance	(81,458)	(1,437)	(9,156)	(92,051)
Net carrying amount	5,513,948	14,789	147	5,528,884
Finance lease receivables				
High	1,679,447	-	-	1,679,447
Standard	-	2,130	-	2,130
Non-performing	-	-	-	-
Gross carrying amount	1,679,447	2,130	-	1,681,577
Credit loss allowance	(25,934)	(59)	-	(25,993)
Net carrying amount	1,653,513	2,071	-	1,655,584
Other financial assets				
High	66,857	-	-	66,857
Net carrying amount	66,857	-	-	66,857

Internal rating grade

31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Standard	174,018	-	-	174,018
Net carrying amount	174,018	-	-	174,018
Reverse reurchase agreements				
Standard	284,168	-	-	284,168
Net carrying amount	284,168	-	-	284,168
Investment securities at amortised cost				
Standard	86,671	-	-	86,671
Net carrying amount	86,671	-	-	86,671
Investment securities at amortised cost pledged under repurchase agreements				
Standard	895,121	-	-	895,121
Net carrying amount	895,121	-	-	895,121
Agricultural lending				
High	9,428,339	-	-	9,428,339
Standard	1,434	32,411	-	33,845
Low	-	235	-	235
Non-performing	-	-	75,131	75,131
Gross carrying amount	9,429,773	32,646	75,131	9,537,550
Credit loss allowance	(140,255)	(1,192)	(27,713)	(169,160)
Net carrying amount	9,289,518	31,454	47,418	9,368,390
Other lending				
High	2,534,091	-	-	2,534,091
Standard	-	2,763	-	2,763
Non-performing	-	-	11,464	11,464
Gross carrying amount	2,534,091	2,763	11,464	2,548,318
Credit loss allowance	(38,839)	(385)	(8,409)	(47,633)
Net carrying amount	2,495,252	2,378	3,055	2,500,685
Finance lease receivables				
High	1,209,320	-	-	1,209,320
Standard	-	7,496	-	7,496
Non-performing	-	-	2,333	2,333
Gross carrying amount	1,209,320	7,496	2,333	1,219,149
Credit loss allowance	(18,061)	(814)	(1,322)	(20,197)
Net carrying amount	1,191,259	6,682	1,011	1,198,952
Other financial assets				
High	53,580	-	-	53,580
Net carrying amount	53,580	-	-	53,580

33.1.2 Impairment assessment

The references below show where the Organization'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 (see Note 4.6 (vi)).

Significant increase in credit risk

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

The Organization 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 Organization use 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 at 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 Organization 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 Organization 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 at 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 to customers and loan commitments and financial guarantees.

	Grade	2024	2023
		12 month PD range, %	12 month PD range, %
Agricultural lending	High	1.25-2.32%	1.65%-2.07%
	Standard	1.25-9.85%	1.65%-6.19%
	Substandard	60.37-61.02%	64.22%
	Non-Performing	100%	100%
Other lending	High	1.25-2.32%	1.65%-2.07%
	Standard	2.32-9.85%	4.54%
	Non-Performing	100%	100%

The table below shows the mapping of Organization's grading system and external ratings of the counterparties.

	Grade	2024	2023
		12 month PD range	12 month PD range
AAA to A-	High	0.001-0.023%	0.001-0.028%
BBB+ to B-	Standard	0.040-3.137%	0.047-2.813%
CCC+ to CC	Substandard	5.403-27.625%	4.695-21.841%
D	Non-Performing	100%	100%

Collective or individual assessment

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

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

The Organization 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 Organization 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, except for loans, borrowings and debt investment securities provided to banks and other financial institutions, the contractual payments of which are 30 days past due.

As a part of a qualitative assessment of whether a customer is in default, the Organization also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Organization 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 Organization's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Organization's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forbore non-performing exposures.

Forborne and modified loan

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

The Organization considers a loan forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Organization 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 Organization's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in Note 4.6.(vi), estimates and assumptions. To ensure completeness and accuracy, the Organization 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 Organization 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 Organization 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)

33.1.3 Risk concentrations

Geographical sectors

Credit risk assets are located in the RA.

33.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

In order to minimise the credit loss, the Organization 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:

	31 December 2024	31 December 2023
Loans collateralized by real estate	4,705,334	4,806,495
Loans collateralized by guarantees	8,426,041	5,944,905
Loans collateralized by moveable property and other property and equipment	442,731	413,916
Unsecured loans	947,391	920,552
Total loans and advances	14,521,497	12,085,868

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 at 31 December 2024 and 31 December 2023 unsecured loans are collateralized by guarantees of third parties.

33.2 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 significant concentration of market risk.

33.2.1 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 2024 and 2023 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 2024 and 31 December 2023. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2024			2023		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Reverse repurchase agreements	-	-	-	-	5	-
Loans to customers	14.82	13.68	-	14.28	11.34	-
Finance lease receivables	14.68	15.06	-	14.05	14.16	-
Investment securities	-	6.28	-	-	7.33	-

Notes to the Financial Statements

For the year ended 31 December 2024 (expressed in thousands of Armenian drams (AMD))

	2024			2023		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing liabilities						
Loans due to the CBA	8.2	-	-	7.26	-	-
Loans from state non-profit organizations	5.3	4.1	-	4.9	4	-
Loans from banks	13.7	6.8	-	13.72	6.8	-
Loans from banks under repurchase agreements	8.8	-	-	11.2	-	-
Credit lines from banks	12.9	-	-	13.2	-	-
Loans from international organizations	-	7.8	-	-	-	-
Loans from credit organizations	9.6	-	-	9.4	-	-
Term borrowings from state non-profit organizations	6.9	-	-	6.9	-	-
Subordinated debt	13.16	-	-	13.16	-	-
Debt securities issued	12.25	-	-	-	-	-

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 as at 31 December 2024 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.

	31 December 2024		31 December 2023	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	59,191	+5	53,432
USD	(5)	(59,191)	(5)	(53,432)

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

	31 December 2024			
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	21,130	234,781	417	256,328
Investment securities at amortised cost	-	600,749	-	600,749
Investment securities at amortised cost under repurchase agreements	-	727,336	-	727,336
Loans to customers	13,356,323	889,606	-	14,245,929
Finance lease receivables	1,434,729	220,855	-	1,655,584
Other assets	66,857	-	-	66,857
Total	14,879,039	2,673,327	417	17,552,783
Liabilities				
Loans and borrowings	11,998,943	1,489,336	-	13,488,279
Debt securities issued	1,224,087	-	-	1,224,087
Subordinated debt	888,441	-	-	888,441
Lease liabilities	135,188	-	-	135,188
Other liabilities	97,303	168	-	97,471
Total	14,343,962	1,489,504	-	15,833,466
Net position at 31 December 2024	535,077	1,183,823	417	1,719,317
Total financial assets	12,259,878	2,301,707	-	14,561,585
Total financial liabilities	11,892,941	1,233,073	-	13,126,014
Net position as at 31 December 2023	366,937	1,068,634	-	1,435,571

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to Russian ruble.

33.3 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 as at 31 December 2024 based on contractual undiscounted repayment obligations. See Note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	31 December 2024					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	919,831	4,183,219	8,835,366	1,553,417	15,491,833	13,488,279
Debt securities issued	-	147,000	1,347,000	-	1,494,000	1,224,087
Subordinated debt	53,890	53,011	707,670	612,362	1,426,933	888,441
Lease liabilities	3,820	42,020	121,280	-	167,120	135,188
Other liabilities	97,471	-	-	-	97,471	97,471
Total undiscounted non- derivative financial liabilities	1,075,012	4,425,250	11,011,316	2,165,779	18,677,357	15,833,466

	31 December 2023					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	21,149	5,723,323	6,577,685	1,197,025	13,519,182	12,094,174
Subordinated debt	53,304	53,304	428,483	998,450	1,533,541	887,997
Lease liabilities	2,687	16,542	43,333	-	62,562	50,810
Other liabilities	93,033	-	-	-	93,033	93,033
Total undiscounted non- derivative financial liabilities	170,173	5,793,169	7,049,501	2,195,475	15,208,318	13,126,014

33.4 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; and
- 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.

34 Reconciliation of liabilities arising from financing activities

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

						31 December 2024
	Loans and borrowings	Debt securities	Lease liabilities	Subordinated debt	Liabilities to members related to capital replenishment	Total
Carrying amount at 31 December 2022	11,815,414	-	62,129	888,651	64,755	12,830,949
Proceeds	15,189,791	-	-	-	83,123	15,272,914
Repayments	(14,949,115)	-	(38,190)	-	-	(14,987,305)
Increase in charter capital	-	-	-	-	(77,126)	(77,126)
Remeasurement of lease liabilities	-	-	22,598	-	-	22,598
Foreign exchange differences	38,084	-	-	-	-	38,084
Accrued interests	-	-	4,273	(654)	-	3,619
Carrying amount at 31 December 2023	12,094,174	-	50,810	887,997	70,752	13,103,733
Proceeds	14,701,477	1,200,000	-	-	68,129	15,969,606
Repayments	(13,274,462)	-	(42,930)	-	-	(13,317,392)
Increase in charter capital	-	-	-	-	(85,495)	(85,495)
Remeasurement of lease liabilities	-	-	112,897	-	-	112,897
Foreign exchange differences	(26,434)	-	-	-	-	(26,434)
Accrued interests	(6,476)	24,087	14,411	444	-	32,466
Carrying amount at 31 December 2024	13,488,279	1,224,087	135,188	888,441	53,386	15,789,381

The Organization classifies interests paid (excluding finance lease liabilities) as cash flows from operating activities.

35 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.

The minimum ratio between the total capital and risk-weighted assets of credit organizations attracting (issuing) loans from individuals through public placement of bonds by the Central Bank of the Republic of Armenia is set at 12%.

Regulatory capital consists of Tier 1 capital, which comprises charter capital and retained earnings.

Another component of capital is Tier 2 capital, which includes subordinated debt.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the credit risks.

As at 31 December 2024 and 2023 the amount of total capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
	31 December 2024	31 December 2023
Tier 1 capital	2,259,603	2,204,251
Tier 2 capital	838,440	335,376
Total regulatory capital	3,398,043	2,539,627
Risk-weighted assets	16,742,602	13,041,270
Capital adequacy ratio	20.3%	19.5%

The Central Bank of Armenia has set the minimum value of the total normative capital amounting to AMD 1,000,000 thousand for credit organizations engaged in cash foreign exchange trading, as well as issuing securities

36 Segment reporting

The Organization's operations are not separated into operating segments and constitute a single operating segment for the purposes of IFRS 8 "Operating Segments".

Income from external customers refers to residents of the Republic of Armenia. The Organization does not have a single customer from which it receives 10% or more of its revenue.

The Organization's assets are primarily located in the Republic of Armenia.