# Financial Statements and Independent Auditor's Report

# “CARD AgroCredit” universal credit organization closed joint stock company

31 December 2021

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# Independent auditor's report

To the shareholder of "CARD AgroCredit" universal credit organization closed joint stock company

## *Opinion*

We have audited the financial statements of "CARD AgroCredit" universal credit organization closed joint stock company (the "Company"), which comprise the statement of financial position as of 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## *Basis for Opinion*

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

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

Armen Hovhannisyan
Chief Executive Officer

Lilit Baghdasaryan
Audit Manager

25 May 2022

# Statement of profit or loss and other comprehensive income

| In thousand Armenian drams | Notes | 2021 | 2020 |
|---|---|---|---|
| Interest income calculated using effective interest rate | 6 | 1,280,875 | 1,154,542 |
| Other interest income | 6 | 38,220 | 27,192 |
| Interest expense | 6 | (585,424) | (546,110) |
| Net interest income | | 733,671 | 635,624 |
| Fee and commission income | | 279 | 166 |
| Fee and commission expense | | (2,634) | (8,681) |
| Net fee and commission expenses | | (2,355) | (8,515) |
| Net gain/(loss) from foreign currency transactions | | 971 | (1,792) |
| Other income | 7 | 27,445 | 17,227 |
| Impairment reversal | 8 | 134,445 | 38,234 |
| Administrative expenses | 9 | (561,050) | (506,573) |
| Profit before income tax | | 333,127 | 174,205 |
| Income tax expense | 10 | (69,506) | (40,553) |
| Profit for the year | | 263,621 | 133,652 |
| Total comprehensive income for the year | | 263,621 | 133,652 |

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 55.

# Statement of financial position

In thousand Armenian drams

| | Notes | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| *Assets* | | | |
| Cash | 11 | 46,920 | 53,494 |
| Amounts due from other financial institutions | 12 | 100,496 | 4,437 |
| Loans to customers | 13 | 9,750,815 | 9,162,100 |
| Finance lease receivables | 14 | 511,673 | 277,814 |
| Property, equipment and intangible assets | 15 | 226,989 | 234,540 |
| Deferred income tax assets | 10 | 3,315 | 14,714 |
| Repossessed assets | 16 | 159,862 | 173,796 |
| Other assets | 17 | 87,659 | 68,310 |
| Total assets | | 10,887,729 | 9,989,205 |
| *Liabilities and equity* | | | |
| Liabilities | | | |
| Loans and borrowings | 18 | 9,288,699 | 8,709,780 |
| Income tax liabilities | | 31,437 | 20,415 |
| Other liabilities | 19 | 160,269 | 82,307 |
| Total liabilities | | 9,480,405 | 8,812,502 |
| *Equity* | | | |
| Share capital | 20 | 604,500 | 604,500 |
| Statutory general reserve | | 48,595 | 41,913 |
| Retained earnings | | 754,229 | 530,290 |
| Total equity | | 1,407,324 | 1,176,703 |
| Total liabilities and equity | | 10,887,729 | 9,989,205 |

The financial statements were approved on 25 May 2022:

Mkhitar Azatyan
Executive Director

Vardan Babayan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 55.

# Statement of changes in equity

| In thousand Armenian drams | Share capital | Statutory general reserve | Retained earnings | Total |
|---|---|---|---|---|
| Balance as of 01 January 2021 | 604,500 | 41,913 | 530,290 | 1,176,703 |
| Profit for the year | - | - | 263,621 | 263,621 |
| Total comprehensive income for the year | - | - | 263,621 | 263,621 |
| Distribution to reserve | - | 6,682 | (6,682) | - |
| Dividends to shareholders | - | - | (33,000) | (33,000) |
| Total transactions with owners | - | 6,682 | (39,682) | (33,000) |
| Balance as of 31 December 2021 | 604,500 | 48,595 | 754,229 | 1,407,324 |
| Restated balance at 01 January 2020 | 604,500 | 38,509 | 426,554 | 1,069,563 |
| Profit for the year | - | - | 133,652 | 133,652 |
| Total comprehensive income for the year | - | - | 133,652 | 133,652 |
| Distribution to reserve | - | 3,404 | (3,404) | - |
| Dividends to shareholders | - | - | (26,512) | (26,512) |
| Total transactions with owners | - | 3,404 | (29,916) | (26,512) |
| Balance as of 31 December 2020 | 604,500 | 41,913 | 530,290 | 1,176,703 |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 55.

# Statement of cash flows

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| *Cash flows from operating activities* | | |
| Profit before tax | 333,127 | 174,205 |
| *Adjustments for* | | |
| Amortization and depreciation charge | 17,495 | 21,342 |
| Gains from disposal of property and equipment | (1,692) | (627) |
| Impairment reversal | (134,445) | (38,234) |
| Foreign currency translation net gain/(loss) | (2,183) | 1,494 |
| Interest payables | 5,656 | 10,376 |
| Income from grants related to assets | (651) | (2,235) |
| *Cash flows from operating activities before changes in operating assets and liabilities* | 217,307 | 166,321 |
| *(Increase)/decrease in operating assets* | | |
| Amounts due from financial institutions | (95,638) | 282,364 |
| Loans to customers included financial lease receivables | (700,466) | (1,345,679) |
| Other assets | (30,855) | 3,263 |
| *Increase/(decrease) in operating liabilities* | | |
| Other liabilities | 78,597 | (1,348) |
| Net cash flow used in operating activities before income tax | (531,055) | (895,079) |
| Income tax paid | (47,084) | (28,698) |
| Net cash used in operating activities | (578,139) | (923,777) |
| *Cash flows from investing activities* | | |
| Purchase of property, equipment and intangible assets | (11,352) | (21,342) |
| Sale of property, equipment and intangible assets | 3,100 | 15,516 |
| Net cash used in investing activities | (8,252) | (5,826) |
| *Cash flow from financing activities* | | |
| Increase in loans and borrowings | 614,189 | 935,705 |
| Dividends paid | (33,000) | (26,512) |
| Net cash from financing activities | 581,189 | 909,193 |
| Net decrease in cash | (5,202) | (20,410) |
| Cash at the beginning of the year | 53,494 | 72,692 |
| Effect of exchange differences on cash | (1,372) | 1,212 |
| Cash at the end of the year (Note 11) | 46,920 | 53,494 |
| **Supplementary information:** | | |
| Interest received | 1,280,875 | 1,189,535 |
| Interest paid | (579,768) | (535,734) |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 55.

# Notes to the financial statements

## 1 Principal activities

“CARD AgroCredit” UCO CJSC (the “Company”) is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2008. The Company is regulated by the legislation of RA and conducts its business under license number 23, granted on 27 June 2008 by the Central Bank of Armenia (the “CBA”). As at December 2021, the Company’s immediate parent company is ‘’Agrovision’’ LLC and ultimate controller is Center for Agribusiness and Rural Development Foundation.

The principal activity of the Company is lending. The Company provides a comprehensive package of financial services throughout the entire chain of agricultural production, processing and marketing, including operational and business development loans, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers. The Company also provides finance lease (leasing) of agricultural machinery and equipment.

The registered office of the Company is located at 1/21-40 Azatutyan Street, Yerevan 0037, Republic of Armenia. The Company has 4 branches and 2 representatives in RA regions.

## 2 Armenian business environment

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

The government's efforts to improve the business environment, increase access to finance for SMEs and create opportunities for priority social spending, as well as an expanded action plan for capital market development, should contribute to the stability and development of the Armenian economy.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Bank. However, the future economic and political situation and its impact on the Bank's operations may differ from the management's current expectations.

## 3 Basis of preparation

### 3.1 Statement of compliance

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

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

### 3.2 Basis of measurement

Financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

### 3.3 Functional and presentation currency

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

## 3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2021, did not have a material impact on the financial statements of the Company.

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

## 3.5 Standards and interpretations not yet applied by the Company

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

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

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

- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

# 4 Summary of significant accounting policies

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

## 4.1 Recognition of income and expenses

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

### *The effective interest rate method*

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

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

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

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

### *Amortised cost and gross carrying amount*

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

### *Calculation of interest income and expense*

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

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

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

For information on when financial assets are credit-impaired, refer to note 4.4.6.

### *Other interest income*

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

### *Fee and commission income*

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

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

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

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

## 4.2 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net income (losses) from foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

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

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| AMD/1 US Dollar | 480.14 | 522.59 |
| AMD/1 EUR | 542.61 | 641.11 |

## 4.3 Taxation

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

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

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

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

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

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

## 4.4 Financial instruments

### 4.4.1 Recognition and initial measurement

The Company initially recognises loans and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

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

### 4.4.2 Classification

#### *Financial assets*

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

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

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

A financial asset 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 Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### *Business model assessment*

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates by the CBA. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that it represents a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

#### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified.

#### *Financial liabilities*

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

### 4.4.3 Derecognition

#### *Financial assets*

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

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

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

In transactions in which the Company 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 Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

#### *Financial liabilities*

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

### 4.4.4 Modifications of financial assets and financial liabilities

#### *Financial assets*

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

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

### *Financial liabilities*

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

## 4.4.5 Offsetting

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

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

## 4.4.6 Impairment

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

- financial assets measured at amortised cost
- lease receivables

No impairment loss is recognised on equity investments.

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

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

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

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

### *Measurement of ECL*

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

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 26.1.2.

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

- Stage 1: When loans are first recognised, The Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, The Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

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

**PD (the Probability of Default)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

**EAD (the Exposure at Default)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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

The PD, the EAD and the LGD are further explained in note 26.1.2.

### *Restructured financial assets*

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

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

### *Credit-impaired financial assets*

At each reporting date, The Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by The Company on terms that The Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

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

### *Presentation of allowances for ECL in the statement of financial position*

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

*Write-offs*

Loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when The Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

## 4.5 Cash

Cash comprise amounts due from banks. Cash is carried at amortised cost.

## 4.6 Amounts due from financial institutions

In the normal course of business, the Company maintains deposits for various periods of time with other banks. Deposits in banks are measured at amortized cost using the effective interest method.  Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management.

## 4.7 Loans

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

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

## 4.8 Leases

*Company as a lessee*

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

*Measurement and recognition of leases*

*Company as a lessee*

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

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

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

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

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company determines the term of the lease as a non-cancellable lease period, taking into account the periods for which there is a possibility of extending or terminating the term of the lease.

As of 31 December 2021 and 31 December 2020 the Company has designated all of its leases as a low-value asset or lease with a lease term of less than 12 months at the time of initial application of the standard, as under all the terms of the Company lease agreement, the lessee and the lessor, in turn, have the right to terminate the lease early without any obligation to pay fines or penalties, without the consent of the other party (by informoing within one to three months prior to termination). The Company also estimates that the costs associated with a possible termination of the lease, such as relocation, identification of another asset that is appropriate to the Company 's needs, and integration of a new asset into the Company' s operations, are negligible.

Lease may only be cancelled by incurring a substantive costs relating to the termination of the lease, such as relocation costs, costs of integrating a new asset into the Company's operations. The Company is prohibited from selling or pledging the underlying leased assets as security. the Company must keep this property in a good state of repair and return the property in their original condition at the end of the lease.

### *Company as a lessor*

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

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

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

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

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

## 4.9 Property and equipment

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

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

| | Useful life (years) | Rate (%) |
|---|---|---|
| Buildings | 50 | 2 |
| Computers | 3 | 33.3 |
| Vehicles | 8 | 12.5 |
| Other fixed assets | 8 | 12.5 |
| Server | 8 | 12.5 |
| Property and equipment, low value up to AMD 50,000 | 1 | 100 |

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition.  Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in other income.

## 4.10 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years (unless other period is not intended by contract) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

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

## 4.11 Repossessed assets

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

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

## 4.12 Grants

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

## 4.13 Loans and borrowings

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

## 4.14 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require The Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

## 4.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note 4.14.

## 4.16 Equity

### *Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

### *Retained earnings*

Include retained earnings of current and previous periods.

### *Dividends*

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

# 5 Critical accounting estimates and judgements

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

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

## 5.1 Judgements

### *Classification of financial assets:*

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

### *Establish criteria for calculating ECL*

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

## 5.2 Assumptions and estimations uncertainty

### *Measurement of fair values*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 23).

### *Useful Life of property and equipment*

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

### *Extension options for leases*

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

In assessing the non-cancellable term, the Company takes into account all the terms of the lease agreement, according to which, the lessee and the lessor each in turn have the right to terminate the lease early without any penalty or commitment for losses, without the permission of another party (by informing within one to three months before termination). The Company also assessed that the costs associated with the possible termination of lease agreements, such as relocation, the identification of another asset underlying the Company's needs (search), and the cost of integrating a new asset into the Company's activities.

### *Impairment of financial instruments*

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 26.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

### *Tax legislation*

Armenian tax legislation is subject to varying interpretations. Refer to note 21.

## 6 Net interest income

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| *Interest income calculated using effective interest rate* | | |
| Amounts due from financial institutions | 7,687 | 25,341 |
| Loans and advances to customers | 1,273,188 | 1,129,201 |
| | 1,280,875 | 1,154,542 |
| *Other interest income* | | |
| Finance lease receivables | 38,220 | 27,192 |
| Total interest income | 1,319,095 | 1,181,734 |
| Loans and overdrafts from RA banks | 23,535 | 8,721 |
| Loans from the CBA through international programs | 411,695 | 397,304 |
| Loans from state non-profit organizations | 146,371 | 137,741 |
| Borrowings from nor-financial organizations | 3,823 | 2,344 |
| Total interest expense | 585,424 | 546,110 |
| Total net interest income | 733,671 | 635,624 |

## 7 Other income

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| Fines and penalties received | 12,060 | 9,007 |
| Gain from sale of repossessed assets | 5,233 | 1,001 |
| Gain from sale of property and equipment | 1,692 | 627 |
| Gain from grants relating to the assets | 651 | 2,235 |
| Gain from compensation for court costs | 1,448 | 2,603 |
| Other income | 6,361 | 1,754 |
| Total other income | 27,445 | 17,227 |

## 8 Impairment loss/(reversal)

| In thousand Armenian drams | Note | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| | | | | | 2021 |
| Loans to customers | 13 | (66,845) | (2,283) | (78,108) | (147,236) |
| Finance lease | 14 | 1,253 | (9) | 40 | 1,284 |
| Other assets | 17 | - | - | 11,507 | 11,507 |
| Total impairment reversal | | (65,592) | (2,292) | (66,561) | (134,445) |

| In thousand Armenian drams | Note | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| | | | | | 2020 |
| Loans to customers | 13 | (1,481) | 7,570 | (44,270) | (38,181) |
| Finance lease | 14 | (17) | - | (36) | (53) |
| Total impairment loss/(reversal) | | (1,498) | 7,570 | (44,306) | (38,234) |

## 9 Administrative expenses

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| Compensations of employees, related taxes included | 385,009 | 352,647 |
| Maintenance of property, equipment and intangible assets | 34,899 | 29,079 |
| Depreciation of property, equipment and amortisation of intangible assets | 17,495 | 21,342 |
| Advertising costs | 243 | 410 |
| Business trip expenses | 125 | 544 |
| Communications | 4,243 | 6,366 |
| Expenses of short term and low value assets leases | 18,132 | 18,033 |
| Taxes, other than income tax, duties | 13,239 | 15,339 |
| Consulting and other services | 9,210 | 2,095 |
| Security | 2,351 | 2,428 |
| Office supplies | 1,884 | 2,767 |
| Fines and penalties paid | 5 | 872 |
| Staff training costs | 5,801 | 2,374 |
| ACRA and SMS communication costs | 12,540 | 9,795 |
| Charity | - | 12,998 |
| Loss from write-off of property and equipment | - | 273 |
| Membership fees | 8,736 | 6,596 |
| Insurance expenses | 7,918 | 6,505 |
| Legal advisory | 8,900 | - |
| Other expenses | 30,320 | 16,110 |
| Total administrative expenses | 561,050 | 506,573 |

### *Lease payments not recognised as a liability*

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

The expenses relating to payments are as follows;

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Short-term leases | 17,532 | 16,233 |
| Leases of low value assets | 600 | 1,800 |
| Total expenses of short-term and low value assets leases | 18,132 | 18,033 |

# 10 Income tax expense

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| Current tax expense | 58,107 | 38,197 |
| Adjustments of income tax of previous years | - | 1,205 |
| Deferred tax | 11,399 | 1,151 |
| Total income tax expense | 69,506 | 40,553 |

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2020: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

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

| In thousand Armenian drams | 2021 | Effective rate (%) | 2020 | Effective rate (%) |
|---|---|---|---|---|
| Profit before tax | 333,127 | | 174,205 | |
| Income tax | 59,963 | 18 | 31,357 | 18 |
| Non-deductible expenses | 9,547 | 3 | 7,988 | 5 |
| Foreign exchange differences | (4) | - | 3 | - |
| Adjustments of income tax of previous years | - | - | 1,205 | - |
| Total income tax expense | 69,506 | 21 | 40,553 | 23 |

Deferred tax calculation in respect of temporary differences:

| In thousand Armenian drams | | | 2021 | | |
|---|---|---|---|---|---|
| | 2020 | Recognized in profit or loss | Net | Deferred tax asset | Deferred tax liability |
| Cash | 39 | (173) | (134) | - | (134) |
| Amounts due from financial institutions | 45 | - | 45 | 45 | - |
| Loans to customers | 9,730 | (11,123) | (1,393) | - | (1,393) |
| Finance Lease | 49 | 224 | 273 | 273 | - |
| Property and equipment | (3,487) | 1,009 | (2,478) | - | (2,478) |
| Other assets | 1,623 | (411) | 1,212 | 1,212 | - |
| Loans and borrowings | 31 | 256 | 287 | 287 | - |
| Other liabilities | 6,684 | (1,181) | 5,503 | 5,503 | - |
| Deferred tax asset/(liability) | 14,714 | (11,399) | 3,315 | 7,320 | (4,005) |

| In thousand Armenian drams | | | 2020 | | |
|---|---|---|---|---|---|
| | 2019 | Recognized in profit or loss | Net | Deferred tax asset | Deferred tax liability |
| Cash | (507) | 546 | 39 | 39 | - |
| Amounts due from financial institutions | 45 | - | 45 | 45 | - |
| Loans to customers | 15,679 | (5,949) | 9,730 | 9,730 | - |
| Finance Lease | 52 | (3) | 49 | 49 | - |
| Property and equipment | (2,580) | (907) | (3,487) | - | (3,487) |
| Other assets | (447) | 2,070 | 1,623 | 1,623 | - |
| Loans and borrowings | (563) | 594 | 31 | 31 | - |
| Other liabilities | 4,186 | 2,498 | 6,684 | 6,684 | - |
| Deferred tax asset/(liability) | 15,865 | (1,151) | 14,714 | 18,201 | (3,487) |

# 11 Cash

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Bank accounts | 46,920 | 53,494 |
| Total cash in bank accounts | 46,920 | 53,494 |

As of 31 December 2021 the amounts of correspondent accounts in amounts of AMD 33,138 thousand (71%) (2020: AMD 45,828 thousand (86%)) were due from two commercial banks, which represent significant concentration.

As of 31 December 2021 and 31 December 2020 the ECLs relating to cash rounds to zero, that's why it's not disclosed here.

Non-cash transactions through repayment of loans by repossessed assets were not performed by the Company during 2021 (2020: AMD 54,556 thousand).

## 12 Amounts due from financial institutions

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Deposits in banks | 96,065 | - |
| Other receivables | 4,431 | 4,437 |
| Total amounts due from financial institutions | 100,496 | 4,437 |

All deposits in banks have more than 90 days of maturity.

As of 31 December 2021 and 31 December 2020 the ECLs relating to amount due from other financial institutions here rounds to zero, that's why it's not disclosed here.

As of December 2021 deposits in the amount of AMD 96,065 thousand (100%) were due from one bank, which represent significant concentration.

## 13 Loans to customers

| In thousand Armenian drams | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | ECL allowance | Carrying amount | Gross carrying amount | ECL allowance | Carrying amount |
| *Agricultural loans* | | | | | | |
| Animal farming | 2,947,837 | (43,538) | 2,904,299 | 2,986,502 | (82,642) | 2,903,860 |
| Horticulture | 5,242,403 | (50,438) | 5,191,965 | 4,788,103 | (117,136) | 4,670,967 |
| Other agricultural | 189,136 | (1,109) | 188,027 | 202,003 | (3,887) | 198,116 |
| | 8,379,376 | (95,085) | 8,284,291 | 7,976,608 | (203,665) | 7,772,943 |
| *Commercial lending* | | | | | | |
| Trade | 422,376 | (3,608) | 418,768 | 471,508 | (10,193) | 461,315 |
| Industry | 502,624 | (2,963) | 499,661 | 443,821 | (5,658) | 438,163 |
| Other trading | 91,417 | (834) | 90,583 | 98,266 | (373) | 97,893 |
| | 1,016,417 | (7,405) | 1,009,012 | 1,013,595 | (16,224) | 997,371 |
| *Consumer loans* | 468,247 | (10,735) | 457,512 | 398,509 | (6,723) | 391,786 |
| Total | 9,864,040 | (113,225) | 9,750,815 | 9,388,712 | (226,612) | 9,162,100 |

During the year ended 31 December 2020 the Company obtained assets by taking possession of collateral for loans to customers. The carrying amount of these assets was AMD 54,556 thousand. The Company intends to sell these assets in a short period.

As of 31 December 2021, the Company had a concentration of loans represented by AMD 465,658 thousand due from the ten largest third party entities (4.7% of gross loan portfolio) (2020: AMD 610,000 thousand or 6.5%). ECL allowance of AMD 2,184 thousand (2020: AMD 37,068 thousand) was made against these loans.

As of 31 December 2021, the right to claim on loans in the amount of AMD 185,273 thousand (2020: AMD 110,425 thousand) was pledged by the Company as a security for loans received from state non-commercial organizations (refer to note 18).

An analysis of changes in gross carrying amount in relation to agricultural, trade and consumer lending are as follows.

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Agricultural loans* | | | | |
| Balance at of 01 January | 7,827,050 | 32,459 | 117,100 | 7,976,609 |
| New assets originated | 4,898,303 | 2,769 | 3,565 | 4,904,637 |
| Assets repaid | (4,277,734) | (43,389) | (181,895) | (4,503,018) |
| Transfer to Stage 1 | 7,962 | (7,962) | - | - |
| Transfer to Stage 2 | (55,196) | 55,196 | - | - |
| Transfer to Stage 3 | (49,264) | (2,450) | 51,714 | - |
| Change in balance of asset from foreign exchange | (31,829) | (140) | (90) | (32,059) |
| Recoveries | - | - | 108,786 | 108,786 |
| Amounts written off during the year | - | - | (75,579) | (75,579) |
| Balance at 31 December | 8,319,292 | 36,483 | 23,601 | 8,379,376 |

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Commercial lending* | | | | |
| Balance at of 01 January | 1,001,822 | 11,672 | 100 | 1,013,594 |
| New assets originated | 643,940 | - | - | 643,940 |
| Assets repaid | (632,164) | (2,355) | (6,881) | (641,400) |
| Transfer to Stage 3 | - | (1,249) | 1,249 | - |
| Change in balance of asset from foreign exchange | (5,633) | (47) | - | (5,680) |
| Recoveries | - | - | 6,487 | 6,487 |
| Amounts written off during the year | - | - | (524) | (524) |
| Balance at 31 December | 1,007,965 | 8,021 | 431 | 1,016,417 |

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Consumer loans* | | | | |
| Balance at of 01 January | 386,416 | 7,544 | 4,549 | 398,509 |
| New assets originated | 541,157 | - | 1,861 | 543,018 |
| Assets repaid | (456,513) | (7,060) | (4,386) | (467,959) |
| Transfer to Stage 2 | (1,771) | 1,771 | - | - |
| Transfer to Stage 3 | (5,296) | (764) | 6,060 | - |
| Recoveries | - | - | 7,772 | 7,772 |
| Amounts written off during the year | - | - | (13,093) | (13,093) |
| Balance at 31 December | 463,993 | 1,491 | 2,763 | 468,247 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Agricultural loans* | | | | |
| Balance at of 01 January | 6,421,967 | 78,622 | 41,931 | 6,542,520 |
| New assets originated | 5,273,045 | 4,500 | 16,961 | 5,294,506 |
| Assets repaid | (3,850,105) | (22,065) | (75,949) | (3,948,119) |
| Transfer to Stage 1 | 18,071 | (6,129) | (11,942) | - |
| Transfer to Stage 2 | (37,444) | 38,993 | (1,549) | - |
| Transfer to Stage 3 | (42,388) | (61,644) | 104,032 | - |
| Change in balance of asset from foreign exchange | 43,903 | 182 | 657 | 44,742 |
| Recoveries | - | - | 128,068 | 128,068 |
| Net amounts written off during the year | - | - | (85,109) | (85,109) |
| Balance at 31 December | 7,827,049 | 32,459 | 117,100 | 7,976,608 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Commercial lending* | | | | |
| Balance at of 01 January | 1,020,618 | 11,844 | 56,279 | 1,088,741 |
| New assets originated | 511,046 | - | - | 511,046 |
| Assets repaid | (536,270) | (1,664) | (75,527) | (613,461) |
| Transfer to Stage 2 | (1,400) | 1,400 | - | - |
| Change in balance of asset from foreign exchange | 7,829 | 92 | - | 7,921 |
| Recoveries | - | - | 19,348 | 19,348 |
| Balance at 31 December | 1,001,823 | 11,672 | 100 | 1,013,595 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Consumer loans* | | | | |
| Balance at of 01 January | 323,253 | - | 4,714 | 327,967 |
| New assets originated | 318,984 | 500 | 2,917 | 322,401 |
| Assets repaid | (246,714) | (3,011) | (655) | (250,380) |
| Transfer to Stage 1 | 2,827 | - | (2,827) | - |
| Transfer to Stage 2 | (8,609) | 10,055 | (1,446) | - |
| Transfer to Stage 3 | (3,325) | - | 3,325 | - |
| Recoveries | - | - | 5,135 | 5,135 |
| Net amounts written off during the year | - | - | (6,614) | (6,614) |
| Balance at 31 December | 386,416 | 7,544 | 4,549 | 398,509 |

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

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Agricultural loans* | | | | |
| ECL allowance as of 1 January | 142,318 | 9,080 | 52,267 | 203,665 |
| Transfer to Stage 1 | 3,357 | (3,357) | - | - |
| Transfer to Stage 2 | (1,176) | 1,176 | - | - |
| Transfer to Stage 3 | (1,696) | (1,845) | 3,541 | - |
| Net remeasurement of loss allowance | (114,441) | (331) | (78,700) | (193,472) |
| Net remeasurement of loss allowances on new originated financial assets | 48,343 | 1,549 | 1,793 | 51,685 |
| Recoveries | - | - | 108,786 | 108,786 |
| Amounts written off during the year | - | - | (75,579) | (75,579) |
| Balance as of 31 December | 76,705 | 6,272 | 12,108 | 95,085 |

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Commercial lending* | | | | |
| ECL allowance as of 1 January | 13,924 | 2,203 | 97 | 16,224 |
| Transfer to Stage 3 | - | (170) | 170 | - |
| Net remeasurement of loss allowance | (10,914) | (2,033) | (6,230) | (19,177) |
| Net remeasurement of loss allowances on new originated financial assets | 4,395 | - | - | 4,395 |
| Recoveries | - | - | 6,487 | 6,487 |
| Amounts written off during the year | - | - | (524) | (524) |
| Balance as of 31 December | 7,405 | - | - | 7,405 |

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Consumer loans* | | | | |
| ECL allowance as of 1 January | 2,218 | 2,630 | 1,875 | 6,723 |
| Transfer to Stage 2 | (15) | 15 | - | - |
| Transfer to Stage 3 | (68) | (764) | 832 | - |
| Net remeasurement of loss allowance | (438) | (1,468) | 3,503 | 1,597 |
| Net remeasurement of loss allowances on new originated financial assets | 6,210 | - | 1,526 | 7,736 |
| Recoveries | - | - | 7,772 | 7,772 |
| Amounts written off during the year | - | - | (13,093) | (13,093) |
| Balance as of 31 December | 7,907 | 413 | 2,415 | 10,735 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Agricultural loans* | | | | |
| ECL allowance as of 1 January | 131,631 | 13,160 | 18,487 | 163,278 |
| Transfer to Stage 1 | 10,774 | (3,836) | (6,938) | - |
| Transfer to Stage 2 | (898) | 1,638 | (740) | - |
| Transfer to Stage 3 | (894) | (7,739) | 8,633 | - |
| Net remeasurement of loss allowance | (91,237) | 3,252 | (43,485) | (131,470) |
| Net remeasurement of loss allowances on new originated financial assets | 92,942 | 2,605 | 33,351 | 128,898 |
| Recoveries | - | - | 128,068 | 128,068 |
| Amounts written off during the year | - | - | (85,109) | (85,109) |
| Balance as of 31 December | 142,318 | 9,080 | 52,267 | 203,665 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Commercial lending* | | | | |
| ECL allowance as of 1 January | 13,930 | 1,583 | 17,830 | 33,343 |
| Transfer to Stage 2 | (60) | 60 | - | - |
| Net remeasurement of loss allowance | (7,079) | 560 | (37,081) | (43,600) |
| Net remeasurement of loss allowances on new originated financial assets | 7,133 | - | - | 7,133 |
| Recoveries | - | - | 19,348 | 19,348 |
| Balance as of 31 December | 13,924 | 2,203 | 97 | 16,224 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Consumer loans* | | | | |
| ECL allowance as of 1 January | 2,797 | - | 4,546 | 7,343 |
| Transfer to Stage 1 | 2,762 | - | (2,762) | - |
| Transfer to Stage 2 | (74) | 1,477 | (1,403) | - |
| Transfer to Stage 3 | (27) | - | 27 | - |
| Net remeasurement of loss allowance | (4,691) | 858 | 2,396 | (1,437) |
| Net remeasurement of loss allowances on new originated financial assets | 1,451 | 295 | 549 | 2,295 |
| Recoveries | - | - | 5,136 | 5,136 |
| Amounts written off during the year | - | - | (6,614) | (6,614) |
| Balance as of 31 December | 2,218 | 2,630 | 1,875 | 6,723 |

As of 31 December 2021 the carrying amount of new loans originated amounted to AMD 5,052,244 thousand (2020: AMD 5,208,893 thousand).

The decrease in ECLs of the portfolio was driven by the decrease in overdue loans and decline of credit risk. Further analysis of economic factors is outlined in note 26.1.2**.**

At 31 December 2021 and 2020 the estimated fair value of loans to customers approximates it carrying value (refer to note 23.1).

Maturity analysis of loans to customers are disclosed in note 25.

Risk analysis of loans to customers are disclosed in note 26.

The information on related party balances is disclosed in note 22.

# 14 Finance lease receivables

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Retail customers | 334,607 | 160,781 |
| Privately held companies | 66,049 | 52,864 |
| Sole proprietors | 112,572 | 64,480 |
| | 513,228 | 278,125 |
| ECL allowance | (1,555) | (311) |
| Total finance lease receivables | 511,673 | 277,814 |

| In thousand Armenian drams | Not later than 1 year | 1-5 years | Later than 5 years | Total |
|---|---|---|---|---|
| Gross investments on finance lease at 31 December 2021 | 196,576 | 432,238 | 5,319 | 634,133 |
| Unearned finance income | (48,718) | (71,904) | (283) | (120,905) |
| Gross investments present value on finance lease at 31 December 2021 | 147,858 | 360,334 | 5,036 | 513,228 |

| In thousand Armenian drams | Not later than 1 year | 1-5 years | Later than 5 years | Total |
|---|---|---|---|---|
| Gross investments on finance lease at 31 December 2020 | 107,366 | 223,879 | 6,911 | 338,156 |
| Unearned finance income | (23,486) | (35,997) | (548) | (60,031) |
| Gross investments present value on finance lease at 31 December 2020 | 83,880 | 187,882 | 6,363 | 278,125 |

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

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Finance lease* | | | | |
| Balance at of 1 January | 277,898 | 227 | - | 278,125 |
| New assets originated | 347,693 | - | 80 | 347,773 |
| Assets repaid | (108,335) | (4,255) | (40) | (112,630) |
| Transfer to Stage 2 | (13,879) | 13,879 | - | - |
| Net amounts written off during the year | - | - | (40) | (40) |
| Balance as of 31 December | 503,377 | 9,851 | - | 513,228 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| *Finance lease* | | | | |
| Balance at of 1 January | 233,974 | - | - | 233,974 |
| New assets originated | 162,012 | 749 | - | 162,761 |
| Assets repaid | (118,088) | (522) | (36) | (118,646) |
| Net recovery during the year | - | - | 36 | 36 |
| Balance as of 31 December | 277,898 | 227 | - | 278,125 |

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

| In thousand Armenian drams | | | | 2021 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at 1 January | 311 | - | - | 311 |
| Transfer to Stage 2 | (9) | 9 | - | - |
| Net remeasurement of loss allowance | 49 | (9) | 40 | 80 |
| New originated | 1,204 | - | - | 1,204 |
| Net amounts written off during the year | - | - | (40) | (40) |
| Balance at 31 December 2021 | 1,555 | - | - | 1,555 |

| In thousand Armenian drams | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at 1 January | 328 | - | - | 328 |
| Net remeasurement of loss allowance | (225) | - | (36) | (261) |
| New originated | 208 | - | - | 208 |
| Net recovery during the year | - | - | 36 | 36 |
| Balance at 31 December 2021 | 311 | - | - | 311 |

Finance lease receivables by economic sectors are as follows:

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Fruits and vegetables | 379,228 | 160,067 |
| Fish breeding | 15,840 | 10,443 |
| Animal husbandry | 67,626 | 46,797 |
| Beverage production | 17,501 | 18,010 |
| Industry | 33,033 | 42,808 |
| Total gross investments on finance lease | 513,228 | 278,125 |

At 31 December 2021 implied interest rate of the finance lease amounts to 12.20% (2020: 11.02%).

# 15 Property, equipment and intangible assets

| In thousand Armenian drams | Building | Vehicles | Computer | Fixtures and fittings | Leasehold improve-ments | Computer software | Other intangibe assets | Total |
|---|---|---|---|---|---|---|---|---|
| *Cost* | | | | | | | | |
| At 1 January 2020 | 178,677 | 113,334 | 63,960 | 60,511 | 1,852 | 15,184 | 1,147 | 434,665 |
| Additions | - | - | 6,258 | 1,612 | - | 354 | - | 8,224 |
| Disposals | - | (7,523) | (5,671) | (1,508) | - | - | - | (14,702) |
| At 31 December 2020 | 178,677 | 105,811 | 64,547 | 60,615 | 1,852 | 15,538 | 1,147 | 428,187 |
| Additions | - | 6,781 | 3,433 | 248 | - | - | 890 | 11,352 |
| Disposals | - | (10,373) | (396) | - | - | - | - | (10,769) |
| At 31 December 2021 | 178,677 | 102,219 | 67,584 | 60,863 | 1,852 | 15,538 | 2,037 | 428,770 |
| *Accumulated depreciation* | | | | | | | | |
| At 1 January 2020 | 24,831 | 49,138 | 53,303 | 48,734 | 1,172 | 7,360 | 698 | 185,236 |
| Expenses for the year | 3,016 | 7,917 | 5,079 | 3,531 | 371 | 1,043 | 385 | 21,342 |
| Disposals | - | (6,025) | (5,514) | (1,392) | - | - | - | (12,931) |
| At 31 December 2020 | 27,847 | 51,030 | 52,868 | 50,873 | 1,543 | 8,403 | 1,083 | 193,647 |
| Expenses for the year | 3,007 | 7,260 | 3,790 | 2,006 | 309 | 1,059 | 64 | 17,495 |
| Disposals | - | (8,973) | (388) | - | - | - | - | (9,361) |
| At 31 December 2021 | 30,854 | 49,317 | 56,270 | 52,879 | 1,852 | 9,462 | 1,147 | 201,781 |
| *Carrying amount* | | | | | | | | |
| At 31 December 2020 | 150,830 | 54,781 | 11,679 | 9,742 | 309 | 7,135 | 64 | 234,540 |
| At 31 December 2021 | 147,823 | 52,902 | 11,314 | 7,984 | - | 6,076 | 890 | 226,989 |

### *Fully depreciated items*

As of 31 December 2021 property, equipment and intangible assets include fully depreciated assets at cost of AMD 13,215 thousand (2020: AMD 10,035 thousand).

### *Restrictions on title of property and equipment and intangible assets*

As of 31 December 2021, the Bank does not possess any property, equipment and intangible assets pledged as security for liabilities or whose title is otherwise restricted (2020: either).

# 16 Repossessed assets

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

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Real estate | 158,454 | 172,388 |
| Land | 1,408 | 1,408 |
| Total repossessed assets | 159,862 | 173,796 |

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

The Company's policy is to pursue timely and proper realisation of the collateral. The Company generally does not use the non-cash collateral for its own operations.

# 17 Other assets

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Debtors and other receivables | 3,307 | 1,068 |
| Amounts receivable from the state budget on subsidiaries | 62,853 | 48,278 |
| Total other financial assets | 66,160 | 49,346 |
| Prepayments | 2,439 | 5,710 |
| Prepayments on other taxes | 16,907 | 11,072 |
| Materials | 2,084 | 1,150 |
| Other assets | 69 | 1,032 |
| Total non-financial assets | 21,499 | 18,964 |
| Total other assets | 87,659 | 68,310 |

An analysis of changes in the ECLs on other financial assets as follow:

| In thousand Armenian drams | 2021 |
|---|---|
| | Stage 3 |
| ECL allowance as at 1 January | - |
| Net remeasurement of loss allowance | 11,507 |
| Net amounts writen-off | (11,507) |
| Balance at 31 December | - |

# 18 Loans and borrowings

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans and overdrafts from RA banks | 952,517 | 180,175 |
| Loans from the CBA through international programs | 5,244,754 | 5,674,049 |
| Loans from state non-commercial organizations | 2,906,795 | 2,775,868 |
| Borrowings from non-financial institutions | 184,633 | 79,688 |
| Total loans and borrowings | 9,288,699 | 8,709,780 |

Loans from financial institutions have fixed interest rates.

At 31 December 2021 loans attracted from state non-commercial organizations are secured by the right to claim on loans in the amount of AMD 185,273 thousand drams (2020: AMD 110,425 thousand). Refer to note 13.

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

### *Reconciliation of liabilities arising from financing activities*

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

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| As of 1 January | 8,709,780 | 7,708,475 |
| Repayments | (2,611,815) | (4,184,491) |
| Proceeds | 3,226,004 | 5,120,196 |
| Foreign exchange differences | (40,926) | 55,224 |
| Other | 5,656 | 10,376 |
| As of 31 December | 9,288,699 | 8,709,780 |

# 19 Other liabilities

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Payables | 13,903 | 2,126 |
| Liabilities under surety agreement | 100 | 90 |
| Due to personnel | 50,690 | 28,401 |
| Total other financial liabilities | 64,693 | 30,617 |
| | | |
| Tax payable, other than income tax | 44,547 | 37,754 |
| Revenues of future periods | 392 | 90 |
| Grants related to assets | 1,320 | 1,971 |
| Prepayments received | 32,774 | 11,575 |
| Other liabilities | 16,543 | 300 |
| Total other non-financial liabilities | 95,576 | 51,690 |
| Total other liabilities | 160,269 | 82,307 |

### *Grants related to assets*

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| As of 1 January | 1,971 | 3,540 |
| Recognition of income | (651) | (1,569) |
| As of 31 December | 1,320 | 1,971 |

## 20 Equity

As of 31 December 2021 the Company's registered and paid-in share capital was AMD 604,500 thousand. In accordance with the Company's statues, the share capital consists of 465,000 ordinary shares, all of which have a par value of AMD 1,300 each.

As of 31 December 2021 and 2020, the Company's sole shareholder is Agrovision LLC.

As of 31 December 2021, the Company did not possess any of its own shares.

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

The share capital of the Company was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

In 2021 the Company paid a total dividend of AMD 33,000 thousand (2020: AMD 26,512 thousand).

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

## 21 Contingencies

### *Tax and legal matters*

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

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

Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

### *Insurance*

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on

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

## 22 Transactions with related parties

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

The ultimate controlling party of the Company is the Center for Agribusiness and Rural Development Foundation, who is the sole owner of Agrovision B.V., the Company's shareholder.

A number of transactions are entered into with related parties in the normal course of business. These include loans, acquisitions of goods and other services, and so on. These transactions were carried out on commercial terms and at market rates.

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

| In thousand Armenian drams | 2021 | | 2020 | |
|---|---|---|---|---|
| | Shareholders and parties related with them | Key management personnel and parties related with them | Shareholders and parties related with them | Key management personnel and parties related with them |
| *Loans to customers* | | | | |
| Loans outstanding at 1 January gross | 38,178 | 327 | 15,064 | 8,639 |
| Loans issued during the year | 58,000 | 4,331 | 31,091 | 6,346 |
| Loan repayments during the year | (36,533) | (2,229) | (7,977) | (14,658) |
| Loans outstanding at 31 December (gross) | 59,645 | 2,429 | 38,178 | 327 |
| Loss allowance | (265) | (39) | (680) | (18) |
| Loans outstanding at 31 December | 59,380 | 2,390 | 37,498 | 309 |
| *Finance lease receivables* | | | | |
| At 1 January | - | - | 4,770 | - |
| Increase during the year | - | - | - | - |
| Decrease during the year | - | - | (4,770) | - |
| At 31 December (gross) | - | - | - | - |
| ECL allowance | - | - | - | - |
| Finance lease receivables at 31 December | - | - | - | - |
| *Other assets* | | | | |
| Other assets at 1 January | 77 | - | - | - |
| Increase during the year | 43,755 | - | 8,174 | - |
| Decrease during the year | (41,204) | - | (8,097) | - |
| Other assets at 31 December | 2,628 | - | 77 | - |

| In thousand Armenian drams | 2021 | | 2020 | |
|---|---|---|---|---|
| | Shareholders and parties related with them | Key management personnel and parties related with them | Shareholders and parties related with them | Key management personnel and parties related with them |
| *Other liabilities* | | | | |
| Other liabilities at 1 January | - | - | 2,747 | - |
| Increase during the year | - | - | - | - |
| Decrease during the year | - | - | (2,747) | - |
| Other liabilities at 31 December | - | - | - | - |
| *Acquisition of financial lease assets* | 65,271 | - | 28,245 | - |
| *Income* | | | | |
| Interest income on loans | 3,971 | 370 | 3,325 | 388 |
| Other income | 56 | - | 1,412 | - |
| Expenses | (30) | - | (120) | - |
| Impairment (charge)/reversal | 415 | (21) | (460) | 43 |

Compensation of key management personnel was comprised of the following:

| In thousand Armenian drams | 2021 | 2020 |
|---|---|---|
| Salaries and bonuses | 117,877 | 108,436 |
| Total key management compensation | 117,877 | 108,436 |

The loans issued to directors and other key management personnel during the year are repayable monthly from 2 to 3 years and have interest rates from 12% (2020: 1-5 years, 8.00-12.25%).

# 23 Fair value measurement

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

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

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

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

## 23.1 Financial instruments that are not measured at fair value

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

| In thousand Armenian drams | | | | | 31 December 2021 |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
| *Financial assets* | | | | | |
| Cash | - | 46,920 | - | 46,920 | 46,920 |
| Amounts due from financial institutions | - | 100,496 | - | 100,496 | 100,496 |
| Loans to customers | - | 9,749,403 | - | 9,749,403 | 9,750,815 |
| Finance lease receivables | - | 511,673 | - | 511,673 | 511,673 |
| Other assets | - | 66,160 | - | 66,160 | 66,160 |
| *Financial liabilities* | | | | | |
| Loans and borrowings | - | 9,288,699 | - | 9,288,699 | 9,288,699 |
| Other liabilities | - | 64,693 | - | 64,693 | 64,693 |

| In thousand Armenian drams | | | | | 31 December 2020 |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
| *Financial assets* | | | | | |
| Cash | - | 53,494 | - | 53,494 | 53,494 |
| Amounts due from financial institutions | - | 4,437 | - | 4,437 | 4,437 |
| Loans to customers | - | 9,157,847 | - | 9,157,847 | 9,162,100 |
| Finance lease receivables | - | 277,814 | - | 277,814 | 277,814 |
| Other assets | - | 49,346 | - | 49,346 | 49,346 |
| *Financial liabilities* | | | | | |
| Loans and borrowings | - | 8,709,780 | - | 8,709,780 | 8,709,780 |
| Other liabilities | - | 30,617 | - | 30,617 | 30,617 |

### *Amounts due from and to financial institutions*

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

### *Loans to customers*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

### *Loans and borrowings*

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

## 24 Offsetting of financial assets and financial liabilities

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

## 25 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 26.3 for the Company's contractual undiscounted repayment obligations.

| In thousand Armenian drams | | | | | | 31 December 2021 |
|---|---|---|---|---|---|---|
| | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **Subtotal less than 12 months** | **More than 1 year** | **Total** |
| *Assets* | | | | | | |
| Cash | 46,920 | - | - | *46,920* | - | 46,920 |
| Amounts due from financial institutions | 4,431 | 96,065 | - | *100,496* | - | 100,496 |
| Loans to customers | 252,664 | 1,576,583 | 2,377,607 | *4,206,854* | 5,543,961 | 9,750,815 |
| Finance lease receivables | 13,342 | 60,355 | 73,806 | *147,503* | 364,170 | 511,673 |
| Other assets | 66,160 | - | - | *66,160* | - | 66,160 |
| | 383,517 | 1,733,003 | 2,451,413 | *4,567,933* | 5,908,131 | 10,476,064 |
| *Liabilities* | | | | | | |
| Loans and borrowings | 18,731 | 975,222 | 400,302 | *1,394,255* | 7,894,444 | 9,288,699 |
| Other liabilities | 64,693 | - | - | *64,693* | - | 64,693 |
| | 83,424 | 975,222 | 400,302 | *1,458,948* | 7,894,444 | 9,353,392 |
| Net position | 300,093 | 757,781 | 2,051,111 | *3,108,985* | (1,986,313) | 1,122,672 |
| Accumulated gap | 300,093 | 1,057,874 | 3,108,985 | | 1,122,672 | |

| In thousand Armenian drams | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | Subtotal less than 12 months | More than 1 year | Total |
|---|---|---|---|---|---|---|
| | | | | | | 31 December 2020 |
| *Assets* | | | | | | |
| Cash | 53,494 | - | - | *53,494* | - | 53,494 |
| Amounts due from financial institutions | 4,437 | - | - | *4,437* | - | 4,437 |
| Loans to customers | 246,387 | 1,286,999 | 2,172,524 | *3,705,910* | 5,456,190 | 9,162,100 |
| Finance lease receivables | 8,802 | 36,803 | 38,182 | *83,787* | 194,027 | 277,814 |
| Other assets | 49,346 | - | - | *49,346* | - | 49,346 |
| | 362,466 | 1,323,802 | 2,210,706 | *3,896,974* | 5,650,217 | 9,547,191 |
| *Liabilities* | | | | | | |
| Loans and borrowings | 64,457 | 988,826 | 1,105,229 | *2,158,512* | 6,551,268 | 8,709,780 |
| Other liabilities | 30,617 | - | - | *30,617* | - | 30,617 |
| | 95,074 | 988,826 | 1,105,229 | *2,189,129* | 6,551,268 | 8,740,397 |
| Net position | 267,392 | 334,976 | 1,105,477 | *1,707,845* | (901,051) | 806,794 |
| Accumulated gap | 267,392 | 602,368 | 1,707,845 | | 806,794 | |

# 26 Risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

## *Risk management structure*

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

## *Board*

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

## *Executive board*

The Executive Board has the responsibility to monitor the overall risk process within the Company.

### *Credit Committee*

The Credit Committee has the overall responsibility for risk management in the lending process.

### *Risk Management*

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

### *Financial department*

The Company's financial department is responsible for the current operations of the Company's assets and liabilities, as well as for the entire financial system. The financial department is also responsible for the Company's liquidity risk and finance risk.

### *Internal audit*

Risk management processes throughout the Company are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Company’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

### *Risk measurement and reporting systems*

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

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

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

### *Risk mitigation*

The Company actively uses collateral to reduce its credit risks (see below for more detail).

### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## 26.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans, and investment activities that bring debt securities and other bills into the Company’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit department and reported to the Executive Board regularly.

### 26.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 26.1.2.

| In thousand Armenian drams | | | | 31 December 2021 |
|---|---|---|---|---|
| Internal rating grade | Stage 1 | Stage 2 | Stage 3 | Total |
| *Cash* | | | | |
| High | 46,920 | - | - | 46,920 |
| Gross carrying amount | 46,920 | - | - | 46,920 |
| ECL allowance | - | - | - | - |
| Net carrying amount | 46,920 | - | - | 46,920 |
| *Amounts due from financial institutions* | | | | |
| Standard | 100,496 | - | - | 100,496 |
| Gross carrying amount | 100,496 | - | - | 100,496 |
| ECL allowance | - | - | - | - |
| Net carrying amount | 100,496 | - | - | 100,496 |
| Loans to customers | | | | |
| *Agricultural loans* | | | | |
| High grade | 8,312,388 | - | - | 8,312,388 |
| Standard grade | 6,904 | 4,529 | - | 11,433 |
| Substandard grade | - | 31,954 | - | 31,954 |
| Non-performing grade | - | - | 23,601 | 23,601 |
| Gross carrying amount | 8,319,292 | 36,483 | 23,601 | 8,379,376 |
| ECL allowance | (76,705) | (6,272) | (12,108) | (95,085) |
| Net carrying amount | 8,242,587 | 30,211 | 11,493 | 8,284,291 |
| *Commercial lending* | | | | |
| High grade | 1,007,965 | - | - | 1,007,965 |
| Substandard grade | - | 8,021 | - | 8,021 |
| Non-performing grade | - | - | 431 | 431 |
| Gross carrying amount | 1,007,965 | 8,021 | 431 | 1,016,417 |
| ECL allowance | (7,405) | - | - | (7,405) |
| Net carrying amount | 1,000,560 | 8,021 | 431 | 1,009,012 |
| *Consumer loans* | | | | |
| High | 463,993 | - | - | 463,993 |
| Substandard | - | 1,491 | - | 1,491 |
| Non-performing | - | - | 2,763 | 2,763 |
| Gross carrying amount | 463,993 | 1,491 | 2,763 | 468,247 |
| ECL allowance | (7,907) | (413) | (2,415) | (10,735) |
| Net carrying amount | 456,086 | 1,078 | 348 | 457,512 |

| In thousand Armenian drams | | | | 31 December 2021 |
|---|---|---|---|---|
| Internal rating grade | Stage 1 | Stage 2 | Stage 3 | Total |
| *Finance lease receivables* | | | | |
| High | 503,377 | - | - | 503,377 |
| Substandard | - | 9,851 | - | 9,851 |
| Gross carrying amount | 503,377 | 9,851 | - | 513,228 |
| ECL allowance | (1,555) | - | - | (1,555) |
| Net carrying amount | 501,822 | 9,851 | - | 511,673 |
| *Other financial assets* | | | | |
| High grade | 66,160 | - | - | 66,160 |
| Gross carrying amount | 66,160 | - | - | 66,160 |
| ECL allowance | - | - | - | - |
| Net carrying amount | 66,160 | - | - | 66,160 |

| In thousand Armenian drams | | | | 31 December 2020 |
|---|---|---|---|---|
| Internal rating grade | Stage 1 | Stage 2 | Stage 3 | Total |
| *Cash* | | | | |
| High | 53,494 | - | - | 53,494 |
| Gross carrying amount | 53,494 | - | - | 53,494 |
| Loss allowance | - | - | - | - |
| Net carrying amount | 53,494 | - | - | 53,494 |
| *Amounts due from financial institutions* | | | | |
| Standard | 4,437 | - | - | 4,437 |
| Gross carrying amount | 4,437 | - | - | 4,437 |
| ECL allowance | - | - | - | - |
| Net carrying amount | 4,437 | - | - | 4,437 |
| Loans to customers | | | | |
| *Agricultural loans* | | | | |
| High grade | 7,821,654 | - | - | 7,821,654 |
| Standard grade | 5,395 | 24,037 | - | 29,432 |
| Substandard grade | - | 8,422 | - | 8,422 |
| Non-performing grade | - | - | 117,100 | 117,100 |
| Gross carrying amount | 7,827,049 | 32,459 | 117,100 | 7,976,608 |
| Loss allowance | (142,318) | (9,080) | (52,267) | (203,665) |
| Net carrying amount | 7,684,731 | 23,379 | 64,833 | 7,772,943 |
| *Commercial lending* | | | | |
| High grade | 1,001,823 | - | - | 1,001,823 |
| Standard grade | - | 11,672 | - | 11,672 |
| Non-performing grade | - | - | 100 | 100 |
| Gross carrying amount | 1,001,823 | 11,672 | 100 | 1,013,595 |
| ECL allowance | (13,924) | (2,203) | (97) | (16,224) |
| Net carrying amount | 987,899 | 9,469 | 3 | 997,371 |

| In thousand Armenian drams | 31 December 2020 | | | |
|---|---|---|---|---|
| Internal rating grade | Stage 1 | Stage 2 | Stage 3 | Total |
| *Consumer lending* | | | | |
| High | 386,416 | - | - | 386,416 |
| Standard | - | 7,544 | - | 7,544 |
| Non-performing | - | - | 4,549 | 4,549 |
| Gross carrying amount | 386,416 | 7,544 | 4,549 | 398,509 |
| ECL allowance | (2,218) | (2,630) | (1,875) | (6,723) |
| Net carrying amount | 384,198 | 4,914 | 2,674 | 391,786 |
| *Finance lease receivables* | | | | |
| High | 277,325 | - | - | 277,325 |
| Standard | 573 | 227 | - | 800 |
| Gross carrying amount | 277,898 | 227 | - | 278,125 |
| ECL allowance | (311) | - | - | (311) |
| Net carrying amount | 277,587 | 227 | - | 277,814 |
| *Other financial assets* | | | | |
| High grade | 49,346 | - | - | 49,346 |
| Gross carrying amount | 49,346 | - | - | 49,346 |
| ECL allowance | - | - | - | - |
| Net carrying amount | 49,346 | - | - | 49,346 |

## 26.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

### *Significant increase in credit risk*

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

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

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

### *Criteria for loans to customers*

The criteria for Loans to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.

- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

### *Criteria for amounts due from financial institutions*

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from BB (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

### *Exit criteria from significant deterioration stage*

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

### *Credit risk grades*

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

| | | **2021** | **2020** |
|---|---|---|---|
| | **Grade** | **12 month PD range** | **12 month PD range** |
| Agricultural loans | Standard | 2.25-3.35% | 3.60-6.31% |
| | Substandard | 40.76-45.61% | 41.54-48.85% |
| | Non-Performing | 100% | 96.97-100% |
| Commercial lending | Standard | 1.25-3.21% | 0.12-4.62% |
| | Substandard | 32.11% | 24.20% |
| | Non-Performing | 100% | 100% |
| Consumer loans | Standard | 2.52% | 0.80% |
| | Substandard | 31.78% | 37.50% |
| | Non-Performing | 100% | 41-100% |

### *Collective or individual assessment*

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

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL is not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

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

### *Definition of default and cure*

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

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

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

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

It is the Company’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company’s criterion for ‘cure’ for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

### *Forborne and modified loan*

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company’s policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

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

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Company defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in Note 4.4.4.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Company.

| In thousand Armenian drams | **2021** | **2020** |
|---|---|---|
| Amortised costs of financial assets modified during the period | 17,201 | 17,764 |
| Net modification loss | (2,056) | (11,843) |

## *Probability of Default (PD)*

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

## *Loss given default (LGD)*

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

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

### *Exposure at default (EAD)*

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

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

### *Forward looking information*

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Company determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Company uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Net current transfers from abroad
- Unemployment
- Company nonperforming loans to total gross loans
- Agriculture growth
- Trade growth

## 26.1.3 Risk concentrations

### *Geographical sectors*

Credit risk assets are alocated in the RA.

### *Industry sectors*

As of 31 December 2021 and 2020 the Company's assets exposed to credit risk are included in cash, and amounts due from financial institutions are concentrated in the financial sector. Loans to customers and lease receivables are mainly concentrated in the agricultural sector (see detailed analysis in notes 13 and 14).

## 26.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For commercial lending, equipment and vehicles
- For mortgages over residential properties

As at 31 December 2021 allowance for ECL on loans at the total amount of AMD 2,077,362 thousand (2020: AMD 795,174 thousand) has not been recognized because of collaterals.

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

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

| In thousand Armenian drams | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans collateralized by real estate | 5,062,647 | 5,114,825 |
| Loans collateralized by property and equipment and inventories | 128,087 | 75,358 |
| Loans collateralized by vehicles | 1,139,821 | 1,054,181 |
| Unsecured loans | 3,533,485 | 3,144,348 |
| Total loans to customers (gross) | 9,864,040 | 9,388,712 |

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

Unsecured loans are mainly provided with guarantees of third parties.

As of 31 December 2021 the net carrying amount of credit-impaired loans to customers amounted to AMD 26,796 thousand (2020: AMD 121,749 thousand) and the amount of collateral (mainly commercial property) for the same loans amounted to AMD 55,425 thousand (2020: AMD 256,560 thousand).

## 26.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

### *Currency risk*

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

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2021 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

| In thousand Armenian drams | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| Currency | Change in currency rate in % | Effect on profit before tax | Change in currency rate in % | Effect on profit before tax |
| USD | 10 | (189) | 10 | (5,479) |
| USD | (10) | 189 | (10) | 5,479 |

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

| In thousand Armenian drams | Armenian Dram | Freely convertible currencies | Total |
|---|---|---|---|
| *Assets* | | | |
| Cash | 32,561 | 14,359 | 46,920 |
| Amounts due from financial institutions | 4,431 | 96,065 | 100,496 |
| Loans to customers | 9,388,386 | 362,429 | 9,750,815 |
| Finance lease receivables | 511,673 | - | 511,673 |
| Other assets | 66,160 | - | 66,160 |
| | 10,003,211 | 472,853 | 10,476,064 |
| *Liabilities* | | | |
| Loans and borrowings | 8,813,953 | 474,746 | 9,288,699 |
| Other liabilities | 64,693 | - | 64,693 |
| | 8,878,646 | 474,746 | 9,353,392 |
| Net position as of 31 December 2021 | 1,124,565 | (1,893) | 1,122,672 |
| Total financial assets | 8,920,831 | 626,360 | 9,547,191 |
| Total financial liabilities | 8,059,243 | 681,154 | 8,740,397 |
| Net position as of 31 December 2020 | 861,588 | (54,794) | 806,794 |

Freely convertible currencies represent mainly US dollar amounts.

### *Average effective interest rates*

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2021 and 31 December 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Average effective interest rate, % | | Average effective interest rate, % | |
| | AMD | USD | AMD | USD |
| ***Interest earning assets*** | | | | |
| Amounts due from other financial institutions | - | 1.5 | - | - |
| Loans to customers | 14.1 | 10.6 | 13.8 | 10.3 |
| Finance lease receivables | 12.2 | - | 11.0 | - |
| ***Interest bearing liabilities*** | | | | |
| Loans and borrowings | 7.6 | 4.9 | 6.6 | 4.0 |

## 26.3 Liquidity risk

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2021 based on contractual undiscounted repayment obligations. Refer to note 25 for the expected maturities of these liabilities.

| In thousand Armenian drams | | | | | | 31 December 2021 |
|---|---|---|---|---|---|---|
| | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total gross amount outflow | Carrying amount |
| *Non-derivative financial liabilities* | | | | | | |
| Loans and borrowings | 18,731 | 1,009,974 | 426,442 | 9,116,021 | 10,571,168 | 9,288,699 |
| Other liabilities | 64,693 | - | - | - | 64,693 | 64,693 |
| Total undiscounted financial liabilities | 83,424 | 1,009,974 | 426,442 | 9,116,021 | 10,635,861 | 9,353,392 |

| In thousand Armenian drams | | | | | | 31 December 2020 |
|---|---|---|---|---|---|---|
| | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total gross amount outflow | Carrying amount |
| *Non-derivative financial liabilities* | | | | | | |
| Loans and borrowings | 68,468 | 1,185,373 | 1,347,639 | 7,465,366 | 10,066,846 | 8,709,780 |
| Other liabilities | 30,617 | - | - | - | 30,617 | 30,617 |
| Total undiscounted financial liabilities | 99,085 | 1,185,373 | 1,347,639 | 7,465,366 | 10,097,463 | 8,740,397 |

To manage liquidity risk, the Company attracts credit lines, the contract amount of which as of 31 December 2021 was AMD 1,146,000 thousand, and the balance was AMD 952,531 thousand (2020: AMD 446,000 thousand and AMD 180,175 thousand respectively).

## 26.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;

- training and professional development;
- ethical and business standards; and
- risk mitigation.

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

## 27 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Armenia in supervising the Company.

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

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

In 2019, the Company's charter was amended to allow the Company to attract loans through public offerings. As a result of these changes, the Company, in accordance with the provisions of the Central Bank of Armenia, must comply with additional regulatory requirements, in particular N 1 "Minimum size of border ration among the amounts of regulatory capital and the risk-weighted assets" and "Maximum risk for one borrower".

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2021 and 31 December 2020 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

| | **Unaudited** | |
|---|---|---|
| In thousand Armenian drams | **31 December 2021** | **31 December 2020** |
| Tier 1 capital | 1,252,694 | 1,088,063 |
| Tier 2 capital | - | - |
| Total regulatory capital | 1,252,694 | 1,088,063 |
| Risk-weighted assets | 9,861,523 | 9,283,609 |
| Capital adequacy ratio | 12.70% | 11.72% |

The Company has complied with all externally imposed capital requirements through the period.

## 28 Events after the reporting period

– In January 2022 the sole shareholder of the Company was changed. As of 31 December 2021 the direct parent company of the Company was "Agrovision" LLC, which ceased its activity in 2022 and transferred the shares to the "Agribusiness and Village Development Center Foundation", which is the ultimate controller.

– The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact on the world economy. United States and European countries have imposed severe sanctions against Russia. Western powers are discussing widening existing sanctions. Russia is the main trading partner of Armenia, hence sanctions imposed as of now as well as escalation of those sanctions could have a drastical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold

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