Aregak Universal Credit Organization CJSC

Consolidated Financial Statements
for the year ended 31 December 2023

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Independent Auditors' Report

To the Shareholder of Aregak Universal Credit Organization CJSC

Opinion

We have audited the consolidated financial statements of Aregak Universal Credit Organization CJSC and its subsidiary (the "Organization"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Consolidated 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 consolidated 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated 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.

KPMG Armenia LLC, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organisation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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:

Lusine Sardaryan
Engagement Partner

Irina Gevorgyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC
28 June 2024

	Notes	2023 AMD'000	2022 AMD'000
Interest income calculated using the effective interest method	5	7,673,103	5,709,729
Interest expense	5	(568,145)	(261,957)
Net interest income		**7,104,958**	**5,447,772**
Fee and commission expense		(6,982)	(5,558)
Net fee and commission expense		**(6,982)**	**(5,558)**
Net foreign exchange gain/(loss)		2,890	(5,232)
Net other operating income	6	179,629	17,779
Operating income		**7,280,495**	**5,454,761**
Net reversal of impairment losses	7	74,404	45,887
Personnel expenses	8	(2,291,870)	(1,261,880)
Other general administrative expenses	9	(1,274,160)	(766,957)
Profit before income tax		**3,788,869**	**3,471,811**
Income tax expense	10	(734,137)	(627,218)
Profit and total comprehensive income for the year		**3,054,732**	**2,844,593**

The consolidated financial statements as set out on pages 5 to 59 were approved by management on 28 June 2024 and were signed on its behalf by:

Mariam Yesayan
Executive Director

Armine Aghajanyan
Finance Director

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	Notes	2023 AMD'000	2022 AMD'000
ASSETS			
Cash and cash equivalents	11	1,387,739	848,893
Placement with banks and other financial institutions	12	2,139,337	2,293,640
Loans to customers	13	27,422,790	20,362,250
Investment securities at amortized cost	14	1,415,510	3,162,486
Goodwill	15	27,788	-
Property, equipment and intangible assets	16	380,919	418,675
Right-of-use assets	17	372,321	318,256
Other assets	18	218,552	2,489,360
Total assets		**33,364,956**	**29,893,560**
LIABILITIES			
Loans and borrowings	19	3,090,041	2,504,918
Current tax liability		760,710	651,858
Dividends payable	21	711,148	650,000
Deferred tax liabilities	10	83,833	143,956
Lease liabilities	17	421,518	375,521
Other liabilities	20	699,594	312,779
Total liabilities		**5,766,844**	**4,639,032**
EQUITY			
Share capital	21	3,445,000	3,445,000
Retained earnings		24,153,112	21,809,528
Total equity		**27,598,112**	**25,254,528**
Total liabilities and equity		**33,364,956**	**29,893,560**

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

	Notes	2023 AMD'000	2022 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		7,567,929	5,189,843
Interest payments		(699,033)	(264,294)
Fee and commission payments		(6,982)	(5,558)
Net payments from foreign exchange		947	(1,108)
Other income/(expenses) receipts/(payments)		100,222	(74,314)
Personnel expenses		(2,286,117)	(1,195,042)
Other general administrative expenses payments		(923,650)	(562,477)
(Increase)/decrease in operating assets			
Placement with banks and other financial institutions		(18,905)	2,249,000
Loans to customers		339,170	(854,516)
Other assets		58,058	(62,200)
Increase/(decrease) in operating liabilities			
Other liabilities		(37,848)	12,470
Net cash from operating activities before income tax		**4,093,791**	**4,431,804**
Income tax (paid)/received		(743,290)	75,148
Cash flows from operations		**3,350,501**	**4,506,952**
CASH FLOWS FROM INVESTING ACTIVITIES			
Consideration transferred for acquisition of subsidiary	15	-	(2,295,000)
Cash acquired in business combination	15	597,387	-
Acquisition of investment securities		(292,099)	(2,215,001)
Proceeds from repayment of investment securities		2,977,702	1,592,914
Purchases of property, equipment and intangible assets		(30,310)	(100,308)
Sales of property, equipment and intangible assets		37,246	13,652
Cash flows from/(used in) investing activities		**3,289,926**	**(3,003,743)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		650,000	-
Repayment of loans and borrowings		(5,895,883)	(397,993)
Payment of lease liabilities		(194,385)	(84,008)
Dividends paid		(650,000)	(500,000)
Cash flows used in financing activities		**(6,090,268)**	**(982,001)**
Net increase in cash and cash equivalents		**550,159**	**521,208**
Effect of changes in exchange rates on cash and cash equivalents		(15,070)	(4,811)
Effect of changes in ECL on cash and cash equivalents		3,757	(4,926)
Cash and cash equivalents as at the beginning of the year		848,893	337,422
Cash and cash equivalents as at the end of the year	11	**1,387,739**	**848,893**

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

AMD'000	Share capital	Retained earnings	Total
Balance as at 1 January 2022	3,445,000	20,114,935	23,559,935
Total comprehensive income			
Profit for the year	-	2,844,593	2,844,593
Total comprehensive income for the year	**-**	**2,844,593**	**2,844,593**
Transactions with owners, recorded directly in equity			
Dividends declared	-	(1,150,000)	(1,150,000)
Total transactions with owners	**-**	**(1,150,000)**	**(1,150,000)**
Balance as at 31 December 2022	**3,445,000**	**21,809,528**	**25,254,528**
Balance as at 1 January 2023	3,445,000	21,809,528	25,254,528
Total comprehensive income			
Profit for the year	-	3,054,732	3,054,732
Total comprehensive income for the year	**-**	**3,054,732**	**3,054,732**
Transactions with owners, recorded directly in equity			
Dividends declared	-	(711,148)	(711,148)
Total transactions with owners	**-**	**(711,148)**	**(711,148)**
Balance as at 31 December 2023	**3,445,000**	**24,153,112**	**27,598,112**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated 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, office 152, Yerevan 0010, Republic of Armenia.

The Organization conducts its operations through 37 branches (2022: 25 branches) and 7 representative offices (2022: 9 representative offices). As at 31 December 2023 all the assets and liabilities are located in the Republic of Armenia (2022: the majority of the assets and liabilities were located in the Republic of Armenia).

The Organization acquired 100% of shares of SEF International UCO LLC (the "Subsidiary") in January 2023 (Note 15). The Subsidiary was merged with the Organization in September 2023.

The Organization is wholly owned by UMCOR Armenia Foundation. The ultimate controlling party is Board of Trustees of UMCOR Armenia Foundation, chaired by Roland Fernandes.

Related party transactions are detailed in Note 26.

(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.

In September 2020 armed conflict over disputed Nagorno-Karabakh territories broke out between Azerbaijan and Armenia, which was followed by cease-fire arrangement. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment. In September 2023 the Azerbaijani forces started a new military operation leading to the fleeing of the Nagorno-Karabakh population to Armenia and leaving Azerbaijan in effective control of the territory.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

The consolidated 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

The accompanying consolidated financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Organization is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Organization.

The AMD is also the presentation currency for the purposes of these consolidated financial statements. The official CBA exchange rates at 31 December 2023 and 31 December 2022, were AMD 404.79 and AMD 393.57 to USD 1, and AMD 447.90 and AMD 420.06 to EUR 1, respectively.

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards 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.

Judgments

Information about critical judgements in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included the following note:

- 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 the measurement of expected credit loss ("ECL") and selection of models used to measure ECL – Note 22(b).

Assumptions and estimation uncertainty

Information about 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:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 22(b);
- acquisition of subsidiary: fair value of the assets acquired and liabilities assumed – Note 15;
- estimates of fair values of financial assets and liabilities – Note 27.

3 Changes in material accounting policies

New and amended standards and interpretations

The Organization has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective for these consolidated financial statements.

Certain amendments and interpretations apply for the first time in 2023, but do not have significant impact on the Organization's consolidated financial statements and accounting policies.

Material accounting policy information

The Organization adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the consolidated financial statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 4 Material Accounting Policies (2022: Significant accounting policies) in certain instances in line with the amendments.

4 Material accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency 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, demand deposits and term deposits with original maturity of up to 90 days maturity held with banks. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(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(d)(iv).

Presentation

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

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

(d) 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.

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

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.

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) 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;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Organization if the commitment is drawn down and the cash flows that the Organization expects to receive.

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 loans that are overdue for more than 90 days is considered credit-impaired.

Purchased or originated credit-impaired financial assets (hereinafter – "POCI assets")

POCI-assets are assets that are credit-impaired on initial recognition.

- new financial assets issued by the Organization in the framework of restructuring a credit-impaired asset (replacement of a credit-impaired asset by another asset with a similar level of credit risk);
- an asset that arose when the financial asset was derecognised as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impaired financial assets;
- acquired credit-impaired financial assets;
- issuance of loans to borrowers with an internal credit rating of "Default".

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on acquired or created credit-impaired financial assets, the expected cash flows are used, considering the initial assessment of the ECL for the entire period. The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity. The effective interest rate is adjusted for credit risk.

Upon initial recognition of POCI-assets (usually created assets), the fair value of such loans is determined based on the expected cash flows as a result of cash inflows and/or forced sale of collateral.

Subsequent estimation of ECL on POCI-assets is always made in the amount equal to lifetime ECL. ECL of such assets is the amount of changes in lifetime ECL from the day of the initial recognition of the asset. The amount reflecting positive changes in the amount of lifetime ECL is recognized as an impairment gain, even if the amount of these changes is greater than the amount previously recognized in profit or loss as an impairment loss.

Interest on POCI-assets is accrued on the amortized cost at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments:* generally, as a provision*;*
- *where a financial instrument includes both a drawn and an undrawn component, and the Organization cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Organization presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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 consolidated 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.

(e) Loans to customers

'Loans to customers' caption in the consolidated 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.

(f) 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

(g) 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.

(h) Goodwill

Goodwill arising on the acquisition of a subsidiary is measured at cost less accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

(i) 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.

(j) 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.

(k) Basis of consolidation

(i) Business combinations

The Organization accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Organization. In determining whether a particular set of activities and assets is a business, the Organization assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Organization has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

A business combination involving entities or businesses under common control is ‘a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination’, and that control is not transitory’.

The effect of combination of entities under common control is accounted for by the Organisation using 'equity interest combination' method provided that: assets and liabilities of the combining companies are measured at their carrying amount at the combination date, mutual balances are eliminated.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Organization. The Organization controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of legal merger.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(l) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. However, the Organization has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants (Amendments to IAS 1)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of Exchangeability (Amendments to IAS 21)

5 Net interest income

	2023 AMD'000	2022 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	7,287,609	5,069,208
Investment securities at amortized cost	150,746	281,392
Term deposits	133,468	236,224
Cash and cash equivalents	63,740	90,177
Loans to financial institutions	37,540	32,728
	7,673,103	**5,709,729**
Interest expense		
Interest expense on loans and borrowings	496,082	218,803
Interest expense on lease liabilities	72,063	43,154
	568,145	**261,957**

6 Net other operating income

	2023 AMD'000	2022 AMD'000
Income from fines and penalties	132,341	106,830
Change in provision for disbursement fees payable to customers	(76,906)	(109,188)
Income from court cases won	65,858	41,433
Net gain/(loss) from disposal of property, plant and equipment and other assets	33,162	(21)
Expense from fines and penalties	(392)	(345)
Other	25,566	(20,930)
	179,629	**17,779**

7 Net reversal of impairment losses on financial instruments

The table below shows the impairment losses on financial instruments recorded in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

	2023				
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash and cash equivalents	3,757	-	-	-	3,757
Placement with banks and other financial institutions	11,997	-	-	-	11,997
Loans to customers	18,849	(55,470)	314,734	(42,662)	235,451
Investment securities	(144,333)	-	-	-	(144,333)
Other assets	(18,010)	-	-	-	(18,010)
Undrawn loan commitments	(14,458)	-	-	-	(14,458)
Total	**(142,198)**	**(55,470)**	**314,734**	**(42,662)**	**74,404**

The table below shows the impairment losses on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022:

	2022				
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash and cash equivalents	(4,926)	-	-	-	(4,926)
Placement with banks and other financial institutions	(1,304)	(5,303)	-	-	(6,607)
Loans to customers	290,252	433,021	(632,448)	-	90,825
Investment securities	(12,035)	-	-	-	(12,035)
Other assets	(21,370)	-	-	-	(21,370)
Total	**250,617**	**427,718**	**(632,448)**	**-**	**45,887**

8 Personnel expenses

	2023 AMD'000	2022 AMD'000
Employee compensation	2,156,924	1,155,043
Other benefit	48,323	32,064
Health insurance	66,758	47,936
Benefit from loans to staff provided at rates below market	19,865	26,837
	2,291,870	**1,261,880**

9 Other general administrative expenses

	2023 AMD'000	2022 AMD'000
Depreciation and amortization *	320,818	204,480
Expenses related to loan collection	176,968	111,716
Repairs and maintenance	149,374	52,227
Taxes other than income tax	132,094	89,051
Professional expenses **	130,532	51,000
Board related expenses	79,812	64,500
Communication and information services	55,767	37,534
Security	47,466	32,436
Core application fees	43,826	37,038
Operating lease expense	36,746	34,479
Advertising and marketing	22,284	11,847
Office supplies	16,610	12,060
Travel expenses	7,097	5,054
Insurance	6,876	3,507
Staff training expenses	2,419	3,705
Other	45,471	16,323
	1,274,160	**766,957**

* Included in depreciation and amortization for the year ended 31 December 2023 is AMD 191,970 thousand (2022: AMD 92,055 thousand) related to amortization of right-of-use assets, see Note 17 (a; b).

** Included in the professional services for the year ended 31 December 2023 is AMD 27,000 thousand for the audit of IFRS consolidated financial statements of the Organization for the year ended 31 December 2023 and AMD 65,403 thousand for other non-audit services, which were paid/are payable to the audit firm. All these fees exclude VAT.

10 Income tax expense

	2023 AMD'000	2022 AMD'000
Current year tax expense	(839,889)	(676,277)
Under-provided in prior year	(12,253)	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	118,005	49,059
Total income tax expense	**(734,137)**	**(627,218)**

In 2023, the applicable tax rate for current and deferred tax is 18% (2022: 18%).

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

	2023 AMD'000	%	2022 AMD'000	%
Profit before tax	3,788,869		3,471,811	
Income tax at the applicable tax rate	(681,996)	(18.0)	(624,926)	(18.0)
Under-provided in prior year	(12,253)	(0)	-	-
Non-deductible expenses	(39,888)	(1.0)	(2,292)	(0.1)
	(734,137)	**(19.0)**	**(627,218)**	**(18.1)**

(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 liabilities as at 31 December 2023 and 2022.

Movements in temporary differences during the years ended 31 December 2023 and 2022 are presented as follows.

AMD'000	Balance 1 January 2023	Recognized in profit or loss	Acquired in business combination (Note 15)	Balance 31 December 2023
Cash and cash equivalents	(4,769)	6,513	(1,521)	223
Placement with banks and other financial institutions	1,143	(3,985)	(217)	(3,059)
Loans to customers	(187,801)	129,921	(181,129)	(239,009)
Investment securities at amortized cots	94	9,850	-	9,944
Property, equipment and intangible assets	-	(7,327)	67,599	60,272
Right-of-use assets	(57,287)	14,965	(24,696)	(67,018)
Other assets	(224)	(7,370)	(100)	(7,694)
Loans and borrowings	51	(4,422)	4,206	(165)
Lease liabilities	65,710	(14,532)	24,696	75,874
Other liabilities	39,127	(5,608)	53,280	86,799
	(143,956)	**118,005**	**(57,882)**	**(83,833)**

AMD'000	Balance 1 January 2022	Recognized in profit or loss	Balance 31 December 2022
Cash and cash equivalents	(575)	(4,194)	(4,769)
Placement with banks and other financial institutions	(4,026)	5,169	1,143
Loans to customers	(371,306)	183,505	(187,801)
Investment securities at amortized cots	(2,202)	2,296	94
Right-of-use assets	(61,791)	4,504	(57,287)
Other assets	(1,499)	1,275	(224)
Loans and borrowings	-	51	51
Lease liabilities	70,762	(5,052)	65,710
Other liabilities	45,127	(6,000)	39,127
Tax loss carry-forward	132,495	(132,495)	-
	(193,015)	**49,059**	**(143,956)**

11 Cash and cash equivalents

	2023 AMD'000	2022 AMD'000
Cash on hand	**134,607**	**2,537**
Bank balances		
− rated BB-	208,383	333,771
− rated B+	59,432	89,444
− not rated	735,120	327,977
Total bank balances	**1,002,935**	**751,192**
Cash equivalents		
Term deposits with banks with initial maturity of up to 90 days		
− not rated	251,400	100,124
Total term deposits with banks	**251,400**	**100,124**
Total gross cash and cash equivalents	**1,388,942**	**853,853**
Credit loss allowance	(1,203)	(4,960)
Total net cash and cash equivalents	**1,387,739**	**848,893**

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 2023 and 31 December 2022.

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

	2023 AMD'000	2022 AMD'000
Placements with banks with original maturities of more than 90 days		
Term deposits with top 10 Armenian banks		
− rated BB-	853,556	300,207
− rated B+	450,291	308,028
− not rated	652,355	862,495
Total term deposits	**1,956,202**	**1,470,730**
Loans to financial institutions		
− not rated	199,740	851,512
Total loans to financial institutions	**199,740**	**851,512**
Total gross placement with banks and other financial institutions	**2,155,942**	**2,322,242**
Credit loss allowance	(16,605)	(28,602)
Total net placement with banks and other financial institutions	**2,139,337**	**2,293,640**

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

All placement with financial institutions are measured at amortized cost as at 31 December 2023 and 31 December 2022.

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

The following table sets out information about the credit quality of placement with banks and financial institutions.

	31 December 2023			
	Stage 1	Stage 2	Stage 3	
AMD'000	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Placement with banks and financial institutions				
− rated from BB- to BB+	853,556	-	-	853,556
− rated from B- to B+	450,291	-	-	450,291
− not rated	852,095	-	-	852,095
Loss allowance	**(16,605)**	**-**	**-**	**(16,605)**
Carrying amount	**2,139,337**	**-**	**-**	**2,139,337**

	31 December 2022			
AMD'000	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Placement with banks and financial institutions				
− rated from BB- to BB+	300,207	-	-	300,207
− rated from B- to B+	308,028	-	-	308,028
− not rated	1,413,013	300,994*	-	1,714,007
Loss allowance	**(17,289)**	**(11,313)**	**-**	**(28,602)**
Carrying amount	**2,003,959**	**289,681**	**-**	**2,293,640**

* During the year AMD 100,000 thousand was repaid and remaining balance was transferred to Stage 1, ECL of transferred balance is AMD 6,881 thousand as at 31 December 2023.

13 Loans to customers

	2023 AMD'000	**2022* AMD'000**
Loans to small companies and sole entrepreneurs		
Business loans	1,233,402	1,104,048
Total loans to legal entities	**1,233,402**	**1,104,048**
Loans to individuals		
Agricultural	21,503,428	17,034,779
Consumer loans	5,440,984	4,299,912
Gold loans	759,872	-
Loans to staff	294,612	471,161
Total loans to individuals	**27,998,896**	**21,805,852**
Gross loans to customers	**29,232,298**	**22,909,900**
Credit loss allowance	(1,809,508)	(2,547,650)
Total loans to customers	**27,422,790**	**20,362,250**

* After the acquisition of the Subsidiary (Note 15) the Organization combined and regrouped portfolios considering that combined portfolios share similar credit risk characteristics. Comparative information has also been represented to comply with current year groups. The following groups were previously disclosed: business loans of AMD 2,512,946 thousand, consumer loans of AMD 4,299,911 thousand, micro-express loans of AMD 12,681,617 thousand, group loans of AMD 2,944,265 thousand and loans to staff of AMD 471,161 thousand.

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 2023 and 2022.

AMD'000	**2023**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers					
Balance at 1 January	18,057,186	1,875,361	2,977,353	-	22,909,900
Acquired at business combination (Note 15)	7,784,851	-	-	315,082	8,099,933
New assets originated	21,909,776	-	-	-	21,909,776
Transfer to Stage 1	122,680	(109,908)	(12,772)	-	-
Transfer to Stage 2	(1,423,931)	1,482,829	(58,898)	-	-
Transfer to Stage 3	(868,856)	(382,039)	1,250,895	-	-
Fully repaid	(13,898,869)	(813,262)	(534,780)	(38,573)	(15,285,484)
Partially repaid	(12,656,689)	(1,002,626)	(648,400)	-	(14,307,715)
Loans ceded*	-	-	(818,857)	-	(818,857)
Interest accrued	6,407,365	742,213	95,369	42,662	7,287,609
Foreign exchange gains	47,536	7,668	15,603	-	70,807
Unwinding of discount	-	-	587,343	24,629	611,972
Recoveries of previously written-off loans	-	-	651,515	-	651,515
Amounts written off	-	-	(1,736,463)	(160,695)	(1,897,158)
Balance at 31 December	**25,481,049**	**1,800,236**	**1,767,908**	**183,105**	**29,232,298**

* Based on the decision of the Government of the Republic of Armenia dated 28.12.23 N 2326-N loans to residents of Republic of Artsakh of AMD 1,169,796 thousand and Government bonds of Republic of Artsakh of AMD 364,971 thousand (Note 14) were ceded in exchange for Government bonds of the Republic of Armenia in the amount of AMD 1,074,335 thousand.

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	15,435,932	4,447,985	3,234,834	23,118,751
New assets originated or purchased	14,069,990	207,150	63,631	14,340,771
Transfer to Stage 1	418,008	(394,635)	(23,373)	-
Transfer to Stage 2	(788,702)	886,558	(97,856)	-
Transfer to Stage 3**	(280,583)	(1,612,016)	1,892,599	-
Fully repaid	(6,033,174)	(672,877)	(860,839)	(7,566,890)
Partially repaid	(8,061,887)	(1,723,697)	(858,499)	(10,644,083)
Interest accrued	3,297,602	736,893	1,034,713	5,069,208
Unwinding of discount	-	-	473,371	473,371
Recoveries of previously written-off loans	-	-	324,141	324,141
Amounts written off	-	-	(2,205,369)	(2,205,369)
Balance at 31 December	**18,057,186**	**1,875,361**	**2,977,353**	**22,909,900**

** Balance of Stage 2 loans as at 1 January 2022 included loans to individuals and companies, for which the management of the Organization expected that the Organization would receive reimbursement from the Government of Republic of Artsakh in the scope of government support measures for the war affected regions and these loans were classified as Stage 2 loans as at 31 December 2021. Total gross amount of these loans as at 31 December 2021 was AMD 1,508,348 thousand. The grace period of these loans was till October 2022. In 2022, after the grace period for these loans had lapsed, loans of AMD 1,162,782 thousand were transferred from Stage 2 to Stage 3. As at 31 December 2022 the Management of the Organization estimated that recoveries of these loans would occur through reimbursement or direct payments from the borrowers, however in 2023 these loans were ceded to the Government of Republic of Armenia.

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 2023 and 2022.

AMD'000	**2023**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers					
Balance at 1 January	237,531	446,025	1,864,094	-	2,547,650
New assets originated or purchased	122,911	-	-	-	122,911
Transfer to Stage 1	34,170	(26,054)	(8,116)	-	-
Transfer to Stage 2	(13,562)	51,880	(38,318)	-	-
Transfer to Stage 3	(5,294)	(91,490)	96,784	-	-
Net remeasurement of loss allowance	77,047	314,109	880,348	81,235	1,352,739
Assets repaid	(218,807)	(258,639)	(1,195,082)*	(38,573)	(1,711,101)
Foreign exchange losses	1,295	3,563	8,089	-	12,947
Unwinding of discount	-	-	587,343	24,629	611,972
Recoveries of previously written-off loans	-	-	651,515	-	651,515
Amounts written-off	-	-	(1,736,463)	(42,662)	(1,779,125)
Balance at 31 December	**235,291**	**439,394**	**1,110,194**	**24,629**	**1,809,508**

* The amount includes ECL of ceded loans of AMD 428,938 thousand.

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	416,300	1,422,192	2,207,840	4,046,332
New assets originated or purchased	142,810	38,892	38,851	220,553
Transfer to Stage 1	140,672	(124,247)	(16,425)	-
Transfer to Stage 2	(21,272)	88,134	(66,862)	-
Transfer to Stage 3	(7,917)	(507,033)	514,950	-
Net remeasurement of loss allowance	(104,723)	279,095	1,536,957	1,711,329
Assets repaid	(328,339)	(751,008)	(943,360)	(2,022,707)
Unwinding of discount	-	-	473,371	473,371
Recoveries of previously written-off loans	-	-	324,141	324,141
Amounts written-off	-	-	(2,205,369)	(2,205,369)
Balance at 31 December	**237,531**	**446,025**	**1,864,094**	**2,547,650**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2023:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	POCI AMD'000	Total loans AMD'000
Loans to small companies and sole entrepreneurs					
Business loans					
− not overdue	963,123	97,905	-	-	1,061,028
− overdue less than 30 days	10,584	10,366	-	-	20,950
− overdue 31-90 days	-	15,181	-	-	15,181
− overdue 91-180 days	-	-	20,106	497	20,603
− overdue more than 270 days	-	-	93,437	22,203	115,640
Total gross business loans	**973,707**	**123,452**	**113,543**	**22,700**	**1,233,402**
Expected credit loss allowance	(14,081)	(35,681)	(82,259)	(3,053)	(135,074)
Total net business loans	**959,626**	**87,771**	**31,284**	**19,647**	**1,098,328**
Loans to individuals					
Agricultural loans					
− not overdue	18,816,077	910,033	-	3,571	19,729,681
− overdue less than 30 days	154,959	82,356	-	402	237,717
− overdue 31-90 days	-	219,586	-	-	219,586
− overdue 91-180 days	-	-	306,923	267	307,190
− overdue more than 270 days	-	-	907,313	101,941	1,009,254
Total gross agricultural loans	**18,971,036**	**1,211,975**	**1,214,236**	**106,181**	**21,503,428**
Expected credit loss allowance	(166,527)	(289,511)	(749,438)	(14,282)	(1,219,758)
Total net agricultural loans	**18,804,509**	**922,464**	**464,798**	**91,899**	**20,283,670**
Consumer loans					
− not overdue	4,634,129	301,640	-	363	4,936,132
− overdue less than 30 days	46,311	12,210	-	-	58,521
− overdue 31-90 days	-	72,280	-	353	72,633
− overdue 91-180 days	-	-	114,666	-	114,666
− overdue more than 270 days	-	-	232,206	26,826	259,032
Total gross consumer loans	**4,680,440**	**386,130**	**346,872**	**27,542**	**5,440,984**
Expected credit loss allowance	(53,056)	(102,653)	(225,255)	(3,705)	(384,669)
Total net consumer loans	**4,627,384**	**283,477**	**121,617**	**23,837**	**5,056,315**

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	POCI AMD'000	Total loans AMD'000
Gold loans					
− not overdue	582,229	35,210	-	-	617,439
− overdue less than 30 days	13,890	5,419	-	-	19,309
− overdue 31-90 days	-	16,015	-	-	16,015
− overdue 91-180 days	-	-	30,006	-	30,006
− overdue more than 270 days	-	-	50,421	26,682	77,103
Total gross gold loans	**596,119**	**56,644**	**80,427**	**26,682**	**759,872**
Expected credit loss allowance	(380)	(3,994)	(41,827)	(3,589)	(49,790)
Total net gold loans	**595,739**	**52,650**	**38,600**	**23,093**	**710,082**
Loans to staff					
− not overdue	257,966	16,093	-	-	274,059
− overdue less than 30 days	1,781	-	-	-	1,781
− overdue 31-90 days	-	5,942	-	-	5,942
− overdue more than 270 days	-	-	12,830	-	12,830
Total gross loans to staff	**259,747**	**22,035**	**12,830**	**-**	**294,612**
Expected credit loss allowance	(1,247)	(7,555)	(11,415)	-	(20,217)
Total net loans to staff	**258,500**	**14,480**	**1,415**	**-**	**274,395**
Total gross loans to customers	**25,481,049**	**1,800,236**	**1,767,908**	**183,105**	**29,232,298**
Total expected credit loss allowance on loans to customers	(235,291)	(439,394)	(1,110,194)	(24,629)	(1,809,508)
Total net loans to customers	**25,245,758**	**1,360,842**	**657,714**	**158,476**	**27,422,790**

The following table provides information on the credit quality of loans to customers as at 31 December 2022:

	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	690,919	95,137	-	786,056
− overdue less than 30 days	9,551	5,090	-	14,641
− overdue 31-90 days	-	20,003	154,252	174,255
− overdue 91-180 days	-	-	8,940	8,940
− overdue 181-270 days	-	-	5,166	5,166
− overdue more than 270 days	-	-	114,990	114,990
Total gross business loans	**700,470**	**120,230**	**283,348**	**1,104,048**
Expected credit loss allowance	(11,339)	(31,492)	(185,798)	(228,629)
Total net business loans	**689,131**	**88,738**	**97,550**	**875,419**
Loans to individuals				
Agricultural loans				
− not overdue	13,778,071	1,015,097	-	14,793,168
− overdue less than 30 days	116,542	75,730	-	192,272
− overdue 31-90 days	-	174,259	464,015	638,274
− overdue 91-180 days	-	-	186,700	186,700
− overdue 181-270 days	-	-	124,910	124,910
− overdue more than 270 days	-	-	1,099,455	1,099,455
Total gross agricultural loans	**13,894,613**	**1,265,086**	**1,875,080**	**17,034,779**
Expected credit loss allowance	(181,034)	(290,708)	(1,182,042)	(1,653,784)
Total net agricultural loans	**13,713,579**	**974,378**	**693,038**	**15,380,995**
Consumer loans				
− not overdue	3,036,124	363,160	-	3,399,284
− overdue less than 30 days	41,120	23,317	-	64,437
− overdue 31-90 days	-	76,166	432,033	508,199
− overdue 91-180 days	-	-	48,242	48,242
− overdue 181-270 days	-	-	27,893	27,893
− overdue more than 270 days	-	-	251,857	251,857
Total gross consumer loans	**3,077,244**	**462,643**	**760,025**	**4,299,912**
Expected credit loss allowance	(44,079)	(115,384)	(455,464)	(614,927)
Total net consumer loans	**3,033,165**	**347,259**	**304,561**	**3,684,985**
Loans to staff				
− not overdue	384,859	22,661	-	407,520
− overdue less than 30 days	-	4,741	-	4,741
− overdue 31-90 days	-	-	10,325	10,325
− overdue more than 270 days	-	-	48,575	48,575
Total gross loans to staff	**384,859**	**27,402**	**58,900**	**471,161**
Expected credit loss allowance	(1,079)	(8,441)	(40,790)	(50,310)
Total net loans to staff	**383,780**	**18,961**	**18,110**	**420,851**
Total gross loans to customers	**18,057,186**	**1,875,361**	**2,977,353**	**22,909,900**
Total expected credit loss allowance on loans to customers	**(237,531)**	**(446,025)**	**(1,864,094)**	**(2,547,650)**
Total net loans to customers	**17,819,655**	**1,429,336**	**1,113,259**	**20,362,250**

(b) Analysis of collateral

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan. However, collateral provides additional security and the Organization generally requires borrowers to provide it.

Loans to legal entities are mainly secured by real estate and personal guarantees of individuals.

Agricultural loans are secured by personal guarantees. Gold backed-loans are secured by gold. Renovation loans included in consumer loans are secured by real estate. Consumer loans are secured by personal guarantees or are unsecured.

The following table provided information on the collateral pledged for the loans to customers classified at Stage 3 and POCI as at 31 December 2023 and 2022. Fair value of collateral was assessed as of reporting date.

	2023 AMD'000	2022 AMD'000
Gold	61,693	-
Real estate	10,186	1,593
Purchased goods	1,766	-
Other collateral	541	875
Unsecured	742,004	1,110,791
Total loans to customers in Stage 3	**816,190**	**1,113,259**

(c) Assets under lien

No loans to customers serve as collateral for loans and borrowings (2022: loans to customers with a gross value of AMD 400,092 thousand serve as collateral for loans and borrowings (see Note 19).

(d) 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:

	2023 AMD'000	2022* AMD'000
Agriculture	21,411,430	16,933,341
Trade	851,157	762,953
Food industry	119,650	157,038
Light industry	81,005	85,349
Other	273,588	200,146
Loans to individuals except for agricultural loans	6,495,468	4,771,073
Total gross loans to customers	**29,232,298**	**22,909,900**
Credit loss allowance	(1,809,508)	(2,547,650)
Total net loans to customers	**27,422,790**	**20,362,250**

* After the acquisition of the Subsidiary (Note 15) the Organization represented the industry disclosure based on combined portfolios. Comparative information was revised accordingly.

(e) Significant credit exposures

As at 31 December 2023 the Organization has no borrower or group of connected borrowers (31 December 2022: no borrower), whose net loan balances exceed 10% of equity.

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 22(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Investment securities at amortized cost

	2023 AMD'000	2022 AMD'000
Investment securities measured at amortized cost		
Government bonds of the Republic of Armenia, rated BB-*	1,016,197	1,786,063
Government bonds of the Republic of Artsakh, not rated	-	394,756
Corporate bonds		
– rated BB-	302,536	908,186
– rated B+	101,921	101,921
Total gross investment securities at amortized cost	**1,420,654**	**3,190,926**
Credit loss allowance	(5,144)	(28,440)
Total net investment securities at amortized cost	**1,415,510**	**3,162,486**

* From total balance AMD 202,997 thousand was pledged under bank loan of a third party as at 31 December 2022. No securities are pledged as at 31 December 2023.

Ratings are based on Standard & Poor's rating system. The management estimates unrated instruments as at 31 December 2022 approximated rating of B+ under Standard & Poor's rating system.

Investment securities are fully in Stage 1 and measured at amortized cost as at 31 December 2023 and 31 December 2022.

The following tables show reconciliations from the opening to the closing balances of the gross amounts for investment securities for the years ended 31 December 2023 and 2022.

AMD'000	2023 Stage 1	2022 Stage 1
Investment securities		
Balance at 1 January	3,190,926	2,569,890
Government bonds of the Republic of Armenia under decision 2326-N (Note 13)	1,074,335	-
New assets originated or purchased	292,099	1,420,000
Transfer to Stage 1	-	-
Transfer to Stage 2	-	-
Transfer to Stage 3	-	-
Assets repaid	(2,864,343)	(1,080,356)
Assets ceded	(255,480)	-
Interest accrued	150,746	281,392
Loss at initial recognition	(58,138)	-
Amounts written off (Note 13)	(109,491)	-
Balance at 31 December	**1,420,654**	**3,190,926**

15 Acquisition of subsidiary

On 20 January 2023, the Organization acquired 100% of the shares of SEF International UCO LLC for AMD 2,295,000 thousand, which was settled in cash. After the acquisition, in September 2023, the Organization legally merged SEF International UCO LLC. In preparing these consolidated financial statements the transaction is accounted for as a business combination.

The principal activities of the Organization were provision of microfinance, individual business loans and consumer loans. The activities of the Organization were regulated by the Central Bank of Armenia. The Organization had a credit company license.

Taking control of SEF International UCO LLC enables the Organization to broaden its lending operations and strengthen its market share through access to SEF International UCO LLC's customer base.

For the eight months period from date of acquisition up to the merger date, the Subsidiary contributed interest of AMD 1,439,001 thousand and profit of AMD 133,001 thousand to the Organization's results. If the acquisition had occurred on 1 January 2024, management estimates that total interest for the year would have been AMD 143,690 thousand higher and profit for the year would have been AMD 19,295 thousand higher. In determining these amounts, the management has assumed that the fair value adjustments at 1 January 2024 would have been the same as the fair value adjustments that arose on the date of acquisition.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

'000 AMD	Note	Recognised fair values on acquisition
Assets		
Cash and cash equivalents		597,387
Placements with banks		607,192
Loans to customers*	13	8,099,933
Property, equipment and intangible assets	16	64,865
Right-of-use assets	17(a)	85,805
Other assets		67,944
Liabilities		
Loans and borrowings	19	(5,952,291)
Deferred tax liabilities	10(a)	(57,882)
Lease liabilities	17(d)	(102,404)
Other liabilities		(382,861)
Total identifiable net assets acquired		**3,027,688**
Consideration paid, in cash		2,295,000
Borrowings receivable from Subsidiary		760,476
Cash received		597,387
Cash outflow in 2022		**(2,295,000)**
Cash inflow in 2023		**597,387**
Goodwill		**27,788**

* Gross contractual amounts of loans to customers amounted AMD 8,099,915 thousand, from which expected credit losses as at acquisition date were AMD 544,945 thousand.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the subsidiary into the Organization's existing business.

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Assets acquired	Level	Valuation technique
Loans to customers	*Level 3*	*Discounted cash flow:* The fair value is determined based on market interest rates of similar instruments and contractual cash flows. Discount rates of 34%-69% for loans denominated in foreign currency and in Armenian drams are used for discounting future cash flows from loans and advances to customers. For credit-impaired loans the fair value is measured based on expected recovery rates of these loans of 15.8%-41.4%.
Intangible assets	*Level 3*	*Depreciated replacement cost technique*: Adjustments of functional and economic obsolesce were estimated based on discounted cash flows.
Loans and borrowings	*Level 3*	*Discounted cash flow*: The fair value is determined based on market interest rates of similar instruments and contractual cash flows. Discount rates of 7.0%-8.6% for borrowings denominated in foreign currency and 12.2%-12.9% for borrowings denominated in Armenian drams, are used for discounting future cash flows of loans and borrowings.

Except for above mentioned asset and liability classes the Management estimates that fair values of other assets and liabilities as at acquisition date approximate to their carrying amounts.

16 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 2023	457,424	158,657	360,974	87,856	126,263	84,819	1,275,993
Additions	-	-	3,099	643	16,147	10,421	30,310
Acquired at business combination (Note 15)	-	4,615	22,015	5,470	9,002	23,763	64,865
Transfer	-	-	(1,110)	731	389	(10)	-
Disposals	-	(31,252)	(38,323)	(15,448)	-	(34,064)	(119,087)
Balance at 31 December 2023	**457,424**	**132,020**	**346,655**	**79,252**	**151,801**	**84,929**	**1,252,081**
Depreciation and amortization							
Balance at 1 January 2023	(266,514)	(93,860)	(259,526)	(68,452)	(110,009)	(58,957)	(857,318)
Depreciation and amortization for the year	(22,872)	(18,624)	(44,651)	(7,974)	(20,616)	(14,111)	(128,848)
Transfer	-	-	1,110	(731)	(389)	10	-
Disposals	-	30,455	37,181	14,684	-	32,684	115,004
Balance at 31 December 2023	**(289,386)**	**(82,029)**	**(265,886)**	**(62,473)**	**(131,014)**	**(40,374)**	**(871,162)**
Carrying amount							
At 31 December 2023	**168,038**	**49,991**	**80,769**	**16,779**	**20,787**	**44,555**	**380,919**
Cost							
Balance at 1 January 2022	457,424	158,657	290,291	93,519	106,741	94,311	1,200,943
Additions	-	-	72,290	2,095	23,282	2,641	100,308
Disposals	-	-	(1,607)	(7,758)	(3,760)	(12,133)	(25,258)
Balance at 31 December 2022	**457,424**	**158,657**	**360,974**	**87,856**	**126,263**	**84,819**	**1,275,993**
Depreciation and amortization							
Balance at 1 January 2022	(243,642)	(76,788)	(218,684)	(70,294)	(88,213)	(58,880)	(756,501)
Depreciation and amortization for the year	(22,872)	(17,072)	(42,448)	(5,599)	(23,581)	(853)	(112,425)
Disposals	-	-	1,606	7,441	1,785	776	11,608
Balance at 31 December 2022	**(266,514)**	**(93,860)**	**(259,526)**	**(68,452)**	**(110,009)**	**(58,957)**	**(857,318)**
Carrying amount							
At 1 January 2022	**213,782**	**81,869**	**71,607**	**23,225**	**18,528**	**35,431**	**444,442**
At 31 December 2022	**190,910**	**64,797**	**101,448**	**19,404**	**16,254**	**25,862**	**418,675**

There are no capitalized borrowing costs related to the acquisition or construction of plant and equipment during the year ended 31 December 2023 (2022: nil).

17 Leases

The Organization leases assets such as head office and branch office spaces. The lease term of head office and branch office spaces has been determined 10 years.

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

(a) Right-of-use asset

	2023 AMD'000	2022 AMD'000
Balance at 1 January	318,256	343,281
Additions and modifications to right-of-use assets	442,959	74,115
Acquisition of a subsidiary (Note 15)	85,805	-
Depreciation charge for the period	(191,970)	(92,055)
Closed lease contracts	(282,729)	(7,085)
Balance at 31 December	**372,321**	**318,256**

(b) Amounts recognized in profit and loss

	2023 AMD'000	2022 AMD'000
Depreciation of right-of-use asset	191,970	92,055
Interest on lease liabilities	72,063	43,154
Expenses relating to short-term leases	36,746	34,479

(c) Amounts recognized in consolidated statement of cash flows

	2023 AMD'000	2022 AMD'000
Total cash outflow for leases	266,448	127,162
Short term leases included under "Other general administrative expenses payments"	36,746	34,479

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

	2023 AMD'000	2022 AMD'000
Balance at 1 January	375,521	393,118
Changes from financing cash flows		
Repayments	(194,385)	(84,008)
Total changes from financing cash flows	**(194,385)**	**(84,008)**
Other changes		
Additions and modification to lease liability	442,959	74,115
Acquired in business combination	102,404	-
Interest expense	72,063	43,154
Interest paid	(72,063)	(43,154)
Closed leases	(304,981)	(7,704)
Balance at 31 December	**421,518**	**375,521**

18 Other assets

	2023 AMD'000	2023 AMD'000
Receivables, gross amount	110,237	47,024
Credit loss allowance	(5,903)	(259)
Total other financial assets	**104,334**	**46,765**
Prepayments	57,908	74,158
Deferred staff benefit	35,146	62,835
Repossessed assets	13,169	2,891
Inventory	7,995	7,711
Cash on escrow account*	-	2,295,000
Total other non-financial assets	**114,218**	**2,442,595**
Total other assets	**218,552**	**2,489,360**

* Cash on escrow account represents AMD 2,295,000 thousand deposited to an escrow account for the purpose of acquiring a subsidiary (Note 15) as at 31 December 2022.

Other financial assets are fully in Stage 1 and measured at amortized cost as at 31 December 2023 and 31 December 2022.

19 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).

	2023 AMD'000	2022 AMD'000
Unsecured loans from shareholder	2,104,107	2,104,826
Unsecured loans from international financial institutions	985,934	-
Secured loans from the CBA	-	400,092
Total loans and borrowings	**3,090,041**	**2,504,918**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2023		31 December 2022	
AMD'000	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans from shareholder	AMD	10%	2025	2,104,107	2,104,107	2,104,826	2,104,826
Unsecured loans from international financial institutions	USD	6.74%-7.22%	2024	857,864	856,962	-	-
Unsecured loans from international financial institutions	AMD	14.72%	2024	129,116	128,972	-	-
Secured loans from the CBA*	AMD	2.85%	2023	-	-	400,092	400,092
Total interest-bearing liabilities				**3,091,087**	**3,090,041**	**2,504,918**	**2,504,918**

* The loans were received under the government second program of COVID-19 relief measures for agricultural sector. The sub-loans provided under the program had effective interest rate of 13% and served as collateral for loans received.

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

	2023 AMD'000	**2022 AMD'000**
Balance at 1 January	2,504,918	2,905,090
Changes from financing cash flows		
Received	650,000	-
Paid	(5,895,883)	(397,993)
Total changes from financing cash flows	**(5,245,883)**	**(397,993)**
The effect of changes in foreign exchange rates	**8,528**	**-**
Acquired at business combination (Note 15)	5,952,291	-
Interest expense	496,082	218,803
Interest paid	(625,895)	(220,982)
Balance at 31 December	**3,090,041**	**2,504,918**

(c) Covenants

The Organization is required to meet certain covenants in connection with borrowing agreements with international financial institutions as successor of the Subsidiary, otherwise the borrowings will be repayable on demand. The agreements with these institutions also include clause on cross-default, in case of breach of covenants relating to other borrowings received by the Organization. As at 31 December 2023 the Organization was in breach of some of the covenants relating to quality of loan portfolio, considering that all the borrowings received from international financial institutions were payable by June 2024, no waivers were obtained by the Management. The loans from international financial institutions are presented as on demand (Note 22 (i, d)). As at date of these consolidated financial statements borrowings of AMD 783,419 thousand are repaid subsequent to the year end in accordance with contractual schedule.

20 Other liabilities

	2023 AMD'000	2022 AMD'000
Provision on disbursement fees payable to customers	205,111	55,586
Bonuses payable	181,435	132,899
Vacation reserve	164,397	69,474
Salary payable to employees	45,735	-
Payable for services and goods	38,518	27,854
Total other financial liabilities	**635,196**	**285,813**
Taxes payable, other than income tax	48,864	25,821
Expected credit losses allowance for credit related commitments	14,458	-
Other liabilities	1,076	1,145
Total other non-financial liabilities	**64,398**	**26,966**
Total other liabilities	**699,594**	**312,779**

21 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 17,225 ordinary shares (2022: 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.

During 2023 dividends declared by the Organization amounted to AMD 711,148 thousand, from which no dividends were paid by the Organization as at 31 December 2023 (in 2022: declared AMD 1,150,000 thousand and paid AMD 500,000). Dividends per share amounted to AMD 41,286 thousand (2022: AMD 66,763 thousand).

22 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 consolidated 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 13 (b).

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4(d)(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.
- 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 forecasts published by monetary authorities. As a result of analysis the Organisation identified a strong correlation between the AMD/USD exchange rate and the historical default rates of the loan portfolio. The relationship is tested through the Regression analysis. The annual average rates have been used both for the macro-economic indicator and for the historical default rates of the loan portfolio.

The Organisation obtains the forecasts of macroeconomic data from third party source (International Monetary Fund). Experts of the Organisation's Credit Risk Department determine the weights attributable to the multiple scenarios.

The tables below shows the values of the key macroeconomic indicators/assumptions used in each of the scenarios for the ECL calculations.

	ECL scenario	Assigned probabilities, %	2024	2025
Key drivers				
AMD/USD exchange rate				
	Upside	20%	355.9	359.7
	Base case	50%	392.2	396.0
	Downside	30%	428.5	432.2

	ECL scenario	Assigned probabilities, %	2023	2024
Key drivers				
AMD/USD exchange rate				
	Upside	20%	432.83	438.10
	Base case	50%	453.74	459.01
	Downside	30%	474.65	479.92

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(d)(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;
– currency;
– type of guarantee;
– size;
– collateralization.

Portfolio subject to collective assessment of ECL is divided into 7 main segments: Agricultural loans, Business loans, Consumer portfolio with pledge, Consumer portfolio without pledge, Consumer portfolio backed with salary, Gold-backed portfolio, Loans to Staff, each separated per currency of loan disbursement - AMD, CCY. (2022: 5 segments: consumer, business, group, micro-express and staff). After acquisition of the Subsidiary the Organization combined and regroup portfolios considering that combined portfolios share similar credit risk characteristics.

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 2023	**Exposure 31 December 2022**	**PD**	**LGD**
Cash and cash equivalents	267,815	423,215	S&P default studies	Moody's recovery studies
Placement with banks and other financial institutions	1,303,847	608,235	S&P default studies	Moody's recovery studies
Investment securities measured at amortised cost	1,420,654	2,796,170	S&P default 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 consolidated 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:

	2023 AMD'000	2022 AMD'000
ASSETS		
Cash and cash equivalents	1,253,132	846,356
Placement with banks and other financial institutions	2,139,337	2,293,640
Loans to customers	27,422,790	20,362,250
Investment securities	1,415,510	3,162,486
Other financial assets	104,334	46,765
Total maximum exposure	**32,335,103**	**26,711,497**

(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 2023								
ASSETS								
Cash and cash equivalents	6.11%	1,002,508	-	-	-	-	385,231	1,387,739
Placement with banks and other financial institutions								
− Term deposits	8.37%	649,302	1,297,175	-	-	-	-	1,946,477
− Loans to financial institutions	10.75%	192,860	-	-	-	-	-	192,860
Loans to customers	29.51%-33.66%	3,008,323	2,374,651	4,673,919	16,894,730	471,167	-	27,422,790
Investment securities	10.67%	199,607	249,527	47,271	300,888	618,217	-	1,415,510
Other financial assets	-	-	-	-	-	-	104,334	104,334
		5,052,600	**3,921,353**	**4,721,190**	**17,195,618**	**1,089,384**	**489,565**	**32,469,710**
LIABILITIES								
Loans and borrowings received*	10.27%-6.94%	(1,078,641)	-	-	(2,011,400)	-	-	(3,090,041)
Lease liabilities	11.92%	(28,462)	(26,532)	(65,150)	(293,509)	(7,865)	-	(421,518)
Dividends payable	-	-	-	-	-	-	(711,148)	(711,148)
Other financial liabilities	-	-	-	-	-	-	(635,196)	(635,196)
		(1,107,103)	**(26,532)**	**(65,150)**	**(2,304,909)**	**(7,865)**	**(1,346,344)**	**(4,857,903)**
		3,945,497	**3,894,821**	**4,656,040**	**14,890,709**	**1,081,519**	**(856,779)**	**27,611,807**

* Loans and borrowings are presented as on-demand due to covenants breach (Note 19).

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 2022								
ASSETS								
Cash and cash equivalents	3.71%	407,120	-	-	-	-	441,773	3,143,893
Placement with banks and other financial institutions								
− Term deposits	8.33%	745,739	272,831	444,504	-	-	-	1,463,073
− Loans to financial institutions	10.94%	1,982	-	731,104	97,481	-	-	830,567
Loans to customers	26.62%	2,298,575	2,048,107	3,755,581	11,883,897	376,090	-	20,362,250
Investment securities	10.00%	1,214,778	758,294	481,025	503,894	204,495	-	3,162,486
Other financial assets		-	-	-	-	-	46,765	46,765
		4,668,194	**3,079,232**	**5,412,214**	**12,485,271**	**580,585**	**488,538**	**26,714,034**
LIABILITIES								
Loans and borrowings received	8.86%	(93,413)	(201,109)	(198,996)	(2,011,400)	-	-	(2,504,918)
Lease liabilities	11.86%	(31,724)	(30,679)	(58,582)	(243,089)	(11,448)	-	(375,521)
Dividends payable		-	-	-	-	-	(650,000)	(650,000)
Other financial liabilities		-	-	-	-	-	(285,813)	(285,813)
		(125,136)	**(231,788)**	**(257,578)**	**(2,254,489)**	**(11,448)**	**(935,813)**	**(3,816,252)**
		4,543,058	**2,847,443**	**5,154,636**	**10,230,783**	**569,137**	**447,275**	**22,897,782**

Sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities, except for interest bearing cash and cash equivalents and current accounts and demand deposits from customers, and existing as at 31 December 2023 and 31 December 2022, is as follows:

	2023 AMD'000	2022 AMD'000
100 bp parallel rise	55,689	56,589
100 bp parallel fall	(55,689)	(56,589)

(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:

	2023 AMD'000	2022 AMD'000
ASSETS		
Cash and cash equivalents	5,396	211,426
Loans to customers	1,576,101	-
Total assets	**1,581,497**	**211,426**
Loans and borrowings	(856,962)	-
Total liabilities	**(856,962)**	**-**
Net position	**724,535**	**211,426**

A weakening of the AMD, as indicated below, against the USD at 31 December 2023 and 2022, 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 income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

	2023 AMD'000	2022 AMD'000
10% appreciation of USD against AMD	72,454	21,143

A strengthening of the AMD against the USD at 31 December 2023 and 2022 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 2023 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 outflow	Carrying amount
Non-derivative liabilities								
Loans and borrowings*	100,294	588,342	209,288	309,920	2,212,540	-	3,420,384	3,090,041
Dividends payable	355,574	-	355,574	-	-	-	711,148	711,148
Lease liabilities	15,352	34,380	46,360	113,838	523,761	-	733,691	421,518
Other financial liabilities	289,364	-	345,832	-	-	-	635,196	635,196
Total financial liabilities	**760,584**	**622,722**	**957,054**	**423,758**	**2,736,301**	**-**	**5,500,419**	**4,857,903**
Credit related commitments	**93,150**	**-**	**-**	**-**	**-**	**-**	**93,150**	**-**

* Loans and borrowings are presented based on contractual maturities. For effect of covenants breach (Note 19) please see below maturity analysis.

The maturity analysis for financial liabilities as at 31 December 2022 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 outflow	Carrying amount
Non-derivative liabilities								
Loans and borrowings	101,397	-	204,652	300,958	2,413,129	-	3,020,135	2,504,918
Dividends payable	300,000	-	350,000	-	-	-	650,000	650,000
Lease liabilities	10,847	21,585	32,232	64,180	346,940	-	475,782	375,521
Other financial liabilities	83,440	-	202,373	-	-	-	285,813	285,813
Total financial liabilities	**495,683**	**21,585**	**789,257**	**365,137**	**2,760,069**	**-**	**4,431,730**	**3,816,252**

The table below shows an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at 31 December 2023:

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	1,387,739	-	-	-	-	-	-	1,387,739
Placement with banks and other financial institutions	842,162	1,297,175	-	-	-	-	-	2,139,337
Loans to customers	2,519,237	2,374,651	4,673,919	16,894,730	471,166	-	489,087	27,422,790
Investment securities	199,607	249,527	47,271	300,888	618,217	-	-	1,415,510
Goodwill	-	-	-	-	-	27,788	-	27,788
Property, equipment and intangible assets	-	-	-	-	-	380,919	-	380,919
Right-of-use asset	-	-	-	-	-	372,321	-	372,321
Other assets	104,334	-	-	-	-	114,218	-	218,552
Total assets	**5,053,079**	**3,921,353**	**4,721,190**	**17,195,618**	**1,089,383**	**895,246**	**489,087**	**33,364,956**
LIABILITIES								
Loans and borrowings**	(1,078,641)	-	-	(2,011,400)	-	-	-	(3,090,041)
Current tax liability	-	(760,710)	-	-	-	-	-	(760,710)
Dividends payable	(355,574)	(355,574)	-	-	-	-	-	(711,148)
Deferred tax liability	-	-	-	-	(83,833)	-	-	(83,833)
Lease liabilities	(28,462)	(26,532)	(65,150)	(293,509)	(7,865)	-	-	(421,518)
Other liabilities	(289,364)	-	(394,696)	-	-	(15,534)	-	(699,594)
Total liabilities	**(1,752,041)**	**(1,142,816)**	**(459,846)**	**(2,304,909)**	**(91,698)**	**(15,534)**	**-**	**(5,766,844)**
Net position	**3,301,038**	**2,778,537**	**4,261,344**	**14,890,709**	**997,685**	**879,712**	**489,087**	**27,598,112**

* Overdue portion of outstanding overdue loans

** Loans and borrowings are presented as on-demand due to covenants breaches (Note 19).

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2022:

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	848,893	-	-	-	-	-	-	848,893
Placement with banks and other financial institutions	747,721	272,831	1,175,607	97,481	-	-	-	2,293,640
Loans to customers	1,832,820	2,048,107	3,755,581	11,883,897	376,090	-	465,755	20,362,250
Investment securities	1,214,778	758,294	481,025	503,894	204,495	-	-	3,162,486
Property, equipment and intangible assets	-	-	-	-	-	418,675	-	418,675
Right-of-use asset	-	-	-	-	-	318,256	-	318,256
Other assets	2,341,765	-	-	-	-	147,595	-	2,489,360
Total assets	**6,985,977**	**3,079,232**	**5,412,214**	**12,485,271**	**580,585**	**884,526**	**465,755**	**29,893,560**
LIABILITIES								
Loans and borrowings	(93,413)	(201,109)	(198,996)	(2,011,400)	-	-	-	(2,504,918)
Current tax liability	-	(651,858)	-	-	-	-	-	(651,858)
Deferred tax liability	-	-	-	-	(143,956)	-	-	(143,956)
Dividends payable	(300,000)	(350,000)	-	-	-	-	-	(650,000)
Lease liabilities	(31,724)	(30,679)	(58,582)	(243,089)	(11,448)	-	-	(375,521)
Other liabilities	(83,440)	-	(229,339)	-	-	-	-	(312,779)
Total liabilities	**(508,576)**	**(1,233,646)**	**(486,917)**	**(2,254,489)**	**(155,404)**	**-**	**-**	**(4,639,032)**
Net position	**6,477,400**	**1,845,585**	**4,925,295**	**10,230,783**	**425,181**	**884,526**	**465,755**	**25,254,526**

* Overdue portion of outstanding overdue loans

23 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 (2022: AMD 150,000 thousand) and total capital of AMD 1,000,000 thousand (2022: AMD 150,000 thousand). Requirement on total capital has increased subsequent to receipt of license on foreign-exchange trading. The Organization is in compliance with the minimum charter capital and total capital requirements as at 31 December 2023 and 2022.

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 2023 this minimum level is 10% (31 December 2022: 10%). The Organization is in compliance with the statutory capital ratio as at 31 December 2023 and 31 December 2022.

The calculation of statutory capital ratio based on requirements set by the CBA as at 31 December 2023 is as follows:

	2023 AMD'000 Unaudited	2022 AMD'000 Unaudited
Total capital	8,742,254	9,241,500
Total risk weighted assets	25,220,185	18,063,844
Total capital expressed as a percentage of risk-weighted assets	**34.66%**	**51.16%**

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.

24 Credit related commitments

The Organization has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans. The Organization applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

	2023 AMD'000	2022 AMD'000
Contracted amount		
Undrawn loan commitments	93,150	-
Credit loss allowance	(14,458)	-

As at 31 December 2023 credit commitment of AMD 91,054 thousand were allocated to Stage 1, AMD 1,290 thousand to Stage 2 and AMD 806 thousand to Stage 3.

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

25 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 consolidated 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Organization's parent company is UMCOR Armenia Foundation. The party with ultimate control over the Organization is Board of Trustees of UMCOR Armenia Foundation, chaired by Roland Fernandes.

Parent company of the Organization produces publicly available consolidated 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 2023 and 2022 is as follows:

	2023 AMD'000	2022 AMD'000
Short-term employee benefits	195,682	166,029
Other long-term benefits	3,342	8,089
	199,024	**174,118**

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 2023 and 2022 for transactions with members of the Board of Directors and the Management Board are as follows:

	2023 AMD'000	Average effective interest rate, %	2022 AMD'000	Average effective interest rate, %
Consolidated statement of financial position				
Loans issued (gross)	23,734	20%	38,125	20.0%
Loan impairment allowance	(114)		(107)	

The loans are in AMD and are repayable by 2026 (2022: the loans are in AMD and are repayable by 2025). 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:

	2023 AMD'000	2021 AMD'000
Profit or loss		
Interest income	5,380	8,319
Impairment recoveries (losses)	(7)	1,182

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2023 and related profit or loss amounts of transactions for the year ended 31 December 2023 with other related parties are as follows:

	Parent company		Total
	AMD'000	Average effective interest rate, %	AMD'000
Consolidated statement of financial position			
LIABILITIES			
– In AMD			
Loans and borrowings	(2,104,107)	10%	(2,104,107)
Profit (loss)			
Interest expense	(200,973)		(200,973)

The outstanding balances and the related average effective interest rates as at 31 December 2022 and related profit or loss amounts of transactions for the year ended 31 December 2022 with other related parties are as follows:

	Parent company		Total
	AMD'000	Average effective interest rate, %	AMD'000
Statement of financial position			
LIABILITIES			
– In AMD			
Loans and borrowings	(2,104,826)	10%	(2,104,826)
Profit (loss)			
Interest expense	(201,042)		(201,042)

The borrowing received from related parties is repayable by 2025 (31 December 2022: in 2025). Transactions with related parties are not secured.

27 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 2023 and 2022 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 2023 and 2022:

2023	**Fair value hierarchy**	**Gross carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	Level 3	29,207,669	28,335,369	872,300
Investment securities	Level 2	1,420,654	1,420,779	(125)
Loans and borrowings	Level 3	3,090,041	3,041,070	48,971

2022	**Fair value hierarchy**	**Gross carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	Level 3	22,909,900	20,584,896	2,325,004
Investment securities	Level 2	3,190,926	3,161,104	29,822
Loans and borrowings	Level 3	2,504,918	2,380,391	124,527

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The following assumptions are used by management to estimate the fair values of loans and advances to customers – discount rates of 20.9%-69.0% (2022: 19.9%-39.1%) are used for discounting future cash flows from loans and advances to customers.

The following assumptions are used by management to estimate the fair values of investment securities – 9.5%-10.77% (2022: 9.0%-12.0%) are used for discounting future cash flows from investment securities.

The following assumptions are used by management to estimate the fair values of loans and borrowings – 7.80%-12.1% (2022: 10.7%-12.9%) are used for discounting future cash flows of loans and borrowings.