

PKF AUDIT SERVICE LLC



**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT OF
"AGROLEASING LEASING CREDIT COMPANY" LLC
AS AT DECEMBER 31, 2021**



INDEPENDENT AUDITOR'S REPORT

To founders of "AGROLEASING Leasing Credit Company" LLC

OPINION

We have audited the financial statements of "AGROLEASING Leasing Credit Company" LLC (the "Company") which comprise Statement of Financial Position as of December 31, 2021, Statement of 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 December 31, 2021 and of its financial performance and its cash flow 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 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 enough 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 misstatements, 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 wither 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 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 based on these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is enough 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 polices 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

PKF AUDIT SERVICE LLC



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 disclosure 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.

Yerevan, 16/05/2022

PKF AUDIT SERVICE LLC

Director

Licensed Auditor

Gor Davtyan

Licensed Auditor

Gayane Tovmasyan



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STATEMENT ON THE COMPREHENSIVE FINANCIAL RESULTS

As of 31/12/2021

(AMD thousand)

	Note	2021	2020
Interest and similar income		248,454	176,100
Interest and similar expenses		(74,073)	(41,683)
NET INTEREST INCOME	4	174,381	134,417
Other operating income	5	19,095	13,434
Net loss on foreign exchange transactions		(38,207)	27,424
OPERATING INCOME		155,269	175,275
Losses from loans and other borrowings	6	(67,205)	(7,075)
Personnel expenses	7	(34,161)	(27,002)
Administrative and other expenses	8	(19,682)	(16,116)
PROFIT BEFORE TAXATION		34,221	125,082
Income tax expense (reimbursement)	9	(15,035)	(17,847)
PROFIT AFTER TAXATION		19,186	107,235
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		19,186	107,235

These Financial Statements were accepted and approved by the Management of the Company on 16.05.2022.

"Agroleasing LCC" LLC

Executive Director:

Aram Mkhitaryan

Chief Accountant:

Mariam Gazaryan



STATEMENT ON THE FINANCIAL POSITION

As of 31/12/2021

(AMD Thousand)

Article	Note	2021	2020
ASSETS			
Cash and cash equivalents	10	1,480	2,420
Loans and advances to customers accounted for at amortized cost of	11	1,844,388	1,418,943
Fixed assets and intangible assets	12	734	1,194
Assets with the right to use	12	15,710	18,260
Deferred tax asset		-	2,333
Other assets:		19,385	8,690
TOTAL ASSETS		1,881,697	1,451,840
LIABILITIES			
Loans and borrowings involved	13	1,454,013	1,041,148
Lease liabilities	14	18,086	19,984
Profit tax liabilities	15	6,074	9,604
Deferred tax liability		2,252	
Other liabilities	16	24,193	23,211
TOTAL LIABILITIES		1,504,618	1,093,947
EQUITY			
Statutory capital	17	200,000	200,000
General reserve		21,333	16,824
Accumulated profit (loss)		155,746	141,069
Total equity		377,079	357,893
TOTAL LIABILITIES AND EQUITY		1,881,697	1,451,840

"Agroleasing LCC " LLC

Executive Director:

Aram Mchitarjan

Chief Accountant:

Mariam Gasparyan



STATEMENT ON THE CHANGES OF EQUITY CAPITAL

As of 31/12/2021

(AMD Thousand)	Statutory capital	General reserve	Retained profit/loss	Total
BALANCE AS OF DECEMBER 31, 2019	200,000	14,582	36,076	250,658
Total comprehensive financial result for the year	-	-	107,235	107,235
Transactions with participants				
Dividends			(31,500)	(31,500)
Deductions to general reserve		2,242	(2,242)	-
BALANCE AS OF DECEMBER 31, 2020	200,000	16,824	141,069	357,893
BALANCE AS OF JANUARY 1, 2021	200,000	16,824	141,069	357,893
Total comprehensive financial result for the year	-	-	19,186	19,186
Transactions with participants			-	-
Dividends:	-	-	-	-
Deductions to general reserve		4,508	(4,508)	-
BALANCE AS OF DECEMBER 31, 2021	200,000	21,332	155,747	377,079

"Agroleasing LCC" LLC

Executive Director:

Aram Mkhitarian

Chief Accountant:

Mariam Gazaryan



STATEMENT ON CASH FLOW

As of 31/12/2021

Article	(AMD Thousand)	
	2021	2020
Cash flows from operating activities		
Interest received	216,544	154,959
Interest paid	(65,005)	(36,138)
Recovery of losses	69,426	23,483
Net commissions received	14,873	13,275
Salary paid and other equivalent payments	(23,773)	(19,058)
Other administrative expenses	(9,635)	(7,595)
NET CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	202,430	128,926
DECREASE (INCREASE) OF ALLOCATED FUNDS		
Loans and borrowings to customers	(409,905)	(507,414)
Net cash flows from other operating activities	(18,614)	(18,853)
NET CASH FLOW FROM OPERATING INCOME TO PROFIT TAX	(226,089)	(397,341)
Profit tax paid	(14,329)	(10,169)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(240,418)	(407,510)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets and intangible assets	(8,433)	(1,631)
Disposal of fixed assets	2,000	184
Net cash flow from other investment activities		
NET CASH FLOW FROM INVESTMENT ACTIVITIES	(6,433)	(1,447)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Replenishment of statutory capital		
Dividends paid		
Increase of bank loans	(55,226)	20,696
The increase of other borrowings received	300,691	388,255
CASH FLOW FROM FINANCIAL ACTIVITIES	245,465	408,951
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS	(1,386)	(6)
The effect of exchange rate fluctuations on cash and cash equivalents	447	224
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,420	2,202
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,481	2,420

"Agroleasing LCC" LLC

Executive Director:

Aram Mkhitarian

Chief Accountant:

Mariam Gazaryan



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. COMPANY DESCRIPTION

"AGROLEASING Leasing Credit Company" Limited Liability Company (hereinafter referred to as the Company) was established on 04.08.1999 under the brand name "AGROLEASING" LLC and by the decision No. 299A of 26.08.2003, "AGROLEASING" LLC was registered and licensed as "AGROLEASING LCC" LLC. The main goal of the company is to promote small and medium businesses in the field of agriculture and food industry of the Republic of Armenia through lending and financial leasing. The company carries out its activities only in the RA.

The only participant of the company is Satenik Vardanyan, who owns 100% of the shares. The main sources of funding of the company are loans from international Companies, loans from banks, as well as loans from shareholders.

The company's office is located at 1/21 Azatutyan street, office 39, Yerevan, RA.

The average number of employees of the company as of the year ended December 31, 2021 was 11 people (2020 - 8 people).

2. FUNDAMENTALS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRC), developed and published by the International Accounting Standards Board (IASB). The comparative information and financial statements include the results of the Company's financial activities and cash flows for the year ended 31.12.2021.

2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on a fair value basis for financial assets and liabilities measured at fair value through profit or loss, as well as for assets measured at fair value through other comprehensive income, except for assets whose fair value cannot be determined. Other financial assets and liabilities are carried at amortized cost and non-financial assets and liabilities are carried at historical value. Financial information is presented in AMD with an accuracy of thousands.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of the Republic of Armenia is the AMD, which is the functional currency of the Company and the currency for the submission of these financial statements. The functional currency of the Company is the Armenian dram, as this currency best reflects the economic content of the events underlying the financial statements and the Company's transactions.

2.4 USE OF EVALUATIONS AND JUDGMENTS

To prepare these financial statements in accordance with IFRS requirements, management has made a number of judgments, estimates and assumptions that affect the application of accounting policies, as well as the amounts presented in assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and related assumptions are constantly being reviewed. Revisions of accounting estimates are recognized in the period in which they were reviewed and in future periods in which they may be affected.

The information on the judgments, estimates and assumptions made during the application of the accounting policy, which have the most significant impact on the amounts recognized in the financial statements, is provided below:

Classification of financial assets

It is the valuation of a business model in which assets and contractual assets are assessed to determine whether cash flows arising on a particular date are only interest payments on principal and outstanding principal - Note 3.

Impairment of financial instruments

Assess whether the financial asset's debt risk has increased significantly after initial recognition, grouping of assets with the same debt risk profile, and estimating the expected debt loss, including using forecasting information.

Lease

The term of the lease under the lease agreement (under which the Company acts as a lessee), including whether the Company reasonably intends to exercise the option of selecting a lessee, and the determination of the additional borrowing rate used to measure lease obligations (Note 14).

Going concern principle

Management has prepared these financial statements on a going concern basis. In making this judgment, management took into account the Company's financial condition, current intentions, operating profitability and availability of financial resources.

The company has stable revenue from its business activities. Management does not expect that the situation may cause inconsistencies in the continuity of its activities taking into account the expectation of continued positive operating cash flows.

After making assessments, the Company's management has a reasonable expectation that the Company will be able to maintain its operations in the foreseeable future. Therefore, in preparing its financial statements, the Company continues to rely on the principle of going concern therefore these financial statements do not contain any adjustments, the need of which will be appeared in the case if the Company will not able to ensure the continuity of its activities.

Fair Value Measurement

A number of assets and liabilities are required to be measured at fair value and/or recognized at fair value in the Company's financial statements.

To measure the fair value of a Company's financial and non-financial assets and liabilities market observable baseline data are used as much as possible. The baseline data used to measure fair value are classified according to different levels depending on how observable the data used in the valuation method are ("fair value hierarchy").

Level 1: Prices quoted in active markets for identical assets or liabilities (unadjusted),

Level 2: Direct or indirect observable baseline data, except for quoted prices included in level 1,

Level 3: Invisible baseline data (i.e. not based on market data).

The classification of assets and liabilities at the above levels is based on the lowest level of inputs, which have a significant effect on the measurement of fair value. The transition from one level to another is recognized in the period in which it occurs.

2.5 CHANGES IN ACCOUNTING POLICY

The Company has applied the following revised IFRS which entered into force on January 1, 2020 or for reporting periods beginning after that date. The Company has not applied any standards or amendments that were previously adopted but are not currently in effect.

The essence and effects of the changes are described below.

The new and revised standards and interpretations, which are applicable from January 1, 2020 and for annual periods beginning after that.

Below mentioned new standards and amendments which were first applied in 2020, did not have a material impact on the Company's financial statements.

- Conceptual bases of financial statements
- Definition of Entrepreneurship (IFRS 3 Amendments)
- Definition of materiality (IAS 1 and IAS 8 amendments)
- Target interest rate reform (IFRS 9 and IFRS 7 amendments),
- Lease incentives associated with COVID-19 (IAS 16 amendments)

Standards, amendments and interpretations on existing standards that are not yet in force and have not been introduced in advance by the Company.

At the date of approval of these financial statements, the International Accounting Standards Board (IASB) has issued certain new standards, amendments and interpretations to existing standards, which are not yet effective and have not been preintroduced by the Company.

Management anticipates that all applicable disclosures will be incorporated into the Company's accounting policies from the date of effective date of disclosure. New standards, changes and comments that have not been applied in the current year have not been disclosed, as they are not expected to have a material impact on the Company's financial statements and are set out below.

- References to Conceptual Basis (IAS 3 Amendments) – 01/01/2022
- Proceeds before Intended Use (Amendments to IAS 16) – 01/01/2022
- IFRS Annual Reforms for 2018/2020 (IFRS 1, IFRS 9, IFRS 41, IFRS 16) – 01/01/2022
- IFRS 17, "Insurance Contracts" – 01/01/2022

3. ACCOUNTING POLICY

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

Recognition of income and expenses

Revenue is recognized when it is probable that the economic benefits will flow to the Company and the proceeds may be measured reliably. Expenses are recognized when it is probable that the economic benefits will flow from the company and the cost can be measured reliably.

Interest expenses and income

Interest income and expense for all interest-bearing financial instruments, except for instruments that are retained for trade or adjusted for profit or loss, are recognized in the income statement as interest income and interest expense using the effective interest method.

Interest income receivable from the Company, as well as interest expense payable, the Company measures, recognizes and records accruals on a daily basis, regardless of the actual receipt of income or payment period. Relevant contracts are the basis for calculating the accrued amounts.

For non-performing loans and other assets, when the collection of their principal and interest becomes doubtful, interest income is not recognized. Such interest income is recognized in the financial statements on a cash basis.

Income and expenses in the form of commissions and other payments, in particular audit, advertising, building maintenance and maintenance liabilities, as well as vehicle fuel costs, are reported in the income statement on an accrual basis, based on the services provided or under the terms of the contract.

Dividends are recorded in the income statement in accordance with the principle of accrual at the time of declaration.

If the carrying amount of a financial asset or similar financial asset decreases due to impairment losses, interest income continues to be recognized using the original effective interest rate profits the new carrying amount.

Income and expenses from commissions and other similar payments

Commissions, rents and other income and expense items are generally recognized on an accrual basis when providing services.

Currency exchange

Foreign currency transactions are recalculated in the functional currency at the exchange rate of the transaction day. The gain or loss on the conversion of non-commercial assets denominated in foreign currencies is recognized in the statement of other income under "Other income" or "Other expenses" articles. Monetary assets and liabilities denominated in foreign currencies are revalued on a daily basis in the functional currency using the settlement exchange rate formed in the RA financial market of the given date and announced by the Central Bank.

Below is the year-end exchange rates used by the Company during the preparation of the financial statements.

Currency	The settlement exchange rate of the Central Bank of Armenia	The settlement exchange rate of the Central Bank of Armenia
	As of 31.12.2021	As of 31.12.2020
One USD	AMD 480.14	AMD 522.59

Taxation

Profit tax of the reporting year consists of current and deferred taxes. The amount of current profit tax is calculated in accordance with the requirements set by the RA legislation, taking into account the expenses that are not deductible from income according to the "Profit Tax" chapter of the RA Tax Code.

Deferred taxes, if any, arise from temporary differences between the carrying amount of an asset or a liability and its tax base. The tax base of an asset or liability is the amount that is attributed to that asset or liability for tax purposes. Contributions to deferred tax liabilities arising from temporary differences, if any, are paid in full. Deferred tax assets are recognized to the extent that they can be sold.

Deferred income tax assets and liabilities are offset when the Company has a legally established right to offset the amount of recognized current tax assets and liabilities.

There are also many other operating taxes in the Republic of Armenia, which are calculated based on the Company's activities. These taxes are recognized in the statement of comprehensive income under the article "Other expenses".

Cash and cash equivalents

The Company's cash and cash equivalents include accounts opened in Armenian banks. The actual inflow or outflow of the Company's cash is processed on the basis of documents duly formulated at the face value of the currencies.

The Company is guided by the direct method when compiling the cash flow statement based on gross cash inflows and payments received as a result of operating activities.

Bank accounts

During its normal operation, the Company uses current or different time deposit accounts in banks. Fixed-term deposits are carried at amortized cost using the effective interest method.

Financial assets and financial liabilities

➤ Classification

At the time of initial recognition, a financial asset is classified at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

A financial asset is measured at amortized cost if it satisfies to 2 conditions set out below and is not measured at fair value through profit or loss.

- The asset is held within a business model that is intended to hold the asset to raise contractual cash flows.
- The contractual terms of a financial asset give rise to cash flows at certain dates, which are only interest payments on principal and outstanding principal amounts.

A debt instrument is measured at fair value through other comprehensive income if it meets both of the conditions below and is not measured at fair value through profit or loss.

- The asset is held within a business model that is achieved through both the collection of contractual cash flows and the sale of financial assets, and
- The contractual terms of a financial asset give rise to cash flows at certain dates, which are only interest payments on principal and outstanding principal amounts.

Profit and loss on debt financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income except those presented below, which are recognized in the same way as profits and losses on financial assets measured at amortized cost

- Interest income using the effective interest method,
- Expected debt losses and reversals,
- profit and loss from exchange rate differences.

All other financial assets are classified at fair value through profit or loss. In addition, at the time of initial recognition, the Company may have an irreversible financial asset, which otherwise satisfies the requirements for measurement at fair value through amortized cost or other comprehensive income as measured at fair value through profit or loss if it will eliminate or significantly reduce the accounting discrepancy 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 realizing 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 realized.

Financial assets or financial assets held for trading purposes which are managed and which effectiveness is measured at fair value are measured at fair value through profit or loss as they are not held to collect non-contractual cash flows or to collect contractual cash flows or to sell financial assets.

➤ Assessment whether contractual cash flows is solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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.

➤ **Reclassification**

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**

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

➤ **Reclassification**

Financial liabilities are not reclassified subsequent to their initial recognition.

Recognition

A Company recognizes a financial asset or financial liability in its statement of financial position only when it becomes a party to the instrument. Regular purchases or sales of financial assets are accounted for at the date of the transaction.

Amortized cost

Amortized cost of a financial asset or liability is the amount by which the financial asset or liability is measured at initial recognition less any repayments of the principal amount plus the accumulated amortization of any difference between the original recognition amount and the repayment amount minus any reduction of impairment of financial assets. Surcharges and discounts, including initial transaction costs, are included in the carrying amount of the instrument and are amortized using the instrument's effective interest method.

Fair value measurement principles

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The fair value of a liability must take account of non-performance risk.

Where possible, the Company measures the fair value of the instrument using the prices quoted in the active market for that instrument. A market is considered active if an asset or liability transaction occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Profit or loss from financial assets and the change is recognized in the following way:

- Profits or losses are recognized in profit or loss on a financial instrument which is classified as fair value through profit or loss. Interest on a financial asset is recognized in profit or loss using the effective interest method.
- Interest on financial assets measured at fair value through profit or loss is recognized in profit or loss using the effective interest method.
- Profits or losses on financial assets and liabilities carried at amortized cost are recognized in profit or loss when the financial asset or liability is derecognised or impaired, as in the case of amortization.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the 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 derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

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

Impairment

The Company recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4), for which they are measured as 12-month ECL.

The Company does not apply the low credit risk exemption to any financial instruments.

12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as "Stage2" financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and "Stage 3" financial instruments (if the financial instruments are credit-impaired).

➤ The expected credit loss measurement

Expected debt loss is the assessment of the weighted debt loss according to the degree of probability of default and is measured as follows:

- Financial assets that are not impaired at the reporting date as the present value of all impaired cash (i.e., the difference between the cash flows that the Company should receive under the contract and that the Company expects to receive),
- Financial assets that are impaired at the reporting date as the difference between the gross carrying amount and the present value of future estimated cash flows,
- unused portion of the loan obligation as the present value of the difference between the contractual cash flows that the Company must receive if the borrower exercises its right to receive a loan and the cash flows that the Company expects to receive. See also Note 4.

➤ Financial assets Restructured

If the terms of a financial asset are revised or changed or an existing financial asset is replaced by a new borrower due to financial difficulties, the need to derecognize the financial asset is assessed and the expected debt loss is measured as follows:

- If the expected revision does not lead to the Derecognition of an existing financial asset, the expected cash flows from the modified financial asset are included in the calculation of the declining cash on the existing asset (see Note 4).
- If an expected revision of the terms results in the Derecognition of an existing financial asset, the expected fair value of the new asset is treated as the final cash flows arising from the existing financial asset at the time of its Derecognition. This amount is included in the calculation of declining cash on an existing asset, which is discounted from the expected date of Derecognition to the reporting date using the original effective interest rate on the existing financial asset.

➤ Impaired financial assets

At each reporting date, the Company assesses financial assets measured at amortized cost for impairment. A financial asset is considered impaired if one or more events have occurred that have a negative impact on the estimated future cash flows of the financial asset. Evidence of impairment of a financial asset includes the following observations:

- Significant financial difficulties of the borrower or issuer
- Breach of contract, including non-performance or late payment,
- A review by the Company of the terms of the loan or lending that the Company would not otherwise have considered,
- Possible bankruptcy of the borrower or other financial restructuring.

A loan whose terms have been revised due to the deteriorating condition of the borrower is usually considered impaired unless there is evidence that the risk of non-receipt of contractual cash flows has been significantly reduced and there are no other signs of impairment. In addition, an overdue loan of 90 days or more is considered impaired.

➤ **The expected credit loss reserve to the statement of financial position**

Expected debt loss reserve is presented in the statement of financial position as follows:

- Financial assets measured at amortized cost as a deduction from the gross carrying amount of the assets,
- when the instrument includes a financial component, both used and unused, and the Company cannot separate the expected debt loss on the liability component from the expected debt loss on the component already used. The Company represents a total loss reserve for both components. The total amount is presented as a deduction from the gross carrying amount of the component used. The amount by which the reserve for loss exceeds the gross carrying amount of the component used is presented as a reserve.

➤ **Write-offs**

Loans are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the 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.

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

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

➤ **Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

➤ **Loans to customers**

"Loans to customers" caption in the statement of financial position include loans to customers measured at amortized cost (see Note 3(e)), they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

➤ **Leased asset**

Leasing liabilities are measured at the present value of the contractual consideration payable to the Lessor over the lease term, using the in-house lease as a discount rate, except when (as usual) the rate is not easily determined. In this case, the Company uses the interest rate to attract additional loans at the start of the lease. Lease variable payments are included in the measurement of lease liability only if they depend on the index or rate. In such cases, the initial measurement of the lease assumption assumes that the variable element will remain unchanged throughout the lease term. Other variable leases are spent on the period to which they relate. The right of use asset is initially measured at the amount of the lease liability minus the discount received.

- Amounts paid at or before the start of the lease,
- Initial direct costs, and

- The amount of the recognized recovery reserve if the Company has a contractual obligation to recover the leased asset

Upon initial recognition, the lease liability is increased by the amount of interest expense and reduced by the amount of payments made.

In the form of a right of use, the asset is depreciated in a straight-line manner over the minimum lease term and the asset residual useful life.

➤ Fixed assets

Fixed assets are stated at cost less accumulated depreciation. If the recoverable amount of the asset is less than its carrying amount, then the conditions are not considered temporary, until the recoverable value of the relevant asset is reduced.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The following annual depreciation rates were applied:

Fixed assets	Useful life (years)	Annual interest rate (%)
Buildings	20	5
Property and office equipment	8	12.5
Communication, computer and other equipment	1	100
Other fixed assets	8	12.5

Repair and maintenance costs of property, plant and equipment are recognized in the income statement in the period in which they are incurred. Overhaul costs are included in the carrying amount of an asset when it is probable that future economic benefits associated with the asset will flow to the Company more than expected from the initial valuation of the asset. Overhaul depreciation is calculated on the residual useful life of the relevant asset.

Expenses and income from disposal of property, plant and equipment are determined by comparing net income and carrying amount of the asset and are included in operating income.

The increase in value from revaluation is attributed to retained earnings as the Company uses its assets. The amount attributed is the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the carrying amount of the asset.

When revalued assets are derecognized or disposed of, the amounts attributable to the disposal assets and included in the revaluation reserve are attributed to retained earnings.

➤ Intangible assets

Separately acquired intangible assets are measured at cost at initial recognition. After initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment costs. Intangible assets acquired in foreign currency are recorded at the exchange rate established at the date of acquisition in the financial market of the Republic of Armenia and announced by the Central Bank of the Republic of Armenia and are not revalued in the event of exchange rate changes. The assignment of an intangible asset unit to this or that class (for example, software, licenses and credentials, copyrights, etc.) defined by the chart of accounts of the credit companies operating in the territory of the Republic of Armenia is based on the significance and purpose of using the unit. The useful life of software is estimated at 1-10 years.

Subsequent expenditure on an intangible asset is recognized as an investment and is added to the value of that asset. The depreciation period of each unit of intangible assets is determined based on their possible useful lives. If the latter cannot be determined, the intangible assets are considered intangible assets with indefinite useful life, and no depreciation is calculated for that asset, but the asset is revalued for impairment.

The Company applies the straight-line method of depreciation to regularly distribute the depreciation amount of intangible assets during its useful life.

In case of significant fluctuation of the real (market) value of intangible assets they are re-evaluated based on the decision of the Company Board.

➤ Borrowings

Borrowings, which include liabilities to other financial institutions, lenders and founding parties, are initially recognized at fair value through profit or loss, less directly attributable operating expenses. After the initial valuation, the borrowings are carried at amortized cost using the effective interest method. Profit or loss is recognized in the income statement when the

liabilities are derecognized as well as through the amortization process

➤ Reserves, contingent assets and liabilities

Reserve is an indefinite liability. Reserve is recognized when the Company has a legal or constructive liability as a result of past events and it is probable that the repayment of the liability will require an outflow of material benefits and that the amount of the liability can be estimated reliably. If the above conditions are not met, the Company does not form a reserve. The amount recognized as a reserve should provide the best estimate of the costs required to settle the present liability at the balance sheet date. Expenditure related to the reserve may be presented in the income statement on a straight-line basis. Reserves at each reporting date should be reviewed and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of material benefits will be required to repay the liability, the reserve shall be reversed. Reserve should be used only on expenses for which the reserve was originally recognized.

A contingent liability is a potential liability as a result of past events, which existence will be established only by the occurrence or non-occurrence of one or more future uncertainties, which are not fully controlled by the Company or current liability as a result of past events, but which is not recognized for the following reasons:

- It is not probable that these liabilities will require an outflow of economic benefits, or
- The amount of the liabilities cannot be measured with sufficient reliability

A contingent asset is a potential asset as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future uncertainties that are not fully controlled by the Company.

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes. However, if the potential outflow of assets embodying economic benefits to repay them is very small, contingent liabilities are not disclosed.

➤ Dividends

Dividends are recognized as a liability and are deducted from equity as of the balance sheet date only if they are declared before or at the balance sheet date. Dividends are disclosed when they are offered before the balance sheet date, or when they are offered or announced after the balance sheet date, but before the financial statements are approved for publication.

➤ Deferred taxes

Deferred tax assets and liabilities are recognized when there are discrepancies between the carrying amounts of the assets or liabilities recognized in the statement of financial position and their respective tax bases, unless they arise:

- from the initial recognition of goodwill,
- as a result of a transaction that is not a business combination, the initial recognition of assets and liabilities and the date of the transaction do not affect either taxable profit or accounting profit,
- from investments in subsidiaries and joint ventures in which the Company is able to control the reversal of differences and it is probable that the differences will not be reversed in the foreseeable future.

Recognition of deferred tax assets is limited when it is unlikely that a taxable profit will be available profits which the temporary differences can be utilized,

Deferred tax assets or liabilities are measured using the tax rates that are expected to be applied when deferred tax liabilities/assets will be repaid/(reimbursed).

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

Important accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Company's management to make significant accounting estimates, judgments and assumptions that affect to the amounts of assets and liabilities at the reporting date, as well as the expenses and income for the period. Estimates based on historical experience and other factors based on the circumstances and the assumptions associated with them allow us to make judgments on the carrying amounts of assets and liabilities that cannot be determined from other sources. In any case, although the estimates are based on management's best understanding of current events, the actual results may ultimately differ from the estimates made.

Significant judgments and estimates regarding the financial statements presented are set out below.

Related parties

The parties are considered related if one of them can control the other or have a significant influence on the other in making financial and operational decisions.

Related parties of the company are:

1. Companies that directly or indirectly control or are controlled by the Company or are under joint control with the Company,
2. Associated Companies
3. Jointly controlled units
4. Citizens (including close family members) who, directly or indirectly, have so many voting rights in the Company that they have a significant influence over the Company,
5. Key management personnel, i.e. those persons who are competent and responsible for the planning, management and oversight of the reporting entity, including the directors of the Companies, officials and close family members,
6. Companies in which the right to a significant number of votes belongs directly or indirectly to any of the persons described in paragraphs 4 and 5, or over whom such persons have a significant influence. These include Companies that are owned by the directors or major shareholders of the reporting entity, and those that have a common key management staff member with the reporting entity.

The company carries out operations with related parties during its activity. These transactions are mainly carried out at market prices. In the absence of a functioning market, the application of market or non-market interest rates is determined on the basis of judgments. Judgments are based on similar transactions with other customers as well as effective rate analyzes.

Significant errors and changes in accounting policies

Errors made in the financial statements of one or more prior periods and found during the reporting period as a result of arithmetical inaccuracies, errors in the application of accounting policies, misinterpretation of facts, fraud or negligence are subject to be corrected, as a rule, in the financial statements of the reporting period. Mistakes made, which have such significant implications on past financial statements that they can no longer be considered credible are considered significant mistakes.

The Company corrects the significant errors of the previous period backwards after their detection in the first set of financial statements approved for publication.

In case of change of accounting policy:

- The Company records changes in accounting policies resulting from the first application of IFRS in accordance with the specific transitional reserves of that IFRS (if any),
- When the Company changes its accounting policies in connection with the first application of an IFRS that does not include specific transitional reserves relating to that change, the Company applies the change backwards.

Events after the reporting period

Events after the end of the reporting period are favourable and unfavourable events that occur between the end of the accounting period and the date between which the financial statements are ratified (signed) for submission (to statutory addresses).

The Company adjusts the amounts recognized in its financial statements to reflect the adjustments that occurred after the end of the reporting period (events that confirm the conditions or situation existing at the end of the reporting period).

If the amount of a material error, depending on the size and nature of the transaction or item, does not exceed one percent of the Company's balance sheet assets, and if the disclosure of that information does not affect the economic decisions made by users based on the financial statements then no changes are made to the statement of financial position as of the date of the last day of the previous year.

The Company does not adjust the amounts recognized in its financial statements to report unrecorded events after the end of the reporting period.

If the equity holders' dividends are nominated or declared after the end of the reporting period, the Company does not

recognize those dividends as a liability at the end of the reporting period.

Impairment reserves on loans and receivables

At each reporting date, the Company reviews its problem loans and borrowings to determine whether any impairment reserve should be included in the income statement. In particular, management judgment is necessary to estimate the frequency and amount of future cash flows when determining the level of reserve required. Such estimates are based on assumptions about a number of factors, and actual values may differ, which will lead to further changes in the amount of the reserve.

In particular, except the special reserve created for significant loans and borrowings Company also creates group of impairment reserves for risks which although had not been individually assessed, but carry a higher risk of default than originally determined. It takes into account factors such as deteriorating country risk, industry, technological obsolescence, as well as identified structural weaknesses or declining cash flows.

4	Net interest income		
	a) Interest and similar income		
	(AMD thousand)	2021	2020
	Interest income on loans and other borrowings	248,454	176,100
	Interest income from investments	-	-
	Total interest and similar income	248,454	176,100
	b) Interest and similar expenses		
	(AMD thousand)	2021	2020
	Interest expenses on involved loans and borrowings	(71,651)	(39,033)
	Interest expenses on operating lease	(2,422)	(2,650)
	Total interest and similar expenses	(74,073)	(41,683)
	Net interest income	174,381	134,417
5	Other operational income		
	(AMD thousand)	2021	2020
	Revenues from fines and penalties	16,090	9,409
	Income from disposal of fixed assets	-	115
	Other income:	3,005	3,910
	Total	19,095	13,434
6	Losses from loans and other borrowings		
	(AMD thousand)	2021	2020
	Reserve on allocated loans		
	Initial balance	70,996	55,845
	Net (reversal) / expense	67,205	7,075
	Contributions to the reserve	-	-
	Net write-offs	(81,902)	8,076
	Final balance	56,299	70,996
7	Personnel expenses		
	(AMD thousand)	2021	2020
	Salary for key employees	(29,734)	(23,131)
	Rewards and bonuses	(1,520)	(1,410)
	Payments for holidays and non-working days	(2,875)	(2,258)
	Other staff costs	(52)	(203)
	Total	(34,161)	(27,002)

8 Administrative and other expenses
(AMD thousand)

	2021	2020
Office expenses	(3,306)	(3,058)
Depreciation, amortization	(3,363)	(3,839)
Non-reimbursable taxes, duties	(7,412)	(3,570)
Audit, consulting	(800)	(1,000)
Telecommunications	(884)	(719)
Vehicle service	(819)	(451)
other	(3,098)	(3,479)
Total	(19,682)	(16,116)

9 Profit tax expense

According to the current legislation in the Republic of Armenia, the profit tax rate is 18% (18% in 2020). Deferred profit tax amount is also calculated using the 18% base rate. When calculating income and expenses on financial assets and liabilities, the company is guided by an clarifications addressed to the Union of Credit Companies by the State Revenue Committee under the Government of the Republic of Armenia, according to which for the recognition of income and expenses on financial assets and liabilities nominal interest rates stipulated in loan and borrowing agreements should be taken as a basis.

(AMD thousand)	2021	2020
Current tax expense	(10,449)	(14,456)
Temporary deferral tax differences (Note 15)	(4,586)	(3,391)
Adjustment of last year's tax expense	-	-
Total income tax expense	(15,035)	(17,847)

10. Cash and cash equivalents
(AMD thousand)

	2021	2020
Cash	1,408	1,838
Current accounts in banks	72	582
Total cash and cash equivalents	1,480	2,420

11 Borrowings and other loans at amortized cost provided to customers
(AMD thousand)

	2021	2020
Provided loans and other borrowings at amortized cost	1,900,688	1,489,939
Reserve on allocated loans at amortized cost	(56,300)	(70,996)
Total loans and other borrowings provided to customers	1,844,388	1,418,943

12 Fixed assets and intangible assets

Assets on a use	Economic property	Computer equipment	Other fixed assets	Software	Total	Assets with the right to use
Initial value						
As at 31.12.2020	2,598	4,799	317	1,000	8,714	22,683
Increase		453	-	-	453	-
Disposals /write-off		-	-		-	-
Cost increase from renovation	-	-	-	-	-	-

As at 31.12.2021	2,598	5,252	317	1,000	9,167	22,683
Depreciation						
As at 31.12.2020	1,841	4,462	317	900	7,520	4,423
Depreciation expense	119	694	-	100	913	2,550
Disposals /write-off	-	-	-	-	-	-
As at 31.12.2021	1,960	5,156	317	1,000	8,433	6,973
Carrying amount as at 31.12.2020	757	337	-	100	1,194	18,260
Carrying amount as at 31.12.2020	638	96	-	-	734	15,710

13 Loans and borrowings involved
(AMD thousand)

	Currency	Repayment period	Rate (%)	31.12.2021	31.12.2020
Unsecured borrowing from related party	USD	Term less	6.5-7%	352,741	138,545
Unsecured borrowing from related party	AMD	Term less	Interest-free	130	130
Secured borrowing from the Program Implementation Agency of the Ministry of Finance of the Republic of Armenia	AMD	2030	4%	197,889	193,454
Secured borrowing from RA "GTTZ PIU" PH	USD	2049	4%	279,841	375,128
Secured borrowing from RA "GTTZ PIU" PH	AMD	2049	7%	416,086	108,115
HVEE Foundation	AMD	2027-2029	4-6%	58,362	31,317
Habitat for Humanity Armenia	USD	2024	2%	24,228	26,370
Jinshian Memorial Foundation	AMD	2025-2026	3%	29,338	11,179
Secured loans from commercial banks	USD	2022-2024	10%	17,807	96,453
Secured loans from commercial banks	AMD	2023	13.3%	25,197	22,130
Secured loans from commercial banks	AMD	2022-2023	13.3%	52,394	38,327
Total				1,454,013	1,041,148

14 Lease liability

The lease liability is presented according to the contracts. All leases are recorded on a straight-line basis through the recognition of an asset and a lease, except the leases on which the underlying asset is undervalued and short-term leases (12 months or less). The company rents two office spaces and a car. The company had made the transition to IFRS 16 on January 1, 2019 without re-submitting comparable data.

In accordance with IFRS 16 "Leases", the Company has recognized leased office space and vehicles as an asset under right to use and liability on the leasing. Until that date, that lease was treated as an operating lease, by which the Company has not recognized the relevant asset and liability, but had recorded the leasing fee in a straight-line method during the lease period. Financing lease movement and balances are presented below:

(AMD thousand)	2021	2020
Opening balance		
Application of IFRS 16	19,984	21,654
Interest expense	2,442	2,650
Repayment of financial liabilities during the year	(1,898)	(1,670)
Interest paid	(2,442)	(2,650)
Final balance	18,086	19,984

15 Profit tax liability

Deferred tax asset

Details of deferred tax assets, amounts recognized in profit or loss and the impact of the adjustment of IFRS 9 are provided below.

	31/12/2020 (AMD thousand)	Reduced on profit or loss (AMD thousand)	31/12/2021 (AMD thousand)
Fixed assets	(3,287)	459	(2,828)
Loans provided	404	(5,032)	(4,628)
Other liabilities	1,619	330	1,949
Lease liability	3,597	(342)	3,255
	2,333	(4,585)	(2,252)
	31/12/2019 (AMD thousand)	Reduced on profit or loss (AMD thousand)	31/12/2020 (AMD thousand)
Fixed assets	(3,746)	459	(3,287)
Loans provided	4,223	(3,819)	404
Other liabilities	1,349	270	1,619
Lease liability	3,898	(301)	3,597
	5,724	(3,391)	2,333

16 Other liabilities (AMD thousand)

	2021	2020
Payables to the budget	1,120	968
Trade payables	769	5,323
Reserves	10,825	8,993
Other liabilities	11,479	7,927
Total	24,193	23,211

17 Capital and reserves

The statutory capital of the company is AMD 200,000,000 (two hundred million), which consists of 10,000 shares, each with a nominal value of AMD 20,000, and which is fully paid. The statutory capital of the company has not been replenished in 2020. No dividends were paid in 2021. Contributions in the amount of AMD 4,508,000 were made to the general reserve based on the results of 2021.

18 Risk management

Risk management is an essential factor for credit Companies and an important element of the Company's operations. Market risk, debt risk and liquidity risk are the main (significant) risks to which the Company is exposed.

a) Risk management policies and procedures

- b) The purpose of the risk management policy is to identify, analyze and manage the risks to which the Company is exposed, to establish appropriate risk limits and control mechanisms, as well as to continuously monitor the risk levels and their compliance with the set limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered, and best practices.

Management is responsible for the proper functioning of the risk management system, the review of key risk and risk management policies and procedures, as well as the approval of major transactions, as well as the oversight and implementation of risk mitigation measures and ensuring the Company's operations within appropriate risk limits.

Credit, market and liquidity risks are managed and controlled by both the portfolio and individual operations.

According to the Company's internal documentation, the Internal Audit Department frequently prepares reports that address

significant Company risk management issues. The reports include an assessment of the effectiveness of the Company's procedures and methods and recommendations for improvement.

Both external and internal risk factors are identified and managed within the Company structure of the Company. Special attention is paid to identifying all risk factors and determining the appropriateness of risk reduction measures.

b) Credit risk

Credit risk is the risk of financial loss due to non-performance of contractual obligations by the customer or the parties to the financial instrument. The main activity of the company is the reserve of microloans. Accordingly, credit risk is of paramount importance in the risk management of microfinance Companies. To avoid significant financial losses, the Company uses a variety of methods to determine and effectively manage credit risk's. The microfinance sector is generally prone to credit risk through customer loans and bank deposits. As for loans to customers, this risk is concentrated in the Republic of Armenia. Risk management and monitoring is carried out within the defined powers. These processes are carried out by the Credit Committees and the Board of the Credit Company. The information provided to the Credit Committee is preliminary analytical information based on the customer's initial application, due diligence on the business and credit risks of the loan officer, the accuracy of which is also checked comparatively by the loan manager, under the responsibility of the loan officer and the loan manager. Finally, the members of the Credit Committee assess the compliance of the application with the established criteria (applicant's credit history, financial condition, competitiveness, etc.). The director is called to identify operational, credit, product risks. Internal audit conducts regular audits of representative offices and the Company's credit processes. According to the company's loan disbursement and servicing procedure, the loan specialists, operations department, and security study the overdue loan analysis accordingly, and follow up on overdue balances. Under the supervision of the director, work with overdue loans is organized. All loans of the company are secured by personal guarantees of the borrowers and / or other persons. In addition, according to the expediency and the size of the loans, the Company accepts collateral as a means of securing them. However, the vast majority of loans are small loans to individuals where such collateral cannot be obtained. Such risks are monitored on an ongoing basis and are subject to annual or more frequent reviews.

c) Maximum value of debt risk

The maximum value of debt risk of the company fluctuates significantly and depends on individual risks and the risks of the overall market economy. The maximum risk on the off-balance sheet financial assets is equal to the carrying amount of those assets before any offsetting or collateral impact is taken into account.

Below is presented the maximum value of exposure of financial assets to debt risk as of the reporting date.:

	2021 (AMD thousand)	2020 (AMD thousand)
Loans to customers	1,844,388	1,418,943
Cash and cash equivalents	1,480	2,420
	1,845,868	1,421,363

The carrying amount represents the maximum amount of financial asset exposed to debt risk, taking into account any collateral or personal guarantees acquired. The potential net effect of assets and liabilities on reducing credit impact is not significant. Information on the analysis of credit to customers and the concentration of credit risk is presented in Note 11.

d) Market risk

Market risk is the risk of fluctuations in the fair value of a financial instrument or future cash flows arising from changes in market prices. Market risk includes currency, interest rate and other price risks. Market risk arises from open positions in interest rates and equity financial instruments, which are subject to general and individual market changes and to changes in market prices and exchange rates.

(AMD thousand)

2021

ASSETS	Up to one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Overdue	Term less	Total
Cash and cash equivalents	1,480	-	-	-	-	-	-	1,480
Loans to customers	-	8,231	90,094	858,554	775,872	111,637	-	1,844,388
Fixed assets	-	-	-	-	-	-	16,444	16,444
Deferred tax asset	-	-	-	-	-	-	-	-
Other assets	-	-	19,385	-	-	-	-	19,385
Total assets	1,480	8,231	109,479	858,554	775,872	111,637	16,444	1,881,697
LIABILITIES								
Loans and borrowings involved	-	-	-	148,964	1,304,919	-	130	1,454,013
Lease liabilities	169	345	1,644	10,821	5,107	-	-	18,086
Profit tax liability	-	-	6,074	-	-	-	-	6,074
Deferred tax liability	-	-	2,252	-	-	-	-	2,252
Other liabilities	-	-	-	10,825	-	-	13,368	24,193
TOTAL LIABILITIES	169	345	9,970	170,610	1,310,026	-	13,698	1,504,618
NET POSITION	1,311	7,886	99,509	687,944	(534,154)	111,637	2,946	377,079

(AMD thousand)

2020

ASSETS	Up to one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Overdue	Term less	Total
Cash and cash equivalents	2,420	-	-	-	-	-	-	2,420
Loans to customers	2,170	13,221	91,617	914,341	261,352	136,244	-	1,418,943
Fixed assets	-	-	-	-	-	-	19,454	19,454
Deferred tax asset	-	-	-	-	-	-	2,333	2,333
Other assets	-	-	8,688	-	-	-	-	8,690
Total assets	4,590	13,221	100,305	914,341	261,352	136,244	21,787	1,451,840
LIABILITIES								
Loans and borrowings involved	6,269	32,571	57,870	97,749	708,014	-	138,675	1,041,148
Lease liabilities	2,054	478	5,186	9,711	2,555	-	-	19,984
Profit tax liability	-	-	9,604	-	-	-	-	9,604
Other liabilities	-	-	-	8,993	-	-	14,218	23,211
TOTAL LIABILITIES	8,323	33,049	72,660	116,453	710,569	-	152,893	1,093,947
NET POSITION	(3,733)	(19,828)	27,645	797,888	(449,217)	136,244	(131,106)	357,893

f) Currency basket

Currency risk is the risk of fluctuations in the fair value of a financial instrument or future cash flows arising from changes in foreign exchange rates. The Company's foreign exchange risk arises mainly from exchange rate fluctuations related to USD loans, as a result of which the Company may incur significant losses. This risk is not, in fact, managed by the Company, taking into account its management costs and the lack of tools to manage such risks. As of December 31, the Company's net exposure to foreign exchange risk is presented below:

	2021	2020
USD	(AMD thousand)	(AMD thousand)
ASSETS		
Loans to customers	1,133,676	988,734
Total assets	1,133,676	988,734
LIABILITIES		
Involved loans, borrowings	(674,618)	(636,495)
Total liabilities	(674,618)	(636,495)
Net position	459,058	352,239

As of December 31, 2021, the settlement exchange rate of the US dollar formed in the financial market of the Republic of Armenia and announced by the Central Bank was 480.14 AMD for 1 US dollar (as of 31.12.2020 - 522.59 AMD for 1 US dollar). As of the reporting date, the effect of a 10% appreciation of the USD profits the AMD on financial instruments denominated in USD (if other data remained unchanged) would result in an increase in profit for the year (after tax) and net assets of 45.96 AMD thousand (in 2020: 35,224 AMD thousand), and the effect of 10% depreciation on the annual profit (after tax) and the decrease in net assets by the same amount.

g) Interest rate risk

Interest rate risk is the risk of fluctuations in the fair value of a financial instrument or future cash flows arising from changes in market interest rates. Company is exposed to fluctuations in the prevailing market interest rates on its financial position and cash flows. Such fluctuations may increase the interest rate, but may also reduce or lead to losses in the event of an unexpected change in interest rates.

h) Liquidity risk

Liquidity risk arises from the management of the Company's own funds, financial expenses and repayments of principal amounts of debt instruments. Liquidity risk is associated with difficulties in repaying the Company's financial liabilities on time.

According to the Company's policy, the Company must have sufficient funds to repay its liabilities. In this regard, it seeks to maintain sufficient funds (or agreed funds) to be able to repay its liabilities within at least 45 days. The company is also trying to reduce liquidity risk by attracting fixed-rate loans, which are listed in the "Interest Rate Risk" section.

The Company's liquidity risk is being managed through the Company's treasury function. For any operation, the Company provides appropriate funds, the amount of which depends on the budget. The budget is approved by the Board, thus making it possible to forecast the Company's needs on cash. When the amount exceeds a certain limit, the approval of the Board is also required.

i) Capital risk management

The Company manages its capital to ensure the principle of continuity of the Company's activities, at the same time maximizing the compensation of stakeholders through the optimization of the involved and own funds balances. The Central Bank of Armenia defines and controls the capital requirements for the Company. According to the current capital requirements set by the Central Bank of Armenia, leasing credit Companies must provide a minimum total capital of 150,000 AMD thousand as of December 31, 2020 (December 31, 2019 - 150,000 AMD thousand).

	2021 (AMD thousand)	2020 (AMD thousand)
Loans and borrowings involved	1,454,013	1,041,148
Lease liability	18,086	19,984
Withdrawal cash and their equivalents	(1,480)	(2,420)
Net debt	1,470,619	1,058,712
Equity	377,079	357,845
Net debt to equity ratio (%)	3.90	2.96

19 Contingencies and potential liabilities

Legal obligations

The company is not aware of any substantial or threatening lawsuits profits the Company.

As of December 31, 2021, the Company had no capital investment liabilities (as well as of December 31, 2020).

As of December 31, 2021, the Company had not provided any guarantee for the liabilities of any party (same as of 31.12.2020).

Contradictions and ambiguities of tax legislation

The tax system of the Republic of Armenia is characterized by frequently changing legislation, which is often unclear and gives rise to misinterpretations. Tax accounting is subject to inspection and scrutiny by the competent authorities; which have the right to impose fines and penalties.

The management of the company believes that it has properly assessed the tax liabilities, based on official interpretations and clarifications of the laws. However, the competent authorities may have other comments, and the consequences for the Company could be significant if the competent authorities are able to apply their comments.

20 Analysis of geographical and economic sectors of the loan portfolio

(AMD thousand)	2021		2020	
	Loans	Density	Loans	Density
Agriculture	912,494	49.47 %	760,982	53.63 %
Trading	254,812	13.82 %	213,500	15.05 %
Other consumer loans	115,127	6.24 %	131,267	9.25 %
Transportation, storage economy	348,473	18.89 %	151,007	10.64 %
Accommodation and catering	4,651	0.25%	0	

Legal and accounting activities	680	0.04 %	2,423	0.17 %
Construction and renovation	-	-	3,491	0.25 %
Manufacturing	60,939	3.30 %	112,174	7.91 %
Tourism	6,572	0.36 %	8,543	0.60 %
Other branches of the economy	140,640	7.63%	35,556	2.50%
TOTAL	1,844,388	100.00%	1,418,943	100.00%

(AMD thousand)

	2021		2020	
	Loan	Density	Loan	Density
Yerevan	738,917	40.06 %	445,675	31.41 %
Armavir	202,501	10.98 %	210,181	14.81 %
Ararat	203,524	11.03 %	127,785	9.01 %
Aragatsotn	237,715	12.89 %	177,492	12.51 %
Kotayk	141,196	7.66 %	125,832	8.87 %
Vayots_Dzor	138,666	7.52 %	130,058	9.17 %
Gegharkunik	67,898	3.68 %	89,669	6.32 %
Syunik	45,508	2.49 %	67,140	4.73 %
Lori	48,170	2.61 %	33,014	2.33 %
Shirak	19,895	1.08 %	12,097	0.85 %
TOTAL	1,844,388	100.0%	1,418,943	100.0%

The table below summarizes the analysis of loans provided by the types of collateral acquired by the Company as of December 31, 2021 and 2020.

	2021	2020
	Loans to customers, book value	Loans to customers, book value
Real Estate	570,862	513,211
Guarantee	316,375	565,045
Vehicles	363,424	6,394
Other fixed assets	118,555	12,204
Unsecured loans	475,172	322,089
TOTAL	1,844,388	1,418,943

The table below provides information on the quality indicators of the loan portfolio provided to customers as of 31 December 2021 and 31 December 2020 in accordance with IFRS 9.

Loans at amortized cost	2021			2020p		
	Gross	Reserve	Net	Gross	Reserve	Net
Term loans	1,758,197	25,447	1,732,750	1,338,861	56,162	1,282,699
Overdue and impaired loans						
1 to 30 days overdue	18,396	262	18,134	31,669	1,456	30,213
31 to 60 days overdue	13,160	4,357	8,803	2,975	505	2,470
60 to 90 days overdue	7,286	2,412	4,874	21,817	2,867	18,950
91 and more overdue	103,649	23,822	79,827	94,617	10,006	84,611
Total	1,900,688	56,300	1,844,388	1,489,939	70,996	1,418,943

21 Related parties

The parties are considered related if one of them can control the other or have a significant influence on the other in making financial and operational decisions. In terms of the statements submitted, the related parties of the Company are its shareholders, members of the management, as well as other persons and Companies affiliated with them and supervised by them.

The Company carries out transactions with related parties during its activity. During the reporting period, loans were received from related parties, which are presented in Note 14.

Transactions with management

As of December 31, 2021, the total remuneration of managers included in the article "Salary paid to key employees" (note 7) amounted to 10,540 AMD thousand (2020 - 10,200 AMD thousand).

22 Events after the reporting date

No events or transactions occurred after the reporting date that could be significant to the Company's financial position or financial result.

"Agroleasing LCC" LLC

Executive Director:

Aram Mkharryan

Chief Accountant:

Mariam Gazaryan

