Aregak Universal Credit Organization CJSC

Financial Statements

for the year ended 31 December 2021

Contents

KPMG Armenia LLC
Erebuni Plaza Business Center, 8th floor
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

Independent Auditors' Report

To the Shareholder of Aregak Universal Credit Organization CJSC

Opinion

We have audited the financial statements of Aregak Universal Credit Organization CJSC (the "Organization"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (*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 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.

Other Matter

The financial statements of the Organization as at and for the year ended 31 December 2020 were audited by other auditors who expressed an unmodified opinion on those financial statements on 9 June 2021.

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 IFRS, 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.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

«ՔԷՅ-ՓԻ-ԷՄ-ՋԻ ԱՐՄԵՆԻԱ»
«KPMG ARMENIA»
02529689

KPMG Armenia LLC
19 May 2022

	Notes	2021 AMD'000	2020 AMD'000
Interest income calculated using the effective interest method	5	5,349,477	5,350,884
Interest expense	5	(257,242)	(254,481)
Net interest income		**5,092,235**	**5,096,403**
Fee and commission expense		(4,454)	(4,044)
Net fee and commission expense		**(4,454)**	**(4,044)**
Net foreign exchange (loss)/gain		(1,418)	3,156
Modification loss on loans to customers		-	(172,915)
Other operating income/(expenses)	6	150,023	870
Operating income		**5,236,386**	**4,923,470**
Impairment losses on financial instruments	7	(10,301)	(3,438,832)
Personnel expenses	8	(1,195,981)	(1,140,087)
Other general administrative expenses	9	(814,818)	(764,439)
Profit/(loss) before income tax		**3,215,286**	**(419,888)**
Income tax (expense)/benefit	10	(582,630)	59,457
Profit/(loss) for the year		**2,632,656**	**(360,431)**
Total comprehensive income/(loss) for the year		**2,632,656**	**(360,431)**

The financial statements as set out on pages 5 to 56 were approved by management on 19 May 2022 and were signed on its behalf by:

Mariam Yesayan
Executive Director

Armine Aghajanyan
Finance Director

«ԱՐԵԳԱԿ»
«AREGAK»
02581899

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2021 AMD'000	2020 AMD'000
ASSETS			
Cash and cash equivalents	11	337,422	680,537
Placement with banks and other financial institutions	12	4,561,747	3,182,749
Loans to customers	13	19,072,420	17,906,709
Investment securities at amortized cost	14	2,553,485	1,163,173
Current tax asset		99,567	-
Property, equipment and intangible assets	15	444,442	523,233
Right-of-use assets	16	343,281	401,286
Deferred tax assets	10	-	451,552
Other assets	17	181,517	192,299
Total assets		**27,593,881**	**24,501,538**
LIABILITIES			
Loans and borrowings	18	2,905,090	2,104,929
Current tax liability		-	336,589
Deferred tax liabilities	10	193,015	-
Dividends payable		-	757,401
Lease liabilities	16	393,118	439,915
Other liabilities	19	542,723	217,590
Total liabilities		**4,033,946**	**3,856,424**
EQUITY			
Share capital	20	3,445,000	3,445,000
Retained earnings		20,114,935	17,200,114
Total equity		**23,559,935**	**20,645,114**
Total liabilities and equity		**27,593,881**	**24,501,538**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2021 AMD'000	2020 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		5,550,839	5,362,813
Interest payments		(251,633)	(254,708)
Fee and commission payments		(4,454)	(4,044)
Net payments from foreign exchange		(160)	(80)
Other income/(expenses) receipts/(payments)		118,729	(19,475)
Personnel expenses		(1,064,369)	(1,154,154)
Other general administrative expenses payments		(594,117)	(602,280)
(Increase)/decrease in operating assets			
Placement with banks and other financial institutions		(1,360,001)	(50,000)
Loans to customers		(858,861)	(1,874,644)
Other assets		(2,611)	2,059
Increase/(decrease) in operating liabilities			
Other liabilities		350	(255)
Net cash from operating activities before income tax paid		**1,533,712**	**1,405,232**
Income tax paid		(436,156)	(173,082)
Cash flows from operations		**1,097,556**	**1,232,150**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(2,051,585)	(732,933)
Proceeds from repayment of investment securities		677,217	194,000
Purchases of property and equipment and intangible assets		(34,184)	(79,443)
Sales of property and equipment and intangible assets		3,421	27,547
Cash flows used in investing activities		**(1,405,131)**	**(590,829)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		795,980	-
Payment of lease liabilities		(72,926)	(59,227)
Dividends paid		(757,401)	(386,450)
Cash flows used in financing activities		**(34,347)**	**(445,677)**
Net (decrease)/increase in cash and cash equivalents		**(341,922)**	**195,644**
Effect of changes in exchange rates on cash and cash equivalents		(1,227)	3,237
Effect of changes in ECL on cash and cash equivalents		(201)	-
Cash and cash equivalents as at the beginning of the year		680,772	481,656
Cash and cash equivalents as at the end of the year	11	**337,422**	**680,537**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	**Share capital**	**Retained earnings**	**Total**
Balance as at 1 January 2020	3,445,000	18,317,946	21,762,946
Total comprehensive income			
Loss for the year	-	(360,431)	(360,431)
Total comprehensive loss for the year	**-**	**(360,431)**	**(360,431)**
Transactions with owners, recorded directly in equity			
Dividends declared	-	(757,401)	(757,401)
Total transactions with owners	-	**(757,401)**	**(757,401)**
Balance as at 31 December 2020	**3,445,000**	**17,200,114**	**20,645,114**
Balance as at 1 January 2021	3,445,000	17,200,114	20,645,114
Total comprehensive income			
Other movements (Note 13(a))	-	282,165	282,165
Profit for the year	-	2,632,656	2,632,656
Total comprehensive income for the year	**-**	**2,914,821**	**2,914,821**
Balance as at 31 December 2021	**3,445,000**	**20,114,935**	**23,559,935**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Aregak Universal Credit Organization CJSC (the "Organization") was established in the Republic of Armenia as a closed joint company in 2006. The principal activities of the Organization are provision of microfinance, individual business loans and consumer loans. The activities of the Organization are regulated by the Central Bank of Armenia (the CBA). The Organization has a credit company license. The Organization's registered office is 4/6 Amiryan Street, 152 office, Yerevan 0010, Republic of Armenia. The Organization conducts its operations through 27 branches and 9 representative offices. The majority of the assets and liabilities are located in the Republic of Armenia.

The Organization is wholly owned by UMCOR Armenia Foundation. The ultimate controlling party is United Methodist Committee on Relief of the General Board of Global Ministers of the United Methodist Church (UMCOR), an international Christian charity company. Related party transactions are detailed in Note 24.

(b) Armenian business environment

The Organization's operations are primarily located in Armenia. Consequently, the Organization is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

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

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Organization's functional currency and the currency in which these financial statements are presented. Financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those 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.

Information about critical judgements in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 18(b);
- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 18(b);
- estimates of fair values of financial assets and liabilities – Note 22;
- determining PDs of bonds issued by the Government of the Republic of Artsakh – Note 14;
- classification of loans for which reimbursement will be received under support measures of Government of Republic of Artsakh to Stage 2 – Note 13(b).

3 Changes in significant accounting policies

A number of other new pronouncements are effective from 1 January 2021, but they do not have a material effect on the Organization’s financial statements.

4 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, current account balances and demand deposits held with banks.

(c) Interest

Effective interest rate

Interest income and expense are recognized 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 amortized 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. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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.

Amortized cost and gross carrying amount

The 'amortized 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 amortization 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' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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 amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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 amortized 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 amortized 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(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortized cost.

(d) Fees and commission

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 (see Note 4(c)).

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

(e) Financial assets and financial liabilities

(i) Classification

Financial assets

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

A financial asset is measured at amortized 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.

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 amortized 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 realizing 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 the financial assets held within that business model) and how those risks are managed;
– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
– the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organization's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

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.

Reclassification

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

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Organization derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the 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 derecognized) 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 recognized in other comprehensive income is recognized in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognized as a separate asset or liability.

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 recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Organization derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Modification 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 (referred to as ‘substantial modification’), 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 derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
– other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

The Organization performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Organization assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Organization analogizes to the guidance on the derecognition of financial liabilities.

The Organization concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial asset;
– change in collateral or other credit enhancement
– change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Organization plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Organization further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Organization first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Organization treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Organization derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Organization performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Organization concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

The Organization recognizes loss allowances for expected credit losses (ECL) on financial assets that are debt instruments and are not measured at FVTPL.

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 – other financial instruments on which credit risk has not increased significantly since their initial recognition

12-month ECL 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. Financial instruments for which a 12-month ECL is recognized are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

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 derecognized (see note 4(e)(ii)) 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 asset

At each reporting date, the Organization assesses whether financial assets carried at amortized cost 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 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 addition, a retail loan that is overdue for more than 90 days is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

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.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

− Buildings	20-30 years
− Motor vehicles	5-10 years
− Communication devices and computers	3-10 years
− Office equipment, fixtures and fittings	5-10 years
− Other	5-20 years

(h) Intangible assets

Intangible assets, which are acquired by the Organization, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 10 years.

(i) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(j) Provisions

A provision is recognized in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Organization has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Organization to declare and pay dividends is subject to the rules and regulations of legislation of the Republic of Armenia.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(m) Taxation

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

(i) Current tax

Current tax expense is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan of the Organization. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority.

(n) Leases

At inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Organization by the end of the lease term or the cost of the right-of-use asset reflects that the Organization will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as the discount rate.

The Organization determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee, if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Organization has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Comparative information

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

(p) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Organization has not early adopted any of the forthcoming new or amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Organization’s financial statements.

– COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).
– Annual Improvements to IFRS Standards 2018-2020.
– Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
– Reference to Conceptual Framework (Amendments to IFRS 3).
– Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
– IFRS 17 *Insurance Contracts and amendments* to IFRS 17 *Insurance Contracts*.
– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
– Definition of Accounting Estimates (Amendments to IAS 8).

5 Net interest income

	2021 AMD'000	2020 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	4,923,170	5,087,192
Term deposits	219,581	181,477
Investment securities at amortized cost	155,316	56,642
Loans to financial institutions	30,689	180
Cash and cash equivalents	20,721	25,393
	5,349,477	**5,350,884**
Interest expense		
Loans and borrowings	209,919	201,699
Interest expense on lease liabilities	47,323	52,782
	257,242	**254,481**

6 Other operating income

	2021 AMD'000	2020 AMD'000
Income from fines and penalties	112,780	91,859
Income from court cases won	67,244	17,281
Change in provision for disbursement fees payable to customers	(36,407)	(109,530)
Gain from disposal of property, plant and equipment and other assets	1,237	5,378
Expense from fines and penalties	(77)	(2,714)
Other	5,246	(1,404)
	150,023	**870**

7 Impairment losses on financial instruments

Movements in credit loss allowance for the year ended 31 December 2021 are presented below:

AMD'000	Cash and cash equivalents	Placement with banks and other financial institutions	Loans to customers	Investment securities	Other assets	Total
Balance at the beginning of the year	235	14,242	3,424,150	4,781	81	3,443,489
Net charge or (recovery)	(201)	7,753	(45,391)	11,624	36,516	10,301
Changes in write-off policy (Note 13(a))	-	-	839,822	-	-	839,822
Unwinding of discount	-	-	425,882	-	-	425,882
Net write-offs	-	-	(598,131)	-	(36,129)	(634,260)
Balance at the end of the year	**34**	**21,995**	**4,046,332**	**16,405**	**468**	**4,085,234**

Movements in credit loss allowance for the year ended 31 December 2020 are presented below:

AMD'000	Cash and cash equivalents	Placement with banks and other financial institutions	Loans to customers	Investment securities	Other assets	Total
Balance at the beginning of the year	231	8,584	1,034,952	1,888	27	1,045,682
Net charge or (recovery)	4	5,658	3,430,223	2,893	54	3,438,832
Net write-offs	-	-	(1,041,025)	-	-	(1,041,025)
Balance at the end of the year	**235**	**14,242**	**3,424,150**	**4,781**	**81**	**3,443,489**

Movements in gross loan balances and credit loss allowance per stages are presented in Note 13.

8 Personnel expenses

	2021 AMD'000	2020 AMD'000
Employee compensation	1,091,087	1,026,702
Health insurance	48,037	42,287
Benefit from staff loans provided at rates below market	30,733	33,426
Other benefit	26,124	37,672
	1,195,981	**1,140,087**

9 Other general administrative expenses

	2021 AMD'000	2020 AMD'000
Depreciation and amortization	200,546	181,480
Expenses related to loan collection	141,090	80,237
Taxes other than income tax	115,546	71,060
Board related expenses	64,500	71,949
Repairs and maintenance	52,654	45,468
Operating lease expense	42,389	39,216
Communication and information services	42,353	35,433
Core application fees	37,176	34,006
Security	34,427	47,747
Professional expenses	26,100	16,146
Office supplies	13,371	13,371
Advertising and marketing	10,383	7,902
Travel expenses	7,256	5,415
Insurance	2,252	1,837
Staff training expenses	1,729	480
Donations given	-	103,000
Other	23,046	9,692
	814,818	**764,439**

10 Income tax (expense)/benefit

	2021 AMD'000	2020 AMD'000
Current year tax expense	-	(498,877)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(582,630)	558,334
Total income tax (expense)/benefit	**(582,630)**	**59,457**

In 2021, the applicable tax rate for current and deferred tax is 18% (2020: 18%).

Reconciliation of effective tax rate for the year ended 31 December:

	2021 AMD'000	%	2020 AMD'000	%
Profit before tax	3,215,286		(419,888)	
Income tax at the applicable tax rate	(578,751)	(18.0)	75,580	(18.0)
Non-deductible expenses	(3,879)	(0.1)	(16,123)	3.8
	(582,630)	**(18.1)**	**59,457**	**(14.1)**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2021 and 2020.

Movements in temporary differences during the years ended 31 December 2021 and 2020 are presented as follows.

2021 **AMD'000**	**Balance 1 January 2021**	**Recognised in profit or loss**	**Recogised in equity (Note 13(a))**	**Balance 31 December 2021**
Cash and cash equivalents	(1,152)	577	-	(575)
Placement with banks and other financial institutions	(3,129)	(897)	-	(4,026)
Loans to customers	416,127	(725,496)	(61,937)	(371,306)
Investment securities at amortized cots	(227)	(1,975)	-	(2,202)
Other assets	6,821	651	-	7,472
Other liabilities	33,112	12,015	-	45,127
Tax loss carry-forward	-	132,495	-	132,495
	451,552	**(582,630)**	**(61,937)**	**(193,015)**

2020 **AMD'000**	**Balance 1 January 2020**	**Recognised in profit or loss**	**Balance 31 December 2020**
Cash and cash equivalents	(806)	(346)	(1,152)
Placement with banks and other financial institutions	(4,101)	972	(3,129)
Loans to customers	(130,964)	547,091	416,127
Investment securities at amortized cots	340	(567)	(227)
Other assets	3,089	3,732	6,821
Other liabilities	25,660	7,452	33,112
	(106,782)	**558,334**	**451,552**

11 Cash and cash equivalents

	2021 AMD'000	2020 AMD'000
Cash on hand	**14,565**	**13,203**
Bank balances		
− rated BB-	74,682	76,163
− rated B+	158,633	116,493
− not rated	89,576	124,870
Total bank balances	**322,891**	**317,526**
Cash equivalents		
Term deposits with banks		
− not rated	-	350,043
Total term deposits with banks	-	**350,043**
Total cash equivalents	-	**350,043**
Total gross cash and cash equivalents	**337,456**	**680,772**
Credit loss allowance	(34)	(235)
Total net cash and cash equivalents	**337,422**	**680,537**

Ratings are based on Standard & Poor's rating system. No cash and cash equivalents are past due.

Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2021 and 31 December 2020.

The unrated balances are with top 10 Armenian banks, the management estimates they approximate rating of B- to B+ under Standard & Poor's rating system.

12 Placement with banks and other financial institutions

	2021 AMD'000	2020 AMD'000
Placements with banks with original maturities of more than three months		
Term deposits with top 10 Armenian banks		
− rated BB-	761,520	922,868
− rated B+	1,634,654	1,055,866
− not rated	1,886,283	1,018,076
Total term deposits	**4,282,457**	**2,996,810**
Loans to financial institutions		
− not rated	301,285	200,181
Total loans to financial institutions	**301,285**	**200,181**
Total gross placement with banks and other financial institutions	**4,583,742**	**3,196,991**
Credit loss allowance	(21,995)	(14,242)
Total net placement with banks and other financial institutions	**4,561,747**	**3,182,749**

Ratings are based on Standard & Poor's rating system. No placement with banks and other financial institutions are past due.

Placement with banks and other financial institutions are fully in Stage 1 and measured at amortized cost as at 31 December 2021 and 31 December 2020.

The Management estimates unrated instruments approximate rating of B- to B+ under Standard & Poor's rating system.

13 Loans to customers

	2021 AMD'000	2020 AMD'000
Loans to small companies and sole entrepreneurs		
Business loans	2,461,222	2,682,703
Total loans to legal entities	**2,461,222**	**2,682,703**
Loans to individuals		
Consumer	4,324,072	3,955,152
Micro-express	10,107,960	8,864,650
Group	5,638,639	5,224,283
Staff	586,859	604,071
Total loans to individuals	**20,657,530**	**18,648,156**
Gross loans to customers	**23,118,752**	**21,330,859**
Credit loss allowance	(4,046,332)	(3,424,150)
Total loans to customers	**19,072,420**	**17,906,709**

The following tables show reconciliations from the opening to the closing balances of the gross amounts for loans to customers for the years ended 31 December 2021 and 2020.

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	15,381,139	3,376,799	2,572,921	21,330,859
New assets originated or purchased	12,591,430	452,801	62,543	13,106,774
Transfer to Stage 1	451,740	(410,318)	(41,422)	-
Transfer to Stage 2	(2,524,672)	3,118,020	(593,348)	-
Transfer to Stage 3	(654,062)	(577,166)	1,231,228	-
Fully repaid	(5,945,111)	(635,147)	(386,286)	(6,966,544)
Partially repaid	(7,018,932)	(2,068,677)	(1,016,997)	(10,104,606)
Interest accrued	3,154,400	1,191,673	577,097	4,923,170
Unwinding of discount	-	-	425,882	425,882
Changes in write-off policy (a)	-	-	1,183,925	1,183,925
Amounts written off	-	-	(780,708)	(780,708)
Balance at 31 December	**15,435,932**	**4,447,985**	**3,234,835**	**23,118,752**

AMD'000	**2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	18,587,232	1,261,455	680,278	20,528,965
New assets originated or purchased	12,762,997	1,395,372	488,222	14,646,591
Transfer to Stage 1	12,358	(10,584)	(1,774)	-
Transfer to Stage 2	(2,604,954)	2,616,744	(11,790)	-
Transfer to Stage 3	(2,474,832)	(630,187)	3,105,019	-
Fully repaid	(7,546,437)	(345,793)	(109,031)	(8,001,261)
Partially repaid	(6,549,548)	(1,692,943)	(1,011,323)	(9,253,814)
Interest accrued	3,194,323	782,735	1,110,134	5,087,192
Amounts written-off	-	-	(1,676,814)	(1,676,814)
Balance at 31 December	**15,381,139**	**3,376,799**	**2,572,921**	**21,330,859**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to customers for the years ended 31 December 2021 and 2020.

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	695,812	1,517,674	1,210,664	3,424,150
New assets originated or purchased	234,484	104,785	32,783	372,052
Transfer to Stage 1	199,422	(181,109)	(18,313)	-
Transfer to Stage 2	(116,491)	392,557	(276,066)	-
Transfer to Stage 3	(29,447)	(255,686)	285,133	-
Net remeasurement of loss allowance	(53,232)	1,056,139	1,055,515	2,058,422
Assets repaid	(514,248)	(1,212,168)	(749,449)	(2,475,865)
Unwinding of discount	-	-	425,882	425,882
Changes in write-off policy (a)	-	-	839,822	839,822
Recoveries of previously written-off loans	-	-	182,577	182,577
Amounts written-off	-	-	(780,708)	(780,708)
Balance at 31 December	**416,300**	**1,422,192**	**2,207,840**	**4,046,332**

AMD'000	**2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	208,722	454,405	371,825	1,034,952
New assets originated or purchased	456,588	581,004	222,569	1,260,161
Transfer to Stage 1	4,783	(3,813)	(970)	-
Transfer to Stage 2	(29,252)	35,696	(6,444)	-
Transfer to Stage 3	(27,791)	(227,008)	254,799	-
Net remeasurement of loss allowance	148,006	792,524	1,462,423	2,402,953
Assets repaid	(65,244)	(115,134)	(52,513)	(232,891)
Recoveries of previously written-off loans	-	-	635,789	635,789
Amounts written-off	-	-	(1,676,814)	(1,676,814)
Balance at 31 December	**695,812**	**1,517,674**	**1,210,664**	**3,424,150**

(a) Changes in write-off policy

In 2021 the Organization revised its write-off policy, increasing period after which loans are considered irrecoverable. Based on historical recoveries of loans, write-off point was changed from 270 days overdue to 720 days. Based on materiality considerations the effect of this revision on prior year financial statements was recognized in equity as other movements.

(b) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2021:

	Stage 1 AMD’000	Stage 2* AMD’000	Stage 3 AMD’000	Total loans AMD’000
Loans to small companies and sole entrepreneurs				
Business loans				
− not overdue	1,352,206	436,958	4,073	1,793,237
− overdue less than 30 days	29,721	32,848	-	62,569
− overdue 31-90 days	-	90,349	-	90,349
− overdue 91-180 days	-	-	67,871	67,871
− overdue 181-270 days	-	-	70,479	70,479
− overdue more than 270 days	-	-	376,717	376,717
Total gross business loans	**1,381,927**	**560,155**	**519,140**	**2,461,222**
Expected credit loss allowance	(62,533)	(238,421)	(363,406)	(664,360)
Total net business loans	**1,319,394**	**321,734**	**155,734**	**1,796,862**
Loans to individuals				
Consumer loans				
− not overdue	2,555,038	1,142,104	20,566	3,717,708
− overdue less than 30 days	23,485	30,171	-	53,656
− overdue 31-90 days	-	64,453	-	64,453
− overdue 91-180 days	-	-	74,987	74,987
− overdue 181-270 days	-	-	66,367	66,367
− overdue more than 270 days	-	-	346,901	346,901
Total gross consumer loans	**2,578,523**	**1,236,728**	**508,821**	**4,324,072**
Expected credit loss allowance	(56,952)	(344,524)	(312,465)	(713,941)
Total net consumer loans	**2,521,571**	**892,204**	**196,356**	**3,610,131**
Micro-express loans				
− not overdue	7,502,759	1,089,619	4,714	8,597,092
− overdue less than 30 days	58,361	80,483	-	138,844
− overdue 31-90 days	-	131,017	-	131,017
− overdue 91-180 days	-	-	144,421	144,421
− overdue 181-270 days	-	-	157,909	157,909
− overdue more than 270 days	-	-	938,677	938,677
Total gross micro-express loans	**7,561,120**	**1,301,119**	**1,245,721**	**10,107,960**
Expected credit loss allowance	(187,404)	(394,810)	(831,970)	(1,414,184)
Total net micro-express loans	**7,373,716**	**906,309**	**413,751**	**8,693,776**
Group loans				
− not overdue	3,426,032	1,158,829	4,532	4,589,393
− overdue less than 30 days	21,308	39,782	-	61,090
− overdue 31-90 days	-	93,427	-	93,427
− overdue 91-180 days	-	-	117,635	117,635
− overdue 181-270 days	-	-	81,930	81,930
− overdue more than 270 days	-	-	695,164	695,164
Total gross group loans	**3,447,340**	**1,292,038**	**899,261**	**5,638,639**
Expected credit loss allowance	(96,837)	(426,874)	(663,958)	(1,187,669)
Total net group loans	**3,350,503**	**865,164**	**235,303**	**4,450,970**

	Stage 1 AMD'000	Stage 2* AMD'000	Stage 3 AMD'000	Total loans AMD'000
Staff loans				
− not overdue	467,022	54,526	-	521,548
− overdue less than 30 days	-	3,419	-	3,419
− overdue 91-180 days	-	-	13,357	13,357
− overdue 181-270 days	-	-	9,960	9,960
− overdue more than 270 days	-	-	38,575	38,575
Total gross staff loans	**467,022**	**57,945**	**61,892**	**586,859**
Expected credit loss allowance	(12,574)	(17,563)	(36,041)	(66,178)
Total net staff loans	**454,448**	**40,382**	**25,851**	**520,681**
Total gross loans to customers	**15,435,932**	**4,447,985**	**3,234,835**	**23,118,752**
Total expected credit loss allowance on loans to customers	**(416,300)**	**(1,422,192)**	**(2,207,840)**	**(4,046,332)**
Total net loans to customers	**15,019,632**	**3,025,793**	**1,026,995**	**19,072,420**

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

	Stage 1 AMD'000	Stage 2* AMD'000	Stage 3 AMD'000	Total loans AMD'000
Loans to small companies and sole entrepreneurs				
Business loans				
− not overdue	1,866,177	345,644	52,547	2,264,368
− overdue less than 30 days	16,929	49,797	7,003	73,729
− overdue 31-90 days	-	22,490	114,602	137,092
− overdue 91-180 days	-	-	190,184	190,184
− overdue 181-270 days	-	-	17,330	17,330
Total gross business loans	**1,883,106**	**417,931**	**381,666**	**2,682,703**
Expected credit loss allowance	(117,770)	(160,203)	(152,108)	(430,081)
Total net business loans	**1,765,336**	**257,728**	**229,558**	**2,252,622**
Loans to individuals				
Consumer loans				
− not overdue	2,682,636	808,190	77,731	3,568,557
− overdue less than 30 days	20,186	21,402	673	42,261
− overdue 31-90 days	-	27,885	71,019	98,904
− overdue 91-180 days	-	-	225,075	225,075
− overdue 181-270 days	-	-	20,355	20,355
Total gross consumer loans	**2,702,822**	**857,477**	**394,853**	**3,955,152**
Expected credit loss allowance	(88,374)	(331,711)	(173,179)	(593,264)
Total net consumer loans	**2,614,448**	**525,766**	**221,674**	**3,361,888**

	Stage 1 AMD'000	Stage 2* AMD'000	Stage 3 AMD'000	Total loans AMD'000
Micro-express loans				
− not overdue	6,818,531	723,325	95,984	7,637,840
− overdue less than 30 days	77,798	99,189	7,503	184,490
− overdue 31-90 days	-	125,743	300,160	425,903
− overdue 91-180 days	-	-	571,899	571,899
− overdue 181-270 days	-	-	44,518	44,518
Total gross micro-express loans	**6,896,329**	**948,257**	**1,020,064**	**8,864,650**
Expected credit loss allowance	(313,236)	(465,224)	(500,690)	(1,279,149)
Total net micro-express loans	**6,583,093**	**483,033**	**519,374**	**7,585,501**
Group loans				
− not overdue	3,317,232	985,106	126,544	4,428,882
− overdue less than 30 days	44,796	69,025	5,595	119,416
− overdue 31-90 days	-	39,402	224,433	263,835
− overdue 91-180 days	-	-	384,435	384,435
− overdue 181-270 days	-	-	27,715	27,715
Total gross group loans	**3,362,028**	**1,093,533**	**768,722**	**5,224,283**
Expected credit loss allowance	(173,177)	(551,401)	(381,113)	(1,105,692)
Total net group loans	**3,188,851**	**542,132**	**387,609**	**4,118,591**
Staff loans				
− not overdue	536,854	39,693	-	576,547
− overdue less than 30 days	-	-	-	-
− overdue 31-90 days	-	19,908	1,726	21,634
− overdue 91-180 days	-	-	5,890	5,890
Total gross staff loans	**536,854**	**59,601**	**7,616**	**604,071**
Expected credit loss allowance	(3,255)	(9,135)	(3,574)	(15,964)
Total net staff loans	**533,599**	**50,466**	**4,042**	**588,107**
Total gross loans to customers	**15,381,139**	**3,376,799**	**2,572,921**	**21,330,859**
Total expected credit loss allowance on loans to customers	**(695,812)**	**(1,517,674)**	**(1,210,664)**	**(3,424,150)**
Total net loans to customers	**14,685,327**	**1,859,125**	**1,362,257**	**17,906,709**

* Retail Stage 2 loans include loans to individuals and companies, for which the management of the Organization expects that the Organization will receive reimbursement from the Government of Republic of Artsakh in the scope of government support measures for the war affected regions and these loans are classified as Stage 2 loans. Total gross amount of these loans as at 31 December 2021 is AMD 1,508,348 thousand (2020: AMD 1,162,147 thousand). If these loans are classified in Stage 3, the expected credit losses would be AMD 190,608 thousand higher (2020: AMD 20,514 thousand higher). Part of the reimbursement that has been received from Government but not settled with loans as at 31 December 2021 is AMD 189,052 thousand (Note 19).

During 2020 portfolio of AMD 14,832,277 thousand had been modified because of COVID-19 measures, default rates for this portfolio were assessed separately considering that the cure period of six months have not passed as at 31 December 2020. As at 31 December 2021 this portfolio was cured or written-off, thus was assessed with the rest of portfolio. Besides, considering the increased uncertainty in the economic environment in relation to pandemic, more conservative forward-looking adjustments were applied in 2020. Forward looking increasing adjustment on 12-month average historical PDs was 29.5% (2021: 9.7%-17.6%), and on lifetime PDs were 5.7%-30.4% (2021: 2.8%-8.5%). As a result, probability of default rates were higher as at 31 December 2020 compared to rates as at 31 December 2021.

(c) Analysis of collateral

Loans to customers are unsecured.

(d) Assets under lien

As at 31 December 2021, loans to customers with a gross value of AMD 800,166 thousand serve as collateral for loans and borrowings (see Note 18).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors, for loans to individuals the sector was defined based on purpose of the loan at inception:

	2021 AMD'000	**2020 AMD'000**
Agriculture	13,947,963	12,841,385
Trade	3,277,041	3,032,622
Food industry	143,719	136,691
Light industry	80,807	73,848
Other	753,538	687,089
Loans to individuals except for agricultural loans	4,915,684	4,559,224
Total gross loans to customers	**23,118,752**	**21,330,859**
Credit loss allowance	(4,046,332)	(3,424,150)
Total net loans to customers	**19,072,420**	**17,906,709**

(f) Significant credit exposures

As at 31 December 2021 the Organization has no borrower or group of connected borrowers (31 December 2020: no borrower), whose net loan balances exceed 10% of equity.

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 21(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Investment securities at amortized cost

	2021 AMD'000	2020 AMD'000
Investment securities measured at amortized cost		
Government bonds of the Republic of Armenia, rated BB-	1,139,021	865,955
Government bonds of the Republic of Artsakh, not rated*	421,210	-
Corporate bonds		
− rated BB-	807,619	301,999
− rated B+	202,040	-
Total gross investment securities at amortized cost	**2,569,890**	**1,167,954**
Credit loss allowance	(16,405)	(4,781)
Total net investment securities at amortized cost	**2,553,485**	**1,163,173**

* The management estimates that the respective bonds have credit rating of one notch below the bonds issued by the government of the Republic of Armenia, considering the intention of the Republic of Armenia to provide financial support to the government of Republic of Artsakh for servicing these bonds.

Investment securities are fully in Stage 1 and measured at amortized cost as at 31 December 2021 and 31 December 2020.

15 Property, equipment and intangible assets

AMD'000	Buildings	Vehicles	Communication devices and computers	Office equipment, fixtures and fittings	Computer software	Other	Total
Cost							
Balance at 1 January 2021	457,424	166,290	312,111	95,720	113,759	92,217	1,237,521
Additions	-	-	3,465	1,675	25,480	3,564	34,184
Disposals	-	(7,633)	(25,285)	(3,876)	(32,498)	(1,470)	(70,762)
Balance at 31 December 2021	**457,424**	**158,657**	**290,291**	**93,519**	**106,741**	**94,311**	**1,200,943**
Depreciation and amortization							
Balance at 1 January 2021	(220,769)	(65,053)	(210,380)	(67,886)	(99,604)	(50,596)	(714,288)
Depreciation and amortisation for the year	(22,873)	(17,851)	(33,381)	(5,963)	(21,107)	(9,577)	(110,752)
Disposals	-	6,116	25,077	3,555	32,498	1,293	68,539
Balance at 31 December 2021	**(243,642)**	**(76,788)**	**(218,684)**	**(70,294)**	**(88,213)**	**(58,880)**	**(756,501)**
Carrying amount							
At 31 December 2021	**213,782**	**81,869**	**71,607**	**23,225**	**18,528**	**35,431**	**444,442**
Cost/revalued amount							
Balance at 1 January 2020	487,049	143,838	346,580	98,827	122,474	89,246	1,288,014
Additions	-	56,000	2,580	1,396	15,984	3,483	79,443
Disposals	(29,625)	(33,548)	(37,049)	(4,503)	(24,699)	(512)	(129,936)
Balance at 31 December 2020	**457,424**	**166,290**	**312,111**	**95,720**	**113,759**	**92,217**	**1,237,521**
Depreciation and amortisation							
Balance at 1 January 2020	(204,895)	(85,434)	(208,450)	(65,627)	(111,538)	(42,801)	(718,745)
Depreciation and amortisation for the year	(23,518)	(13,167)	(38,944)	(6,615)	(12,765)	(8,301)	(103,310)
Disposals	7,644	33,548	37,014	4,356	24,699	506	107,767
Balance at 31 December 2020	**(220,769)**	**(65,053)**	**(210,380)**	**(67,886)**	**(99,604)**	**(50,596)**	**(714,288)**
Carrying amount							
At 1 January 2020	282,154	58,404	138,130	33,200	10,936	46,445	569,269
At 31 December 2020	**236,655**	**101,237**	**101,731**	**27,834**	**14,155**	**41,621**	**523,233**

There are no capitalized borrowing costs related to the acquisition or construction of plant and equipment during 2021 (2020: nil).

16 Leases

The Organization leases assets such as head office and branch office spaces. The lease of head office and branch office spaces typically run for up to 5 years.

Information about leases for which the Organization is a lessee is presented below:

(a) Right of use asset

	2021 AMD'000	2020 AMD'000
Balance at 1 January	401,286	400,725
Additions to right of use assets	91,496	78,731
Depreciation charge for the period	(91,624)	(78,170)
Closed lease contracts	(57,877)	-
Balance at 31 December	**343,281**	**401,286**

(b) Amounts recognized in profit and loss

	2021 AMD'000	2020 AMD'000
Depreciation of right-of-use asset	91,624	78,170
Interest on lease liabilities	47,323	52,782

(c) Amounts recognized in statement of cash flows

	2021 AMD'000	2020 AMD'000
Total cash outflow for leases	120,249	112,009

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2021 AMD'000	2020 AMD'000
Balance at 1 January	439,915	420,411
Changes from financing cash flows		
Repayments	(72,926)	(59,227)
Total changes from financing cash flows	**(72,926)**	**(59,227)**
Other changes		
Additions to lease liability	91,496	78,731
Interest expense	47,323	52,782
Interest paid	(47,323)	(52,782)
Closed leases	(65,367)	-
Balance at 31 December	**393,118**	**439,915**

17 Other assets

	2021 AMD'000	2020 AMD'000
Receivables, gross amount	69,121	27,342
Credit loss allowance	(468)	(81)
Total other financial assets	**68,653**	**27,261**
Prepayments	11,068	26,025
Deferred staff benefit	91,026	122,629
Inventory	6,005	11,280
Repossessed assets	4,765	5,104
Total other non-financial assets	**112,864**	**165,038**
Total other assets	**181,517**	**192,299**

Other financial assets are fully in Stage 1 and measured at amortized cost as at 31 December 2021 and 31 December 2020.

18 Loans and borrowings

This note provides information about the contractual terms of the Organization's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Organization's exposure to interest rate, foreign currency, and liquidity risk, see Note 21(d).

	2021 AMD'000	2020 AMD'000
Non-current		
Unsecured loans from shareholder	-	2,011,247
Secured loans from the CBA	397,993	-
	397,993	**2,011,247**
Current		
Unsecured loans from shareholder	2,104,924	93,682
Secured loans from the CBA	402,173	-
	2,507,097	**93,682**
Total loans and borrowings	**2,905,090**	**2,104,929**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

AMD'000	Currency	Nominal interest rate	Year of maturity	31 December 2021 Face value	31 December 2021 Carrying amount	31 December 2020 Face value	31 December 2020 Carrying amount
Secured loans from the CBA*	AMD	2.85%	2023	800,211	800,166	-	-
Unsecured loans from shareholder	AMD	10%	2022	2,105,082	2,104,924	2,105,082	2,104,929
Total interest-bearing liabilities				**2,905,293**	**2,905,090**	**2,105,082**	**2,104,929**

* The loans are received under the government second program of COVID-19 relief measures for agricultural sector. The subloans provided under the program have effective interest rate of 13% and serve as collateral for loans received.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2021 AMD'000	2020 AMD'000
Balance at 1 January	2,104,929	2,104,921
Changes from financing cash flows		
Receipt	795,984	-
Total changes from financing cash flows	**795,984**	**-**
Other changes		
Interest expense	209,919	201,699
Interest paid	(205,742)	(201,691)
Balance at 31 December	**2,905,090**	**2,104,929**

19 Other liabilities

	2021 AMD'000	2020 AMD'000
Amount received from the government of Republic of Artsakh for reimbursement of loans (Note 13)	189,052	-
Provision on disbursement fees payable to customers	147,679	110,947
Bonuses payable	99,939	-
Vacation reserve	63,787	64,045
Payable for services and goods	16,187	17,072
Total other financial liabilities	**516,644**	**192,064**
Taxes payable, other than income tax	24,810	24,847
Other liabilities	1,269	679
Total other non-financial liabilities	**26,079**	**25,526**
Total other liabilities	**542,723**	**217,590**

20 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 17,225 ordinary shares (2020: 17,225). All shares have a nominal value of AMD 200,000.

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

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Organization, which are determined according to the legislation of the Republic of Armenia.

No dividends were declared during 2021 (2020: AMD 757,401 thousand).

21 Risk management

Management of risk is fundamental to the business of lending and is an essential element of the Organization's operations. The major risks faced by the Organization are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Organization, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management is responsible for monitoring and implementing risk mitigation measures and ensuring that the Organization operates within established risk parameters.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees, Heads of Operations, Finance Manager and Finance Director. In order to facilitate efficient decision-making the management establishes a hierarchy of credit committees depending on the type and amount of the credits.

In compliance with the Organization's internal documentation the internal audit function frequently prepares reports, which cover the Organization's significant risks management. The reports include observations as to assessment of the effectiveness of the Organization's procedures and methodologies, and recommendations for improvement.

Both external and internal risk factors are identified and managed throughout the Organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(b) Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures in place to manage credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a credit committee to actively monitor credit risk. The credit policy is reviewed and approved by the Management.

The credit policy establishes:

– procedures for reviewing and approving loan credit applications
– methodology for the credit assessment of borrowers
– methodology for the credit assessment of counterparties, issuers and insurance companies
– methodology for the evaluation of collateral
– credit documentation requirements
– procedures for the ongoing monitoring of loans and other credit exposures.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Collateral generally is not held against balances with banks. For the analysis of collateral held against loans to customers refer to Note 12.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4(e)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization’s historical experience and expert credit assessment. The Organization concludes that there is a significant risk in credit risk of the assets, when payments related to that assets are past due for more than 30 days.

The Organization also considers the following factors to determine whether there is an increase in credit risk:

– more than 30 overdue days of the borrower in other financial institutions in Armenia.
– significant difficulties in the financial conditions of the borrower.
– renegotiation of the loan terms resulting from deterioration of the borrower’s financial position.
– deterioration of macroeconomic indicators and their possible effect on the borrower’s financial performance.

Generating the term structure of PD

Overdue days are primary input into the determination of the term structure of PD for exposures in Markov’s model of migration matrices. Migration matrices are constructed using historical data over the past 36 months.

Determining whether credit risk has increased significantly

The Organization assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant will differ for different types of lending.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Organization’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Organization considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

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

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

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

- qualitative;
- quantitative; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information

The information used in the measurement of ECL includes economic data and economic indicators forecasts published by monetary authorities. Several macro-economic variables were used for determining the probability of default: GDP, Unemployment rate, Consumer Price Index (CPI), exchange rates of USD/AMD and RUB/AMD. Predicted relationship between the key indicator (AMD/USD exchange rate) and default/loss rates on loan portfolio have been developed based on analysing historical data over the past 5 years. The relationship is tested through the Regression analysis. The annual average rates have been used both for key macro-economic indicator and the default/loss rates of portfolios. 12-month ECL (Stage 1 loans) is measured only with twelve-month PDs. Lifetime ECL (Stage 2 and Stage 3 loans) are measured with all annual marginal PDs until the maturity.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 4(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The revised terms usually include extending the maturity, changing the timing of interest payments.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

– probability of default (PD);
– loss given default (LGD);
– exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

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

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Organization measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Organization considers a longer period. The maximum contractual period extends to the date at which the Organization has the right to require repayment of an advance or terminate a loan commitment or guarantee.

The Organization measures expected credit losses on a collective basis for the portfolio of loans, that share similar credit risk characteristics. Such characteristics are:

– segment;
– type of guarantee;
– size;
– collateralization.

Portfolio subject to collective assessment of ECL is divided into 5 segments: consumer, business, group, micro-express and staff.

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

For portfolios in respect of which the Organization has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

			External benchmarks used	
	Exposure 31 December 2021	**Exposure 31 December 2020**	**PD**	**LGD**
Cash and cash equivalents, term deposits	233,315	192,656	Moody's recovery studies	Moody's recovery studies
Placement with banks and other financial institutions	2,396,174	1,978,734	Moody's recovery studies	Moody's recovery studies
Investment securities measured at amortised cost	2,148,680	1,167,954	Moody's recovery studies	Moody's recovery studies

Concentrations of credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2021 AMD'000	**2020 AMD'000**
ASSETS		
Cash and cash equivalents	322,925	317,761
Placement with banks and other financial institutions	4,561,747	3,182,749
Loans to customers	19,072,420	17,906,709
Investment securities	2,553,485	1,163,173
Other financial assets	68,653	27,261
Total maximum exposure	**26,579,230**	**22,597,653**

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Average effective interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2021								
ASSETS								
Cash and cash equivalents	2.01%	244,923	-	-	-	-	92,499	337,422
Placement with banks and other financial institutions								
Term deposits	7.81%	1,989,335	1,618,912	658,228	-	-	-	4,266,475
Loans to financial institutions	11.30%	1,482	-	-	293,790	-	-	295,272
Loans to customers	24.77%	2,359,041	1,736,914	3,829,409	10,866,070	280,986	-	19,072,420
Investment securities	9.15%	19,272	650,779	599,669	1,039,793	243,972	-	2,553,485
Other financial assets		-	-	-	-	-	68,653	68,653
		4,614,053	**4,006,605**	**5,087,306**	**12,199,653**	**524,958**	**161,152**	**26,593,727**
LIABILITIES								
Loans and borrowings received	8.22%	(93,478)	(203,223)	(2,210,396)	(397,993)	-	-	(2,905,090)
Lease liabilities	11.82%	(29,840)	(28,951)	(52,571)	(258,045)	(23,711)	-	(393,118)
Other financial liabilities		-	-	-	-	-	(516,644)	(516,644)
		(123,318)	**(232,174)**	**(2,262,967)**	**(656,038)**	**(23,711)**	**(516,644)**	**(3,814,852)**
		4,490,735	**3,774,431**	**2,824,339**	**11,543,615**	**501,247**	**(355,492)**	**22,778,875**

AMD'000	Average effective interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2020								
ASSETS								
Cash and cash equivalents	3.53%	522,503	-	-	-	-	158,034	680,537
Placement with banks and other financial institutions								
Term deposits	6.30%	1,787,895	1,049,579	149,559	-	-	-	2,987,033
Loans to financial institutions	11.57%	181	-	-	195,535	-	-	195,716
Loans to customers	21.92%	2,162,435	1,802,031	3,347,063	10,418,871	176,309	-	17,906,709
Investment securities	7.92%	195,878	101,777	219,004	646,514	-	-	1,163,173
Other financial assets		-	-	-	-	-	27,261	27,261
		4,668,892	**2,953,387**	**3,715,626**	**11,260,920**	**176,309**	**185,295**	**22,960,429**
LIABILITIES								
Loans and borrowings received	10.25%	(101,018)	-	(94,677)	(1,909,234)	-	-	(2,104,929)
Lease liabilities	12.08%	(9,197)	(19,935)	(39,871)	(87,563)	(283,349)	-	(439,915)
Other financial liabilities		-	-	-	-	-	(192,064)	(192,064)
		(110,215)	**(19,935)**	**(134,548)**	**(1,996,797)**	**(283,349)**	**(192,064)**	**(2,736,908)**
		4,558,677	**2,933,452**	**3,581,078**	**9,264,123**	**(107,040)**	**(6,769)**	**20,223,521**

(ii) Currency risk

The Organization has assets and liabilities denominated in several foreign currencies. The main foreign currency, in which assets and liabilities are denominated, is the USD.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities denominated in the USD as at 31 December:

	2021 **AMD'000**	**2020** **AMD'000**
ASSETS		
Cash and cash equivalents	7,274	25,425
Total assets	**7,274**	**25,425**
Net position	**7,274**	**25,425**

A weakening of the AMD, as indicated below, against the USD at 31 December 2021 and 2020, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2021 **AMD'000**	**2020** **AMD'000**
10% appreciation of USD against AMD	727	254

A strengthening of the AMD against the USD at 31 December 2021 and 2020 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

(d) Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Organization seeks to actively support a diversified and stable funding base comprising long and short-term loans from banks and financial institutions accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability.

The maturity analysis for financial liabilities as at 31 December 2021 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Loans and borrowings	102,499	-	210,308	2,317,568	405,315	-	3,035,690	2,905,090
Lease liabilities	9,974	20,176	30,037	56,877	391,106	-	508,170	393,118
Other financial liabilities	163,866	-	163,726	189,052	-	-	516,644	516,644
Total financial liabilities	**276,339**	**20,176**	**404,071**	**2,563,497**	**796,421**	**-**	**4,060,504**	**3,814,852**

The maturity analysis for financial assets and liabilities as at 31 December 2020 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Loans and borrowings	101,397	-	-	99,743	2,212,540	-	2,413,680	2,104,929
Lease liabilities	9,285	19,286	31,413	62,825	471,426	-	594,235	439,915
Other financial liabilities	128,019	-	64,045	-	-	-	192,064	192,064
Total financial liabilities	**238,701**	**19,286**	**95,458**	**162,568**	**2,683,966**	**-**	**3,199,979**	**2,736,908**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2021:

AMD'000	Demand and less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	337,422	-	-	-	-	-	-	337,422
Placement with banks and other financial institutions	1,990,817	1,618,912	658,228	293,790	-	-	-	4,561,747
Loans to customers	1,796,083	1,736,914	3,829,409	10,866,070	280,986	-	562,958	19,072,420
Investment securities	19,272	650,779	599,669	1,039,793	243,972	-	-	2,553,485
Current tax asset	99,567	-	-	-	-	-	-	99,567
Property, equipment and intangible assets	-	-	-	-	-	444,442	-	444,442
Right of use asset	-	-	-	-	-	343,281	-	343,281
Deferred tax asset	-	-	-	-	-	-	-	-
Other assets	68,653	-	-	-	-	112,864	-	181,517
Total assets	**4,311,814**	**4,006,605**	**5,087,306**	**12,199,653**	**524,958**	**900,587**	**562,958**	**27,593,881**
LIABILITIES								
Loans and borrowings	93,478	203,223	2,210,396	397,993	-	-	-	2,905,090
Deferred tax liability	-	-	-	-	-	193,015	-	193,015
Lease liabilities	29,840	28,951	52,571	258,045	23,711	-	-	393,118
Other liabilities	163,866	-	163,726	189,052	-	-	26,079	542,723
Total liabilities	**287,184**	**232,174**	**2,426,693**	**845,090**	**23,711**	**193,015**	**26,079**	**4,033,946**
Net position	**4,024,630**	**3,774,431**	**2,660,613**	**11,354,563**	**501,247**	**707,572**	**536,879**	**23,559,935**

* Overdue portion of outstanding overdue loans

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2020:

AMD'000	Demand and less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	680,537	-	-	-	-	-	-	680,537
Placement with banks and other financial institutions	1,788,076	1,049,579	149,559	195,535	-	-	-	3,182,749
Loans to customers	1,828,140	1,802,031	3,347,063	10,418,871	176,309	-	334,295	17,906,709
Investment securities	195,878	101,777	219,004	646,514	-	-	-	1,163,173
Property, equipment and intangible assets	-	-	-	-	-	523,233	-	523,233
Right of use asset	-	-	-	-	-	401,286	-	401,286
Deferred tax asset	-	-	-	-	-	451,552	-	451,552
Other assets	27,261	-	-	-	-	165,038	-	192,299
Total assets	**4,519,892**	**2,953,387**	**3,715,626**	**11,260,920**	**176,309**	**1,541,109**	**334,295**	**24,501,538**
LIABILITIES								
Loans and borrowings	101,018	-	94,677	1,909,234	-	-	-	2,104,929
Current tax liability	-	336,589	-	-	-	-	-	336,589
Dividends payable	-	757,401	-	-	-	-	-	757,401
Lease liabilities	9,197	19,935	39,871	87,563	283,349	-	-	439,915
Other liabilities	128,019	-	64,045	-	-	25,526	-	217,590
Total liabilities	**238,234**	**1,113,925**	**198,593**	**1,996,797**	**283,349**	**25,526**	**-**	**3,856,424**
Net position	**4,281,658**	**1,839,462**	**3,517,033**	**9,264,123**	**(107,040)**	**1,515,583**	**334,295**	**20,645,114**

* Overdue portion of outstanding overdue loans

22 Capital management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, credit organizations have to maintain a minimum charter capital of AMD 150,000 thousand (2020: AMD 150,000 thousand) and total capital of AMD 1,000,000 thousand (2020: AMD 1,000,000 thousand). The Organization is in compliance with the minimum charter capital and total capital requirements as at 31 December 2021 and 2020.

As per the CBA regulatory requirement, starting from 2021 the credit organizations have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2021 this minimum level is 10%. The Organization is in compliance with the statutory capital ratio as at 31 December 2021 (2020: not applicable).

The calculation of statutory capital ratio based on requirements set by the CBA as at 31 December 2021 is as follows:

	2021 AMD'000 Unaudited
Total capital	9,239,121
Total risk weighted assets	16,293,931
Total capital expressed as a percentage of risk-weighted assets	**56.7%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

23 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. 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 operations and financial position.

(b) Litigations

In the ordinary course of business, the Organization is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

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.

Transfer pricing legislation enacted in the Republic of Armenia starting from 1 January 2020. The legislation is effective for the financial year 2020 and onwards. The local transfer pricing rules are closer to OECD guidelines, but with uncertainty in practical application of tax legislation in certain circumstances.

Transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Transfer pricing rules apply to the transactions listed below, if the total amount of the controlled transaction exceeds AMD 200 million in the tax year:

- cross-border transactions between related parties;
- cross-border transactions with companies registered in offshore zones, regardless of being related party or not;
- certain in-country transactions between related parties, as determined under the Armenian Tax Code.

Since there is no practice of applying the transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these financial statements.

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.

24 Related party transactions

(a) Control relationships

The Organization’s parent company is UMCOR Armenia Foundation. The party with ultimate control over the Organization is United Methodist Committee on Relief of the General Board of Global Ministers of the United Methodist Church (UMCOR).

Parent company of the Organization produces publicly available financial statements.

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021 AMD'000	2020 AMD'000
Short-term employee benefits	96,327	100,552
Other long-term benefits	19,761	19,761
	116,088	**120,313**

These amounts include cash and non-cash benefits in respect of members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2021 and 2020 for transactions with members of the Board of Directors and the Management Board are as follows:

	2021 AMD'000	Average effective interest rate, %	2020 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	47,861	20.0%	56,245	20.0%
Loan impairment allowance	(1,289)		(341)	

The loans are in AMD and are repayable by 2023. Transactions with related parties are not secured.

Amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2021 AMD'000	2020 AMD'000
Profit or loss		
Interest income	9,908	11,345
Impairment losses	(947)	(1,803)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2021 and related profit or loss amounts of transactions for the year ended 31 December 2021 with other related parties are as follows:

	Parent company		
	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position			
LIABILITIES			
– In AMD			
Loans and borrowings	(2,104,924)	10%	(2,104,924)
Profit (loss)			
Interest income			
Interest expense	(201,140)		(201,140)
Impairment losses			

The outstanding balances and the related average effective interest rates as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Parent company		
	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position			
LIABILITIES			
– In AMD			
Loans and borrowings	(2,104,929)	10%	(2,104,929)
Dividends payable	(757,401)		(757,401)
Profit (loss)			
Interest expense	(201,699)		(201,699)

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

25 Financial assets and liabilities: fair values and accounting classifications

The Organization measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2021 and 2020 the estimated fair values of all financial instruments, except for loans to customers, investment securities and loans and borrowings, approximate their carrying amounts.

The table below sets out the carrying amounts and fair values of loans to customers, investment securities and loans and borrowings as at 31 December 2021 and 2020:

2021	**Fair value hierarchy**	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	Level 3	23,118,752	23,190,622	(71,870)
Investment securities	Level 2	2,563,828	2,564,040	(212)
Loans and borrowings	Level 3	2,905,090	2,836,120	68,970

2020	**Fair value hierarchy**	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	Level 3	21,330,859	21,021,173	309,686
Investment securities	Level 2	1,163,173	1,174,394	(11,221)
Loans and borrowings	Level 3	2,104,929	2,084,177	20,752