Financial Statements and Independent Auditor's Report

“Armenian Card” Closed Joint Stock Company

31 December 2021

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Independent auditor's report

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Երևան Պլազա բիզնես կենտրոն
ՀՀ, ք. Երևան 0015
Գրիգոր Լուսավորչի 9
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich Street,
Yerevan 0015, Republic of Armenia
T + 374 10 50 09 64/61

To the shareholders of "Armenian Card" Closed Joint Stock Company

Opinion

We have audited the financial statements of "Armenian Card" 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

Naira Ulunts
Audit Manager

21 February 2022

Statement of financial position

In thousand drams	Note	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property and equipment	5	1,572,982	1,119,735
Intangible assets	6	602,260	649,067
Investment securities	7	264,479	285,956
Prepayments		7,530	7,530
		2,447,251	2,062,288
Current assets			
Inventories	9	9,856	11,181
Deferred expenses	10	119,458	172,521
Trade and other receivables	11	364,709	295,737
Bank balances	12	215,535	334,214
		709,558	813,653
Total assets		3,156,809	2,875,941

Statement of financial position (continued)

In thousand drams	Note	31 December 2021	31 December 2020
Equity and liabilities			
Capital and reserves			
Share capital	13.1	1,320,000	1,320,000
Reserve capital	13.3	376,968	376,968
Fair value reserve	13.4	202,260	219,870
Accumulated profit		785,478	474,696
		2,684,706	2,391,534
Non-current liabilities			
Lease liabilities	14	111,461	188,270
Grants related to assets	15	8,746	9,302
Deferred income tax liabilities	8	27,742	34,644
		147.949	232,216
Current liabilities			
Trade and other payables	16	204,125	167,901
Lease liabilities	14	76,882	68,773
Current income tax liabilities		43,147	15,517
		324,154	252,191
Total liabilities		472,103	484,407
Total equity and liabilities		3,156,809	2,875,941

The financial statements were approved on 21 February 2022 by:

Ishkhan Mkhitaryan — Executive Director

Hayk Zhamkochyan — 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 10 to 36.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	2021	2020
Revenue	17	3,043,307	2,114,444
Cost of sales	18	(2,415,755)	(1,725,531)
Gross profit		627,552	388,913
Other income	19	22,119	10,109
Distribution expenses		(2,834)	(2,823)
Administrative expenses	20	(211,133)	(195,164)
Loss on disposal of property and equipment and intangible assets		(1,297)	(4,053)
Other expenses		(33,639)	(6,235)
Results from operating activities		400,768	190,747
Finance income	21	14,283	24,225
Finance costs	21	(26,643)	(32,297)
Net gain/(loss) from foreign currency operations		(1,387)	3,761
Profit before income tax		387,021	186,436
Income tax expense	22	(76,239)	(41,044)
Profit for the year		310,782	145,392
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Net gains/(losses) on revaluation of equity instruments at fair value through other comprehensive income		(21,476)	66,379
Income tax relating to items that will be reclassified		3,866	(11,948)
		(17,610)	54,431
Total comprehensive income for the year		293,172	199,823

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 36.

Statement of changes in equity

In thousand drams	Share capital	Reserve capital	Fair value reserve of investment securities	Accumulated profit	Total
as of 1 January 2020	971,448	376,968	165,439	677,856	2,191,711
Profit for the year	-	-	-	145,392	145,392
Other comprehensive income for the year					
Net change in fair value of equity instruments at FVOCI	-	-	66,379	-	66,379
Income tax relating to components of other comprehensive income	-	-	(11,948)	-	(11,948)
Total comprehensive income for the year	-	-	54,431	145,392	199,823
Increase in share capital	348,552	-	-	(348,552)	-
Total transactions with owners	348,552	-	-	(348,552)	-
as of 31 December 2020	1,320,000	376,968	219,870	474,696	2,391,534
Profit for the year	-	-	-	310,782	310,782
Other comprehensive income for the year					
Net change in fair value of equity instruments at FVOCI	-	-	(21,476)	-	(21,476)
Income tax relating to components of other comprehensive income	-	-	3,866	-	3,866
Total comprehensive income for the year	-	-	(17,610)	310,782	293,172
as of 31 December 2021	1,320,000	376,968	202,260	785,478	2,684,706

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 10 to 36.

Statement of cash flows

In thousand drams

	2021	2020
Cash flows from operating activities		
Profit for the year	310,782	145,392
Adjustments for:		
Depreciation and amortization	528,359	417,316
Net loss on disposal of property and equipment	1,297	4,053
Income tax expense	76,239	41,044
Income from grants	(556)	(556)
Net finance costs	12,360	8,072
Foreign exchange loss/(gain)	1,387	(3,761)
Operating profit before working capital changes	929,868	611,560
Change in trade and other receivables	31,005	110,805
Change in inventories	1,325	(5,373)
Change in deferred expenses	53,063	(107,010)
Change in trade and other payables	5,687	35,689
Cash generated from operations	1,020,948	645,671
Income tax paid	(51,645)	(55,870)
Net cash from operating activities	969,303	589,801
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(1,009,688)	(525,461)
Proceeds from sale of property and equipment	4,153	1,809
Interest income from repurchase operations with financial institutions	713	12,321
Dividends received	13,570	11,904
Net cash used in investing activities	(991,252)	(499,427)
Cash flows from financing activities		
Payment of lease liabilities	(93,803)	(93,876)
Repayment of interest on short-term liabilities	(1,540)	-
Net cash used in financing activities	(95,343)	(93,876)
Net decrease in bank balances	(117,292)	(3,502)
Foreign exchange effect on cash	(1,387)	3,761
Bank balances at the beginning of the year	334,214	333,955
Bank balances at the end of the year (note 12)	215,535	334,214

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 10 to 36.

Notes to the financial statements

1 Principal activities

“Armenian Card” CJSC (the “Company”) was established by the Central Bank of Armenia and 10 commercial banks in March 2000 with the goal of establishment and development of a new payment system in the Republic of Armenia.

In the 1990-ies Central Bank of Armenia presented the development project of a unified payment system to United States Agency for International Development (“USAID”). The project was approved by USAID and in 1999 the Memorandum of Intentions was signed between the United States Government and the Central Bank of Armenia.

The Company’s goal is to establish plastic cards unified payment system in the Republic of Armenia, which enables its cardholders to make non-cash payments for goods or services.

The Company presents service package, which enables commercial banks to issue and acquire ArCa Classic, ArCa Gold, ArCa Business, ArCa Affinity, ArCa Co-branded, ArCa Debit, ArCa Platinum cards, using the modern technical, technological and software opportunities of the processing center, as well as the Company's professional assistance.

The Company is involved in:

- Plastic card payment system (hereinafter: «the System») overall administration and management
- Card transactions processing the scope of the System
- Merchant card transactions processing
- Clearing services for system members, ATMs and merchant registration
- Online payment services and safety maintenance through 3D secure technology
- SMS and USSD service for card transactions
- Fraud monitoring and detection
- 24/7 call center
- Online payment services: ArCa Cabinet site and applications
- cards personalization (electronic, graphical and manual), and other

The company is a processing center of ArCa national payment system cards and MasterCard, Visa, American Express, DCI (Diners Club International), МИР and JCB (Japan Credit Bureau) system cards, as well as a full member of MasterCard international payment system.

The shareholders of the Company are the Central Bank of Armenia and RA commercial banks licensed by the Central Bank of Armenia (refer to note 13).

The Company’s registered office is located at 32/1 Garegin Njdeh str., Yerevan, Republic of Armenia. The Company’s actual address is at 15 Movses Khorenatsi str, "Elite Plaza" Business Center, Yerevan, Republic of Armenia.

The average number of employees of the Company during 2021 was 87 (2020: 81).

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.

2020 after the recession, the Armenian economy entered a phase of stable recovery. It is expected that the gradual improvement of the COVID-19 epidemic situation, the ceasefire agreement over disputed territories of Nagorno Karabakh, as well as the expansion of public-private investment will stimulate the growth of 2022.

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Company operates on a going concern basis.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at fair value.

3.3 Functional and presentation currency

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

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

3.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 23 to the financial statements.

3.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2021.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2021

New standards and amendments described below and applied for the first time in 2021 did not have a material impact on the annual 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)

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

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

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

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)*
- *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 Significant accounting policies

4.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date:

In thousand drams	31 December 2021	31 December 2020
AMD/1 US Dollar	480.14	522.59
AMD/1 EUR	542.61	641.11

Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

4.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if they increase future economic benefits from the usage of assets. All other expenditure, including repair and maintenance, is recognized in the statement of profit or loss and other comprehensive income as incurred.

Depreciation is charged to the profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use.

The estimated useful lives are as follows:

Buildings	-	40 years
Computer equipment	-	5 years
Servers	-	7 years
Machinery and equipment	-	8 years
Capital investments in the leased fixed assets	-	4-8 years
Vehicles	-	10 years
Office equipment	-	8 years
Other	-	8 years

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

4.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets.

The estimated useful lives are as follows:

Computer software	-	3-10 years
Licenses and trade marks	-	2-10 years

4.4 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

4.5 Leased assets

The Company makes the use of leasing arrangements principally for the provision of the office space and IT equipment. The rental contracts for offices are typically negotiated for terms from 1 to 10 years and all of these have extension terms. The Company does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions.

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 11.1%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the statement of financial position. 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.

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 recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in the line of property and equipment.

4.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

4.7 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs.

Financial assets are classified into the following categories:

- amortized cost
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Company's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or directly in other comprehensive income and credited to the equity. Refer to note 24 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognised in profit or loss are presented within “finance costs”, “finance income”.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's bank balances, trade and most other receivables fall into this category of financial instruments.

Equity instruments designated as at comprehensive income

On an initial recognition of an equity investment the Company irrevocably select to present subsequent changes in fair value in OCI.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and other payables. A summary of the Company's financial liabilities by category is given in note 24.

Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

4.8 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

Share capital represents the nominal value of shares that have been issued.

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

Accumulated earnings include all current and prior period retained profits.

Dividends are recognized as a liability in the period in which they are declared.

4.9 Grants

Grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

4.10 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4.11 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Company has no realistic alternative but to make the payments.

4.12 Revenue recognition

Revenue arises mainly from the from payment and settlement services.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised services to its customers.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as advances from customers in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Wire transfer services

Revenue arises from commissions paid by banks against the wire transfer services.

Wire transfer services mainly include:

- Cash advance via ATMs,
- Payments in sale/service points for purchasing goods or services via POS,
- Utility payments via ATMs,
- Electronic payments via internet,
- Balance information,
- E-Commerce,
- Card to card money transfer and other.

Embossing and encoding of issued cards

Revenue from embossing and encoding of cards issued by banks in “ArCa” payment system is recognized when the transaction is actually performed.

Annual membership fees

Revenue is recognized on an annual basis from annual membership fees paid by the member banks of “ArCa” payment system for rendered services as well as for issuing and servicing of cards.

Dividend and interest income

Dividend revenue is recognized when the shareholder’s right to receive payment has been established.

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

4.13 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements sheet 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.

4.14 Bank balances

For the purpose of the statement of cash flows, bank balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank balances are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as a bank balances if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

4.15 Repurchase and reverse repurchase agreements

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

The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are not recognized in the statement of financial position and paid amounts are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

5 Property and equipment

In thousand drams	Land and building	Computer equipment	Machinery and equipment	Vehicles	Capital investments in the leased fixed assets	Other	Right-of-use asset Office premises	Total
Cost								
as of 1 January 2020	94,213	694,723	877,397	19,592	10,998	70,918	373,732	2,141,573
Additions	-	19,377	166,520	-	-	2,806	-	188,703
Disposals	-	-	(15,758)	-	-	(1,227)	-	(16,985)
as of 31 December 2020	94,213	714,100	1,028,159	19,592	10,998	72,497	373,732	2,313,291
Additions	-	698,465	143,497	-	3,531	5,422	-	850,915
Disposals	-	(902)	(18,737)	-	-	(3,845)	-	(23,484)
as of 31 December 2021	94,213	1,411,663	1,152,919	19,592	14,529	74,074	373,732	3,140,722
Accumulated depreciation								
as of 1 January 2020	41,426	287,251	445,863	8,436	5,254	49,947	70,789	908,966
Charge for the year	1,839	93,034	120,730	1,957	1,319	6,045	70,789	295,713
Eliminated on disposal	-	-	(9,896)	-	-	(1,227)	-	(11,123)
as of 31 December 2020	43,265	380,285	556,697	10,393	6,573	54,765	141,578	1,193,556
Charge for the year	1,837	161,241	148,773	1,956	1,678	6,085	70,790	392,360
Eliminated on disposal	-	(555)	(14,046)	-	-	(3,575)	-	(18,176)
as of 31 December 2021	45,102	540,971	691,424	12,349	8,251	57,275	212,368	1,567,740
Carrying amount								
as of 31 December 2020	50,948	333,815	471,462	9,199	4,425	17,732	232,154	1,119,735
as of 31 December 2021	49,111	870,692	461,495	7,243	6,278	16,799	161,364	1,572,982

The Company does not have any pledged fixed assets at reporting date.

As of 31 December 2021 property and equipment included fully depreciated assets at cost of AMD 283,232 thousand (2020: AMD 254,268 thousand).

As of 31 December 2021 there are not fixed assets not yet in use (2020: AMD 714 thousand).

Depreciation expense has been charged to:

In thousand drams	2021	2020
Cost of sales	376,737	280,089
Administrative expenses	15,623	15,624
	392,360	295,713

6 Intangible assets

In thousand drams	Computer software	Licenses and trade marks	Total
Cost			
as of 1 January 2020	747,189	478,320	1,225,509
Additions	112,172	138,867	251,039
Disposals	-	(197)	(197)
as of 31 December 2020	859,361	616,990	1,476,351
Additions	89,333	-	89,333
Disposals	(15)	(189)	(204)
as of 31 December 2021	948,679	616,801	1,565,480
Accumulated amortization			
as of 1 January 2020	421,876	284,003	705,879
Charge for the year	71,233	50,369	121,602
Eliminated on disposal	-	(197)	(197)
as of 31 December 2020	493,109	334,175	827,284
Charge for the year	84,581	51,417	135,998
Eliminated on disposal	(15)	(47)	(62)
as of 31 December 2021	577,675	385,545	963,220
Carrying amount			
as of 31 December 2020	366,252	282,815	649,067
as of 31 December 2021	371,004	231,256	602,260

Amortization expense has been charged to:

In thousand drams	2021	2020
Cost of sales	135,952	121,546
Administrative expenses	46	56
	135,998	121,602

As of 31 December 2021 intangible assets included fully depreciated intangible assets in amount of AMD 295,184 thousand (2020: AMD 235,799 thousand).

7 Investment securities

In thousand drams	31 December 2021	31 December 2020
Investment securities designated as at FVOCI – equity investments	264,479	285,956
Total investment securities	264,479	285,956

Equity instruments comprise 15,330 shares of MasterCard Incorporated which belong to the Company.

8 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2021	2020
Balance at the beginning of year	(34,644)	(26,813)
Charged to profit or loss (refer to note 22)	3,036	4,117
Charged in other comprehensive income	3,866	(11,948)
Balance at the end of year	(27,742)	(34,644)

Deferred income taxes for the year ended 31 December 2021 can be summarized as follows:

In thousand drams	1 January 2021	Recognized in other comprehensive income	Recognized in profit or loss	31 December 2021
Right-of-use assets	(41,788)	-	12,742	(29,046)
Investment securities	(48,264)	3,866	-	(44,398)
Lease liabilities	46,268	-	(12,366)	33,902
Trade and other payables	9,140	-	2,660	11,800
Net position – deferred income tax liabilities	(34,644)	3,866	3,036	(27,742)

Deferred income taxes for the year ended 31 December 2020 can be summarized as follows:

In thousand drams	1 January 2020	Recognized in other comprehensive income	Recognized in profit or loss	31 December 2019
Right-of-use asset	(54,530)	-	12,742	(41,788)
Investment securities	(36,316)	(11,948)	-	(48,264)
Lease liabilities	57,352	-	(11,084)	46,268
Trade and other payables	6,681	-	2,459	9,140
Net position – deferred income tax liabilities	(26,813)	(11,948)	4,117	(34,644)

Deferred tax assets are subject to compensation within 12 months.

The amounts recognized in other comprehensive income relate to the fair value adjustment of available for sale investments.

9 Inventories

In thousand drams	31 December 2021	31 December 2020
Raw materials	5,184	4,213
Products	4,672	6,968
Total inventories	9,856	11,181

The cost of inventories recognized as an expense during the year is AMD 15,651 thousand (2020: AMD 24,542 thousand).

Inventories are expected to be recovered after more than twelve months. None of the inventories are pledged.

10 Deferred expenses

Deferred expenses include expenses for payment system software support and maintenance and other expenses, which do not relate to the reporting period with a term up to one year. These are expensed in the period to which they relate.

11 Trade and other receivables

In thousand drams	31 December 2021	31 December 2020
Financial assets		
Trade receivables	196,813	128,202
	196,813	128,202
Non-financial assets		
Receivables from the State budget	22,479	421
Prepayments	142,474	166,007
Other receivables	2,943	1,107
	167,896	167,535
Total trade and other receivables	364,709	295,737

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Advances and prepayments include AMD 99,977 thousand prepaid amount for acquisition of property and equipment and intangible assets for the year ended 31 December 2021 (2020: AMD 98,538 thousand).

The average period on trade receivables from servicing is 23 days (2020: 20 days). No interest is charged on the trade receivables. The Company provides fully for all receivables that are past due beyond 90 days because historical experience is that receivables that are past due beyond 90 days are generally not recoverable. Trade receivables are provided based on estimated irrecoverable amounts from the sale of goods and/or services, determined by reference to past default experience.

Management believes that the receivables from the State budget are fully recoverable.

In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date. The recoverability of risk concentration is limited due to the customer range being large and unrelated. Accordingly, the Management believes that there are no doubtful receivables as of 31 December 2021 and 2020.

The ECLs relating to trade and other recievables here rounds to zero and therefore, have not been disclosed here.

12 Bank balances

In thousand drams	31 December 2021	31 December 2020
Accounts in the CBA	44,086	111,110
Commercial banks accounts	171,449	223,104
Total bank balances	215,535	334,214

The ECLs relating to Company balances here rounds to zero, that's why it's not disclosed here.

Refer to note 25 for the currencies in which the bank balances are denominated.

13 Capital and reserves

13.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2021	Ordinary shares 2020
Issued and fully paid		
80 ordinary shares of drams 16,500 thousand each	1,320,000	1,320,000
Total share capital in thousand dram	1,320,000	1,320,000

The Company has one class of ordinary shares, which carry no right to fixed income.

N		Shares quantity	%
1	Central Bank of Armenia	45	56.25
2	"Acba-Credit Agricole Bank" CJSC	5	6.25
3	“Armeconombank” OJSC	5	6.25
4	“Araratbank” OJSC	5	6.25
5	“Converse Bank” CJSC	4	5
6	“ARDSHINBANK” CJSC	4	5
7	"Ameriabank" CJSC	3	3.75
8	“Artsakhbank” CJSC	1	1.25
9	“Armbusinessbank” CJSC	1	1.25
10	“HSBC Bank Armenia” CJSC	1	1.25
11	“Inecobank” CJSC	1	1.25
12	“Unibank” OJSC	1	1.25
13	“ID Bank” CJSC	1	1.25
14	“Evocabank” CJSC	1	1.25
15	“Byblos Bank Armenia” CJSC	1	1.25
16	“Armswissbank” CJSC	1	1.25
		80	100

13.2 Dividends

In 2021 dividends have not been paid to holders of ordinary shares (2020: either).

13.3 Reserve capital

The Company creates reserve funds. The Company’s reserve fund is replenished by not less than 15% through the distribution of profit of the reporting period. Means of the reserve fund are used by the regulation and purposes defined by the law.

13.4 Fair value reserve

The revaluation reserve arises on the profit and loss from the fair value changes of equity securities measured at FVOCI which is transferred to the equity until the disposal of financial assets, where the balance of the revaluation reserve is transferred to the retained earnings.

14 Leases

Lease liabilities are presented in the statement of financial position as follows:

In thousand drams	31 December 2021	31 December 2020
Current	76,882	68,773
Non-current	111,461	188,270
	188,343	257,043

The Company has leases for the office premises. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company's leases do not contain variable lease payments. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 5).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized on balance sheet:

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with variable payment linked to an index	Number of leases with termination options
Office premises	4	2.25-6.00 years	3.20	4	-	-	-

The lease liabilities are secured by the related underlying assets. Future minimum undiscounted lease payments as of 31 December 2021 and 31 December 2020 were as follows:

In thousand drams	Minimum lease payments	
	31 December 2021	31 December 2020
Within one year		
Lease payments	76,882	68,773
Finance charges	17,068	25,103
	93,950	93,876
In second to fifth years inclusive		
Lease payments	110,625	186,013
Finance charges	9,162	25,874
	119,787	211,887
After five years		
Lease payments	836	2,257
Finance charges	52	407
	888	2,664
Total lease payments	214,625	308,427

Lease payments not recognized as a liability

The Company has elected not to recognize a lease liability for short term-leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

In thousand drams	31 December 2021	31 December 2020
Short-term leases	3,150	3,150
	3,150	3,150

Additional information on the right-of-use assets is disclosed in note 4.5.

15 Grants related to assets

In thousand drams	31 December 2021	31 December 2020
Balance at the beginning of the year	9,302	9,858
Recognized as other income	(556)	(556)
Balance at the end of the year	8,746	9,302

16 Trade and other payables

In thousand drams	31 December 2021	31 December 2020
Financial liabilities		
Trade payables	91,552	71,854
Liabilities on personnel	65,555	50,795
	157,107	122,649
Non-financial liabilities		
Advances received	-	7,500
Taxes and duties payable	47,018	37,752
	47,018	45,252
	204,125	167,901

As of 31 December 2021 advances include annual membership fees paid by the member banks of the “ArCa” payment system.

Trade payables includes AMD 30,537 thousand payable amount for acquired intangible assets for the year ended 31 December 2021 (2020: AMD 43,636 thousand).

No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

17 Revenue

In thousand drams	2021	2020
Revenue from cash advance via ATMs and POS terminals	903,971	761,640
Revenue form servicing of ATMs and POS terminals	434,572	284,227
Revenue from embossing and encoding of cards	39,514	52,754
Revenue from annual membership fees	39,500	39,500
Revenue from maintenance of data base and service centers	143,793	131,826
Revenue from international transactions and maintenance of international card database	591,992	375,644
Revenue from SMS services	748,725	396,186
Other	141,240	72,667
	3,043,307	2,114,444

18 Cost of sales

In thousand drams	2021	2020
Employee compensations	799,526	652,277
Depreciation and amortization	512,690	401,636
Wire transfer software maintenance expenses	345,871	248,089
Material expenses	15,337	23,194
Consulting expenses	7,200	10,711
Communication expenses	669,223	346,676
Utility costs	11,810	9,951
Operating lease expenses	3,150	3,150
Fixed assets maintenance	15,793	23,479
Business trip expenses	797	195
Training expenses	4,474	571
Other	29,884	5,602
	2,415,755	1,725,531

19 Other income

In thousand Armenian drams	2021	2020
Income from sale of products	441	-
Income from asset-related grants	556	556
Other operating income	21,122	9,553
Total other income	22,119	10,109

20 Administrative expenses

In thousand drams	2021	2020
Employee compensations	148,935	134,407
Depreciation and amortization	15,669	15,680
Communication expenses	2,324	2,257
Stamp duty	-	15,255
Fixed assets maintenance	2,160	1,740
Consulting services	7,860	7,840
Taxes, other than income tax, duties	23,911	5,432
Charity expenses	-	4,255
Other	10,274	8,298
	211,133	195,164

21 Finance income and costs

In thousand drams	2021	2020
Interest income from repurchase operations with financial institutions	713	12,321
Dividend income	13,570	11,904
Total finance income	14,283	24,225
Interest expenses for leasing arrangements	(25,103)	(32,297)
Interest expenses for borrowings	(1,540)	-
Total finance costs	(26,643)	(32,297)
Net finance costs	(12,360)	(8,072)

22 Income tax expense

In thousand drams	2021	2020
Current tax	79,275	45,161
Deferred tax (refer to note 8)	(3,036)	(4,117)
	76,239	41,044

Reconciliation of effective tax rate is as follows:

In thousand drams	2021	Effective tax rate (%)	2020	Effective tax rate (%)
Profit before taxation (under IFRSs)	387,021		186,436	
Tax calculated at a tax rate of 18%	69,664	18	33,558	18
Foreign exchange (gains)/losses	250	-	(677)	-
Non-deductible items	6,325	2	8,163	4
Income tax expense	76,239	20	41,044	22

23 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

23.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Impairment of property and equipment and intangible assets

At each reporting date the Company estimates the indicators for impairment of assets. The Company calculates the recoverable amount if the impairment indicators are available. Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

In assessing whether there is any indication that an asset may be impaired, management makes certain estimations, including particularly the reason, timing and amount of impairment. Impairment depends on certain factors, including particularly technological changes (that can have an impact on the carrying amount of intangible assets) failure to continue providing services (which may result to termination of the license and consequently impairment of intangible assets).

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.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in tax environment.

24 Financial instruments

24.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4.7.

24.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	31 December 2021	31 December 2020
Financial assets at fair value through other comprehensive income (FVOCI)		
Investment securities	264,479	285,956
Amortised cost		
Trade and other receivables	196,813	128,202
Bank balances	215,535	334,214
	676,827	748,372

Financial liabilities

In thousand drams	31 December 2021	31 December 2020
Financial liabilities carried at amortized cost		
Trade and other payables	157,107	122,649
Lease liabilities	188,343	257,043
	345,450	379,692

25 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) *Market risk*

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, which result from both its operating and investing activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Foreign currency denominated financial assets which expose the Company to currency risk are disclosed below. The Company does not possess foreign currency denominated financial assets:

Item **As of 31 December 2021**	**US dollar**	**Euro**
Financial assets		
Bank balances	26,049	-
Investment securities	264,479	-
Total financial assets	290,528	-

Item **As of 31 December 2020**	**US dollar**	**Euro**
Financial assets		
Bank balances	5,997	-
Investment securities	285,956	-
Total financial assets	291,953	-

The following table details the Company's sensitivity to a 10% (2020: 10%) increase and decrease in dram against US dollar and Euro. 10% (2020: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2020: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 10% (2020: 10%) then this would have had the following impact:

In thousand drams	**US dollar impact**		**Euro impact**	
	2021	**2020**	**2021**	**2020**
Profit or loss	29,053	29,195	-	-
Equity	29,053	29,195	-	-

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

b) Interest rate risk

The Company is not exposed to interest rate risk as it does not have interest-bearing borrowing funds.

c) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable, bank balances and investment securities. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	**31 December 2021**	**31 December 2020**
Financial assets at carrying amounts		
Investment securities	264,479	285,956
Trade and other receivables	196,813	128,202
Bank balances	215,535	334,214
	676,827	748,372

Management believes that there is no credit risk related to financial assets.

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables. As of 31 December 2021 and 31 December 2020 the Company had no overdue receivables and thus had not made provisions in respect of them.

d) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient bank balances, for making all operational and debt service related payments when those become due.

All financial liabilities are payable within 1 month, except for the lease liabilities. The undiscounted maturity analysis of lease liabilities as of 31 December 2021 is presented in note 14.

26 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.1 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 drams	31 December 2021				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Trade and other receivables	-	196,813	-	196,813	196,813
Bank balances	-	215,535	-	215,535	215,535
Financial liabilities					
Trade and other payables	-	157,107	-	157,107	157,107
Lease liabilities	-	188,343	-	188,343	188,343

In thousand drams	31 December 2020				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Trade and other receivables	-	128,202	-	128,202	128,202
Bank balances	-	334,214	-	334,214	334,214
Financial liabilities					
Trade and other payables	-	122,649	-	122,649	122,649
Lease liabilities	-	257,043	-	257,043	257,043

Trade and other receivables and payables

The fair value of trade and other receivables and payables is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of amounts on demand is the amount payable at the reporting date.

Bank balances

Bank balances are carried at amortised cost. Carrying amount of bank balances is close to their fair value.

26.2 Financial instruments that are measured at fair value

In thousand drams					31 December 2021
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Listed equity investments	264,479	-	-	264,479	264,479

In thousand drams					31 December 2020
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Listed equity investments	285,956	-	-	285,956	285,956

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Listed equity investments.

Listed equity investments represent investments in the shares of MasterCard Incorporated.

27 Offsetting of financial assets and financial liabilities

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

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

In thousand drams						31 December 2021
	Amounts offset			Amounts not offset		
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments not recognized in the statement of financial position	Cash collateral received	Net
Financial assets						
Amounts due from other financial institutions	2,744,592	2,744,592	-	-	-	-

In thousand drams						31 December 2020
	Amounts offset			Amounts not offset		
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments not recognized in the statement of financial position	Cash collateral received	Net
Financial assets						
Amounts due from other financial institutions	2,887,301	2,887,301	-	-	-	-

Insurance deposit

The associated banks of MasterCard have deposited insurance fees as a guarantee for transactions performed in the MasterCard payment system through the cards issued by the respective bank. The Company collects the deposited amounts and distributes the deposit income to the commercial banks. The deposit account was opened by the name of the Company, but this account as well as its related liability have not been included in the Company’s financial statements, since the risks and rewards of the deposits belong to the MasterCard and the commercial banks. As of 31 December 2021 the deposits amount to AMD 887,212 thousand (2020: AMD 953,459 thousand).

Banking (processing) account

Payments (routing and processing) for transactions made through the “ArCa” and “MasterCard” cards are performed through the bank account opened in the “HSBC Bank Armenia” CJSC on the name of the Company. However, the balance on this bank account as well as liability have not been included in the financial statements of the Company, since the risks and rewards do not belong to the Company. As of 31 December 2021 the account balance amount to AMD 1,857,380 thousand (2020: AMD 1,933,842 thousand).

Reimbursements

Commercial banks provide reimbursements to the Company, including MasterCard full and annual fees, software maintenance fees, etc. The Company serves as an agent for making those payments. In fact, the Company is an intermediary between the commercial banks, MasterCard and other organizations. Based on the above, expenses and income on recoverable amounts are not included in the Company's statement of profit or loss and other comprehensive income. During 2021 the reimbursement amounted to AMD 2,145,965 thousand (2020: AMD 1,440,962 thousand), which was not reflected in the statement of profit or loss and other comprehensive income of the Company.

28 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	2021		2020	
	Lease liabilities	**Total**	**Lease liabilities**	**Total**
As of 1 January	257,043	257,043	318,622	318,622
Cash-flows				
Repayments	(93,803)	(93,803)	(93,876)	(93,876)
Non cash flows				
Accretion of interest	25,103	25,103	32,297	32,297
As of 31 December	188,343	188,343	257,043	257,043

29 Commitments

29.1 Contingent liabilities on intangible assets

As of 31 December 2021 the Company have contractual commitments in respect of property, equipment and intangible assets at the amount of AMD 30,537 thousand (2020: AMD 43,636 thousand).

30 Contingencies

30.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company’s operations and financial position.

30.2 Taxes

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.

31 Related parties

The Company's related parties include its shareholders, key management and others.

31.1 Control relationships

the Central Bank of the Republic of Armenia, which owns 56.25% of the Company’s shares and which is the ultimate controlling party of the Company.

31.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances and income.

In thousand drams

Statement of profit or loss and other comprehensive income	2021	2020
Parent company and shareholders		
Revenue from provision of services	2,948,139	2,110,944
Other income	2,837	2,885
Interest income	713	12,321
	2,951,689	2,126,150

In thousand drams

Outstanding balances	31 December 2021	31 December 2020
Parent company and shareholders		
Trade and other receivables	193,837	128,077
Bank balances	215,536	334,214
Trade and other payables	190	184
Advances received	-	7,500

31.3 Transactions with management and close family members

Directors of the Company and their close family members as of 31 December 2021 and 31 December 2020 had no significant participation in the charter capital of the Company.

Key management received the following remuneration during the year, which is included in employee benefits.

In thousand drams	2021	2020
Salaries and bonuses	112,750	96,688