ArmSwissBank CJSC

Financial statements

Year ended 31 December 2023
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
ArmSwissBank Closed Joint-Stock Company

Opinion

We have audited the financial statements of ArmSwissBank Closed Joint-Stock Company (hereinafter, "the Bank") which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and 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 Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed this matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Allowance for impairment of loans and advances to customers</td></tr>
<tr><td>Allowance for impairment of loans and advances to customers is a key audit matter due to both the significance of loans and advances to customers and the complexity and judgements related to the estimation of expected credit losses ("ECL") under IFRS 9 Financial Instruments ("IFRS 9").

The calculation of ECL on a portfolio basis involves estimation techniques that use complex statistical modelling and expert judgment. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data, which is adjusted for forward looking information, including forecast of macroeconomic parameters. ECL on a portfolio basis are highly impacted by assessment of whether a significant increase in credit risk has occurred since initial recognition. This assessment is primarily based on the following criteria – days past due (including borrower's overdue exposures in other financial institutions) and renegotiation of loan terms due to deterioration of financial position of the borrower.

The calculation of ECL for significant credit-impaired financial assets on an individual basis requires assessment of estimated future cash flows from the realization of collateral and other sources.

The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have a material effect on the financial results of the Bank.

Information on the allowance for impairment of loans and advances to customers is included in Note 9 "Loans and advances to customers" and Note 30 "Risk management" to the financial statements.</td><td>We focused our audit on the following:
▶ Analysis of credit risk models and assumptions used to determine ECL on a portfolio basis;
▶ Testing controls over the Bank's process for identification of significant increase in credit risk;
▶ Testing the ECL for significant credit-impaired loans and advances to customers on an individual basis.

To test the allowance calculated on a portfolio basis, with the support of our internal specialists, we analyzed underlying statistical models, key inputs and assumptions used and forward-looking information incorporated in the calculation of ECL, including updated forecast of macroeconomic parameters. We tested key statistical data underlying credit risk factors calculation, such as loans' overdue days, market value and types of collaterals pledged under these loans, which are considered for calculation of loss given default. We also tested the design and operating effectiveness of the key controls over the process for identification of significant increase in credit risk and assessed the consistency of application of the criteria selected by management to identify significant increase in credit risk as at the reporting date.

For significant credit-impaired exposures, we tested the calculation of estimated future cash flows from sale of collateral and other sources.

We also analysed the financial statements' disclosures of the Bank's exposure to credit risk.</td></tr>
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Other information included in the Bank's 2023 Annual Report

Other information consists of the information included in the Bank's 2023 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Bank'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 Bank's internal control.

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- 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 Bank'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 Bank 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 the Supervisory Board 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.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Eric Hayrapetyan.

Ernst & Young CJSC
Yerevan, Armenia

General Director
Partner (Assurance) Eric Hayrapetyan

Responsible Auditor Yelena Adamyan

April 30, 2024

Statement of financial position

As of 31 December 2023

(thousands of Armenian drams)

	Notes	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	6	23,499,645	28,552,473
Derivative financial assets	8	9,262	26,252
Amounts due from credit institutions	7	12,266,393	7,449,029
Loans and advances to customers	9	171,176,527	125,003,048
Investment securities	10	122,468,152	133,432,483
Investment securities pledged under repurchase agreements	10	88,595,879	78,718,547
Property and equipment and right-of-use assets	11	2,056,184	2,020,076
Intangible assets	12	111,222	82,402
Repossessed assets	13	872,185	1,175,804
Prepayments on income tax		45,526	–
Deferred tax assets	14	1,822,121	4,178,389
Other assets	16	6,267,006	4,533,679
Total assets		**429,190,102**	**385,172,182**
Liabilities			
Amounts due to banks	17	91,826,669	80,803,726
Derivative financial liabilities	8	29,556	29,108
Amounts due to customers	18	160,775,017	129,536,044
Debt securities issued	19	55,022,320	52,408,743
Other borrowed funds	20	28,493,452	34,778,666
Current income tax liabilities		–	186,533
Other liabilities	16	1,826,542	2,210,310
Subordinated loans	21	32,161,126	34,484,130
Total liabilities		**370,134,682**	**334,437,260**
Equity	22		
Share capital		10,000,200	10,000,200
Share premium		6,205,548	6,205,548
Statutory general reserve		40,000,000	35,000,000
Retained earnings		11,705,333	16,755,005
Revaluation reserve for investment securities		(10,414,429)	(18,784,599)
Revaluation reserve of property		1,558,768	1,558,768
Total equity		**59,055,420**	**50,734,922**
Total equity and liabilities		**429,190,102**	**385,172,182**

Signed and authorised for release on behalf of the Management Board of the Bank.

Gevorg Machanyan — Chief Executive Officer

Sedrak Baghdasaryan — Chief Accountant

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ARMSWISSBANK
02574955

April 30, 2024

The accompanying notes 1 to 37 form an integral part of these financial statements.

Statement of profit or loss

For the year ended 31 December 2023

(thousands of Armenian drams)

	Notes	*2023*	*2022*
Interest income calculated using effective interest rate	24	36,979,006	33,775,065
Other interest income	24	622,967	337,003
Interest expense	24	(28,014,222)	(26,168,283)
Net interest income	24	**9,587,751**	**7,943,785**
Credit loss recovery	15	1,220,453	3,137,574
Net interest income after credit loss recovery		**10,808,204**	**11,081,359**
Fee and commission income	25	862,895	504,994
Fee and commission expense	25	(220,956)	(184,766)
Net trading income	26	1,104,024	1,547,990
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		138,915	20,943
Net loss on derecognition of financial assets at amortized cost	27	(8,309,288)	–
Net losses from foreign currency translation		(94,089)	(927,915)
Other income	28	429,852	316,966
Non-interest income		**(6,088,647)**	**1,278,212**
Personnel expenses	29	(2,164,124)	(1,919,187)
Depreciation of property and equipment	11	(221,269)	(179,770)
Amortization of intangible assets	12	(33,068)	(28,373)
Other expenses	29	(668,732)	(634,776)
Other impairments expense	15	(15,182)	(667,845)
Non-interest expense		**(3,102,375)**	**(3,429,951)**
Profit before income tax expense		**1,617,182**	**8,929,620**
Income tax expense	14	(1,666,854)	(1,729,905)
(Loss)/profit for the year		**(49,672)**	**7,199,715**

The accompanying notes 1 to 37 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2023

(thousands of Armenian drams)

	Notes	*2023*	*2022*
(Loss)/profit for the year		**(49,672)**	**7,199,715**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Property revaluation	11	–	517,152
Income tax relating to components of other comprehensive income	14	–	(93,087)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**424,065**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income		10,136,294	(18,932,920)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		71,230	(525,377)
Income tax relating to components of other comprehensive income	14	(1,837,354)	3,502,493
Net other comprehensive profit/(loss) to be reclassified to profit or loss in subsequent periods		**8,370,170**	**(15,955,804)**
Other comprehensive profit/(loss) for the year, net of tax		**8,370,170**	**(15,531,739)**
Total comprehensive profit/(loss) for the year		**8,320,498**	**(8,332,024)**

The accompanying notes 1 to 37 form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for investment securities*	*Revaluation reserve of property*	*Retained earnings*	*Total equity*
1 January 2022	**10,000,200**	**6,205,548**	**30,000,000**	**(2,828,795)**	**1,134,703**	**14,555,290**	**59,066,946**
Profit for the year	–	–	–	–	–	7,199,715	**7,199,715**
Other comprehensive income for the year							
Net change in fair value of investment securities at FVOCI	–	–	–	(18,849,853)	–	–	**(18,849,853)**
Net gain reclassified to profit or loss on sale of investment securities at FVOCI	–	–	–	(83,067)	–	–	**(83,067)**
Revaluation of PPE	–	–	–	–	517,152	–	**517,152**
Net changes in allowance for expected credit losses of investment securities at FVOCI	–	–	–	(525,377)	–	–	**(525,377)**
Income tax relating to components of other comprehensive income	–	–	–	3,502,493	(93,087)	–	**3,409,406**
Total comprehensive income for the year	**–**	**–**	**–**	**(15,955,804)**	**424,065**	**–**	**(15,531,739)**
Distribution to reserve	–	–	5,000,000	–	–	**(5,000,000)**	**–**
Total transaction with owners	**–**	**–**	**5,000,000**	**–**	**–**	**(5,000,000)**	**–**
31 December 2022	**10,000,200**	**6,205,548**	**35,000,000**	**(18,784,599)**	**1,558,768**	**16,755,005**	**50,734,922**
Loss for the year	–	–	–	–	–	(49,672)	**(49,672)**
Other comprehensive income for the year							
Net change in fair value of investment securities at FVOCI	–	–	–	10,070,620	–	–	**10,070,620**
Net gain reclassified to profit or loss on sale of investment securities at FVOCI	–	–	–	65,674	–	–	**65,674**
Net changes in allowance for expected credit losses of investment securities at FVOCI	–	–	–	71,230	–	–	**71,230**
Income tax relating to components of other comprehensive income	–	–	–	(1,837,354)	–	–	**(1,837,354)**
Total comprehensive income for the year	**–**	**–**	**–**	**8,370,170**	**–**	**–**	**8,370,170**
Distribution to reserve	–	–	5,000,000	–	–	**(5,000,000)**	**–**
Total transaction with owners	**–**	**–**	**5,000,000**	**–**	**–**	**(5,000,000)**	**–**
31 December 2023	**10,000,200**	**6,205,548**	**40,000,000**	**(10,414,429)**	**1,558,768**	**11,705,333**	**59,055,420**

The accompanying notes 1 to 37 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

(thousands of Armenian drams)

	Notes	*2023*	*2022*
Cash flows from operating activities			
Profit before tax		1,617,182	8,929,620
Adjustments for:			
Impairment recovery of financial assets	15	(1,220,453)	(3,137,574)
Other impairments	15	15,182	667,845
Amortization and depreciation allowances	11,12	254,337	208,143
Interest receivable		(346,654)	(677,601)
Interest payable		93,287	808,288
Net income from disposal of property and equipment		–	(275)
Net gain from disposal of repossessed assets	28	(30,275)	(36,739)
Foreign currency translation net loss		94,089	927,915
Net loss from revaluation of precious metals		1,361	109,447
Net loss/(gain) from changes in fair value of derivatives		17,438	(26,262)
Cash flows from operating activities before changes in operating assets and liabilities		**495,494**	**7,772,807**
(Increase)/decrease in operating assets			
Amounts due from credit institutions		(4,568,119)	(6,034,565)
Loans and advances to customers		(42,155,813)	(17,665,892)
Repossessed assets		388,043	111,756
Other assets		(1,708,913)	(321,326)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		10,627,960	(3,769,403)
Amounts due to customers		29,047,006	2,429,171
Other liabilities		(466,687)	72,269
Net cash flows used in operating activities before income tax		**(8,341,029)**	**(17,405,183)**
Income tax paid		(1,379,997)	(1,859,608)
Net cash used in operating activities		**(9,721,026)**	**(19,264,791)**
Cash flows from investing activities			
Purchase of investment securities		(42,748,549)	(63,358,002)
Proceeds from sale and redemption of investment securities		54,365,884	71,267,487
Prepayments for the acquisition of property and equipment		–	(788,000)
Purchase of property and equipment	11	(257,376)	(45,271)
Sale of property and equipment		–	275
Purchase of intangible assets	12	(61,888)	(32,082)
Net cash from investing activities		**11,298,071**	**7,044,407**
Cash flows from financing activities			
Proceeds from other borrowed funds	36	5,055,714	19,042,056
Repayment of other borrowed funds	36	(11,343,494)	(13,760,849)
Proceeds from debt securities issued	36	13,014,650	–
Redemption of debt securities issued	36	(11,451,670)	–
Proceeds from subordinated debt	36	8,000,000	12,000,000
Repayment of subordinated debt	36	(10,326,129)	–
Repayment of lease liabilities	36	(92,640)	(61,885)
Net cash (used in)/from financing activities		**(7,143,569)**	**17,219,322**
Effect of exchange rates changes on cash and cash equivalents		529,291	(3,765,492)
Effect of expected credit losses on cash and cash equivalents	6	(15,596)	(11,152)
Net (decrease)/increase in cash and cash equivalents		**(5,052,829)**	**1,222,294**
Cash and cash equivalents at the beginning of the year	6	28,552,473	27,330,179
Cash and cash equivalents at the end of the year	**6**	**23,499,644**	**28,552,473**

(thousands of Armenian drams)

1. Principal activities

a) Organisation and operations

ArmSwissBank CJSC (the "Bank") was formed on 2004 as a closed joint stock company under the laws of the Republic of Armenia. The Bank operates under a general banking license issued by the Central Bank of Armenia ("CBA") on 07 October 2004 and conducts its business under license number 84.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia. The Bank is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered legal address is 10 V. Sargsyan str., Yerevan, 0010, Republic of Armenia.

As of 31 December 2023, the number of Bank's employees is 158 (31 December 2022: 146).

As of 31 December 2023, the shareholders of the Bank are:

Shareholder	***31 December 2023, %***	***31 December 2022, %***
"HVS Holding" GmbH	87.53	87.53
"FMTM Distribution" LTD	12.47	12.47
Total	**100.00**	**100.00**

The Bank is ultimately controlled by Vartan Sirmakes.

b) Armenian business environment

The Company's operations are primarily located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories has led to a social unrest in Armenia. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment.

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

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, FVOCI securities, derivative financial instruments and buildings have been measured at fair value.

(thousands of Armenian drams)

2. Basis of preparation (continued)

Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional and presentation currency is Armenian dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3. Summary of accounting policies

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. With exception of amendments to IAS 1 and IFRS Practice Statement 2 as disclosed in this Note, no other standard or amendment affected the Company's financial statements:

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

Other than the exceptions outlined below, the Company has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

As part of this determination, the Company assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Company has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17.

For loan contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts. This choice is made at a portfolio level and is irrevocable. The Company has made an irrevocable choice to apply IFRS 9 to each portfolio of these products.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Company's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Company's financial statements.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

New and amended standards and interpretations(continued)

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

a) Quantitative information such as:
   - An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
   - An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Company has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Company has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Company's financial statements at 31 December 2023.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. The amendments are not expected to have a material effect on the Company's financial statements:

- *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;*
- *Amendments* to IAS 1: Classification of Liabilities as Current or Non-current;
- *Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7.*

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets such as buildings, at fair value at each balance sheet date.

Fair value is 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Fair value measurement

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Amounts due from credit institutions, loans and advances to customers, investments securities at amortised cost

The Bank only measures amounts due from credit institutions, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Performance guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and an ECL provision.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2023.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on correspondent accounts of Central Bank of Armenia (excluded those funds deposited for the settlement of ArCa payment cards), excluding obligatory reserves, and amounts due from banks which can be converted into cash at short notice.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Precious metals

Gold and other precious metals are recorded at CBA prices, which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position. Changes in the bid prices are recorded as Net gain from operations with precious metals and Net loss from operations with precious metals in other income and other expenses.

Repurchase and reverse repurchase agreements and securities lending

Repurchase agreements ("repo") 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. The corresponding liability is presented within amounts due to banks or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

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

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Borrowings, which include amounts due to the Central Bank of Armenia and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Leases

i. ***Bank as a lessee***

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below AMD 2,500 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. ***Operating − Bank as a lessor***

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. ***Finance − Bank as a lessor***

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate (EIR), the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Armenia.

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

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

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

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

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

The Republic of Armenia also has various operating taxes, that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation, except land and buildings.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The Bank’s buildings are stated at revalued amounts. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at revalued amount. It has unlimited useful life and thus is not depreciated.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	30
Computers and office equipment	6
Motor vehicles	7
Other fixed assets	8

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

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

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

Buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts, further revaluation is conducted. Revaluation is conducted for buildings.

Any revaluation surplus is credited to the revaluation reserve of property in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve of property.

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve is totally transferred to retained earnings.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Repossessed assets

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

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for investment securities

This reserve records fair value changes in available-for-sale-investments / investments at fair value through other comprehensive income.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Corporate banking and Investment banking.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the statement of profit or loss.

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

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

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

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

Foreign currency translation

The financial statements are presented in Armenian drams, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The financial statements are presented in Armenian drams, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBA exchange rates at 31 December 2023 and 31 December 2022, were AMD 404.79 and AMD 393.57 to 1 USD, respectively.

4. Significant accounting judgments and estimates

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

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

(thousands of Armenian drams)

4. Significant accounting judgments and estimates

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 31).

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies (see Note 30). Elements of the ECL models that are considered accounting judgements and estimates include:

- Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Climate-related matters

The Company considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the Company due to both physical and transition risks. The Company believes its business model and products will still be viable after the transition to a low-carbon economy, and as such concluded that climate-related matters do not result in material uncertainty in estimates and assumptions underpinning any of the items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Company is closely monitoring relevant changes and developments, such as new climate-related legislation.

5. Segment information

The Chief Operating Decision Maker of the Bank decided to divide the operations of the Bank into two operating segments based on products and services as follows:

Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Investment banking	Principally providing investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a profit before income tax basis and are allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2023 or 2022.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

(thousands of Armenian drams)

5. Segment information (continued)

2023	***Investment banking***	***Corporate banking***	***Total***
External income			
Interest revenue calculated using effective interest rate	22,189,067	14,789,939	**36,979,006**
Other interest revenue	–	622,967	**622,967**
Interest expense	(12,492,393)	(15,521,829)	**(28,014,222)**
Net interest income/(expense)	**9,696,674**	**(108,923)**	**9,587,751**
Credit loss recovery	(25,715)	1,246,168	**1,220,453**
Fee and commission income	7,992	854,903	**862,895**
Fee and commission expense	–	(220,956)	**(220,956)**
Loss on derecognition of financial instruments	(8,309,288)	–	**(8,309,288)**
Other non-interest income	1,131,271	541,520	**1,672,791**
Non-interest expense	(207,420)	(2,973,862)	**(3,181,282)**
Other impairments expense	–	(15,182)	**(15,182)**
Segment profit/(loss)	**2,293,514**	**(676,332)**	**1,617,182**
Income tax expense	(2,675,431)	1,008,577	**(1,666,854)**
Profit/(loss) for the period	**(381,917)**	**332,245**	**(49,672)**

2022	***Investment banking***	***Corporate banking***	***Total***
External income			
Interest revenue calculated using effective interest rate	22,155,377	11,619,688	**33,775,065**
Other interest revenue	–	337,003	**337,003**
Interest expense	(11,725,144)	(14,443,139)	**(26,168,283)**
Net interest income/(expense)	**10,430,233**	**(2,486,448)**	**7,943,785**
Credit loss recovery	775,338	2,362,236	**3,137,574**
Fee and commission income	61,045	443,949	**504,994**
Fee and commission expense	–	(184,766)	**(184,766)**
Other non-interest income	1,483,863	402,036	**1,885,899**
Non-interest expense	(507,350)	(3,182,671)	**(3,690,021)**
Other impairments expense	–	(667,845)	**(667,845)**
Segment profit/(loss)	**12,243,129**	**(3,313,509)**	**8,929,620**
Income tax expense	(2,371,820)	641,915	**(1,729,905)**
Profit for the period	**9,871,309**	**(2,671,594)**	**7,199,715**

The following tables present segment assets and liabilities of the Bank's operating segments:

	Corporate banking	***Investment banking***	***Unallocated balances***	***Total***
Segment assets				
At 31 December 2023	181,071,693	215,312,167	32,806,242	**429,190,102**
At 31 December 2022	132,391,592	216,416,156	36,364,434	**385,172,182**

	Corporate banking	***Investment banking***	***Unallocated balances***	***Total***
Segment liabilities				
At 31 December 2023	192,936,143	175,371,997	1,826,542	**370,134,682**
At 31 December 2022	164,020,174	168,020,243	2,396,843	**334,437,260**

Unallocated balances include Cash and cash equivalents, Property and equipment and right-of-use assets, Intangible assets, Repossessed assets, Prepayments on income tax, Other assets, Current income tax liabilities and Other liabilities.

Geographic information

The Bank's operations are primarily concentrated in Armenia. The Bank has no assets outside Armenia other than financial instruments.

(thousands of Armenian drams)

5. Segment information (continued)

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2023 and 2022 is as follows:

2023	***Investment banking***	***Corporate banking***	***Total***
Commission income			
Guarantees and letters of credit	–	454,916	**454,916**
Wire transfer fees	3,462	157,425	**160,887**
Plastic cards operations	–	109,135	**109,135**
Brokerage operations	4,530	66,869	**71,399**
Settlements operations	–	60,515	**60,515**
Other income	–	6,043	**6,043**
Total revenue from contracts with customers	7,992	854,903	**862,895**

2022	***Investment banking***	***Corporate banking***	***Total***
Commission income			
Guarantees and letters of credit	–	194,218	**194,218**
Wire transfer fees	10,879	99,095	**109,974**
Settlements operations	–	76,585	**76,585**
Plastic cards operations	–	64,323	**64,323**
Brokerage operations	50,166	–	**50,166**
Other income	–	9,728	**9,728**
Total revenue from contracts with customers	**61,045**	**443,949**	**504,994**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2023	***31 December 2022***
Current accounts with the Central Bank	14,572,598	22,789,055
Current accounts with other credit institutions	3,304,390	1,685,095
Time deposits with credit institutions up to 90 days	3,118,677	1,141,512
Cash on hand	2,530,728	2,947,963
	23,526,393	**28,563,625**
Less: allowance for impairment	(26,748)	(11,152)
Cash and cash equivalents	**23,499,645**	**28,552,473**

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

Cash and cash equivalents	***2023***	***2022***
ECL allowance as at 1 January	11,152	–
Changes in ECL	15,596	11,152
At 31 December	**26,748**	**11,152**

(thousands of Armenian drams)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2023	*31 December 2022*
Reverse repurchase agreements	8,576,708	2,327,437
Loans to credit organizations	2,839,036	558,562
Deposited funds with other financial institutions	411,720	4,115,478
Loans to investment organizations	160,472	230,068
Loans to banks	–	119,928
Other amounts	352,525	109,430
	12,430,461	**7,460,903**
Less: allowance for impairment	(74,068)	(11,874)
Amounts due from credit institutions	**12,266,393**	**7,449,029**

The Bank had entered into reverse repurchase agreements with 8 (eight) financial institutions as of 31 December 2023 (31 December 2022: 4(four)). The subject of these agreements are Armenian state securities with a fair value of AMD 9,367,907 thousand as of 31 December 2023 (31 December 2022: 2,396,109).

As of 31 December 2023, deposited funds with other financial institutions include guaranteed deposited funds with CBA for settlements via ArCa payment system in amount of AMD 260,000 thousand (2022: AMD 260,000 thousand).

All balances of amounts due from credit institutions are allocated to Stage 1.

8. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2023			*31 December 2022*		
	Notional	*Fair values*		*Notional*	*Fair value*	
	amount	*Asset*	*Liability*	*amount*	*Asset*	*Liability*
Interest rate contracts						
Forwards and swaps − domestic	1,936,157	5,847	28,883	2,629,311	20,011	27,039
Foreign exchange contracts						
Forwards and swaps − domestic	1,158,994	3,415	673	311,167	6,241	2,069
Total derivative assets/ liabilities	**3,095,151**	**9,262**	**29,556**	**2,940,478**	**26,252**	**29,108**

As of 31 December 2023 and 31 December 2022, the Bank has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

(thousands of Armenian drams)

9. Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2023	*31 December 2022*
Corporate lending	111,825,539	87,262,076
Small business lending	24,149,665	18,898,791
Other	10,222,629	4,465,216
Gross loans and advances to legal entities at amortised cost	**146,197,833**	**110,626,083**
Residential mortgages	28,097,993	18,604,750
Consumer lending	4,227,590	2,044,826
Gross loans and advances to individuals at amortised cost	**32,325,583**	**20,649,576**
Gross loans and advances to customers at amortised cost	**178,523,416**	**131,275,659**
Less: allowance for impairment	(7,346,889)	(6,272,611)
Loans and advances to customers	**171,176,527**	**125,003,048**

	31 December 2023	*31 December 2022*
Overdrafts/Credit lines	104,420,219	68,133,849
Loans to customers	63,343,424	56,266,797
Financial lease receivables	7,583,321	4,107,822
Factoring	2,726,040	2,587,504
Reverse repurchase agreements	258,227	179,687
Letter of credit	192,185	–
Gross loans and advances to customers at amortised cost	**178,523,416**	**131,275,659**
Less: allowance for impairment	(7,346,889)	(6,272,611)
Loans and advances to customers	**171,176,527**	**125,003,048**

Allowance for impairment of loans and advances to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2023 is as follows:

Loans and advances to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**88,488,181**	**15,145,672**	**6,975,399**	**16,831**	**110,626,083**
New assets originated or purchased	78,239,343	–	–	–	**78,239,343**
Assets repaid	(40,835,420)	(4,190,888)	(690,476)	–	**(45,716,884)**
Transfers to Stage 1	4,200,763	(4,200,763)	–	–	**–**
Transfers to Stage 2	(4,607,548)	5,183,612	(576,064)	–	**–**
Transfers to Stage 3	(1,076,362)	(1,029,600)	2,122,793	(16,831)	**–**
Recoveries	–	–	4,443,913	–	**4,443,913**
Amounts written off	–	–	(2,375,563)	–	**(2,375,563)**
Foreign exchange adjustments	692,857	175,516	112,467	–	**980,941**
As at 31 December 2023	**125,101,815**	**11,083,549**	**10,012,469**	**–**	**146,197,833**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Loans and advances to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**1,248,409**	**1,625,999**	**2,925,885**	**13,145**	**5,813,438**
New assets originated or purchased	1,590,600	–	–	–	**1,590,600**
Assets repaid	(521,094)	(558,437)	(587,447)	–	**(1,666,978)**
Transfers to Stage 1	668,146	(668,146)	–	–	**–**
Transfers to Stage 2	(478,856)	701,112	(222,256)	–	**–**
Transfers to Stage 3	(354,314)	(204,576)	572,035	(13,145)	**–**
Impact on period end ECL of exposures transferred between stages during the period	(662,135)	96,369	2,189,702	–	**1,623,936**
Unwinding of discount (recognised in interest revenue)	–	–	166,027	–	**166,027**
Changes to models and inputs used for ECL calculations	(325,567)	763,252	(3,160,589)	–	**(2,722,904)**
Recoveries	–	–	4,443,913	–	**4,443,913**
Amounts written off	–	–	(2,375,563)	–	**(2,375,563)**
Foreign exchange adjustments	23,999	8,856	40,808	–	**73,663**
As at 31 December 2023	**1,189,188**	**1,764,429**	**3,992,515**	**–**	**6,946,132**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2023 is as follows:

Loans and advances to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**19,111,709**	**473,178**	**1,064,689**	**20,649,576**
New assets originated or purchased	14,556,170	–	–	**14,556,170**
Assets repaid	(3,162,995)	(26,218)	(31,594)	**(3,220,807)**
Transfers to Stage 1	376,883	(362,049)	(14,834)	**–**
Transfers to Stage 2	(107,976)	140,131	(32,155)	**–**
Transfers to Stage 3	(100,557)	(15,403)	115,960	**–**
Recoveries	–	295	92,045	**92,340**
Amounts written off	–	–	32,354	**32,354**
Foreign exchange adjustments	163,138	2,569	50,243	**215,950**
As at 31 December 2023	**30,836,372**	**212,503**	**1,276,708**	**32,325,583**

Loans and advances to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**162,449**	**139,755**	**156,969**	**459,173**
New assets originated or purchased	188,704	–	–	**188,704**
Assets repaid	(28,021)	(3,421)	(30,990)	**(62,432)**
Transfers to Stage 1	128,688	(123,938)	(4,750)	**–**
Transfers to Stage 2	(1,966)	9,137	(7,171)	**–**
Transfers to Stage 3	(18,766)	(4,785)	23,551	**–**
Impact on period end ECL of exposures transferred between stages during the period	(126,679)	5,598	31,979	**(89,102)**
Unwinding of discount (recognised in interest revenue)	–	–	–	**–**
Changes to models and inputs used for ECL calculations	(21,491)	(5,213)	(198,042)	**(224,746)**
Recoveries	–	6	92,045	**92,051**
Amounts written off	–	–	32,354	32,354
Foreign exchange adjustments	4,254	227	274	**4,755**
As at 31 December 2023	**287,172**	**17,366**	**96,219**	**400,757**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2022 is as follows:

Loans and advances to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**87,483,823**	**10,640,286**	**6,302,948**	**–**	**104,427,057**
New assets originated or purchased	54,991,125	–	–	16,831	**55,007,956**
Assets repaid	(39,827,454)	(1,571,661)	(1,737,454)	–	**(43,136,569)**
Transfers to Stage 1	2,237,202	(2,237,202)	–	–	**–**
Transfers to Stage 2	(11,456,648)	11,456,648	–	–	**–**
Transfers to Stage 3	(1,531,441)	(1,421,620)	2,953,061	–	**–**
Recoveries	–	–	4,951,120	–	**4,951,120**
Amounts written off	–	–	(5,049,943)	–	**(5,049,943)**
Foreign exchange adjustments	(3,408,426)	(1,720,779)	(444,333)	–	**(5,573,538)**
As at 31 December 2022	**88,488,181**	**15,145,672**	**6,975,399**	**16,831**	**110,626,083**

Loans and advances to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**1,165,350**	**1,828,132**	**4,422,035**	**–**	**7,415,517**
New assets originated or purchased	1,453,647	–	–	13,145	**1,466,792**
Assets repaid	(576,112)	(214,515)	(1,649,435)	–	**(2,440,062)**
Transfers to Stage 1	83,043	(83,043)	–	–	**–**
Transfers to Stage 2	(625,178)	625,178	–	–	**–**
Transfers to Stage 3	(137,872)	(336,176)	474,048	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(35,038)	893,393	1,801,012	–	**2,659,367**
Unwinding of discount (recognised in interest revenue)	–	–	254,869	–	**254,869**
Changes to models and inputs used for ECL calculations	(31,045)	(851,469)	(2,250,634)	–	**(3,133,148)**
Recoveries	–	–	4,951,120	–	**4,951,120**
Amounts written off	–	–	(5,049,943)	–	**(5,049,943)**
Foreign exchange adjustments	(48,386)	(235,501)	(27,187)	–	**(311,074)**
As at 31 December 2022	**1,248,409**	**1,625,999**	**2,925,885**	**13,145**	**5,813,438**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2022 is as follows:

Loans and advances to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**18,437,084**	**1,569,277**	**1,033,959**	**21,040,320**
New assets originated or purchased	6,090,078	–	–	**6,090,078**
Assets repaid	(4,224,348)	(885,242)	(20,244)	**(5,129,834)**
Transfers to Stage 1	278,831	(278,831)	–	**–**
Transfers to Stage 2	(353,242)	353,242	–	**–**
Transfers to Stage 3	(70,277)	(190,191)	260,468	**–**
Recoveries	–	–	20,520	**20,520**
Foreign exchange adjustments	(1,046,417)	(95,077)	(230,014)	**(1,371,508)**
As at 31 December 2022	**19,111,709**	**473,178**	**1,064,689**	**20,649,576**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers at amortised cost (continued)

Loans and advances to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**361,305**	**1,142,260**	**16,785**	**1,520,350**
New assets originated or purchased	101,381	−	−	**101,381**
Assets repaid	(75,760)	(664,230)	(14,049)	**(754,039)**
Transfers to Stage 1	86,547	(86,547)	−	**−**
Transfers to Stage 2	(10,473)	10,473	−	**−**
Transfers to Stage 3	(23,579)	(182,441)	206,020	**−**
Impact on period end ECL of exposures transferred between stages during the period	(63,507)	42,622	(53,658)	**(74,543)**
Unwinding of discount (recognised in interest revenue)	−	−	957	**957**
Changes to models and inputs used for ECL calculations	(180,012)	(83,510)	(16,980)	**(280,502)**
Recoveries	−	−	20,520	**20,520**
Foreign exchange adjustments	(33,453)	(38,872)	(2,626)	**(74,951)**
As at 31 December 2022	**162,449**	**139,755**	**156,969**	**459,173**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans and advances to their subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired (Stage 3) assets.

	Maximum exposure to credit risk	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net explosure*	*Accociated ECL*
31 December 2023							
Corporate lending	8,147,112	7,212,432	1,298,130	(2,855,780)	**5,654,782**	2,492,330	3,253,592
Small business lending	48,940	99,489	−	(50,549)	**48,940**	0	460
Residential mortgages	1,043,867	1,039,513	−	(88,956)	**950,557**	93,310	93,530
Consumer lending	232,841	250,849	−	(21,253)	**229,596**	3,245	2,689
Other	1,816,417	1,921,995	140,160	(276,110)	**1,786,045**	30,372	738,463
	11,289,177	**10,524,278**	**1,438,290**	**(3,292,648)**	**8,669,920**	**2,619,257**	**4,088,734**

	Maximum exposure to credit risk	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2022							
Corporate lending	5,083,921	2,549,858	1,035,192	(687,903)	**2,897,147**	2,186,774	2,125,310
Small business lending	568,541	772,137	−	(242,219)	**529,918**	38,623	227,446
Residential mortgages	858,015	945,390	−	(113,057)	**832,333**	25,682	17,289
Consumer lending	206,674	167,520	−	−	**167,520**	39,154	139,680
Other	1,339,768	1,844,941	−	(505,173)	**1,339,768**	−	586,274
	8,056,919	**6,279,846**	**1,035,192**	**(1,548,352)**	**5,766,686**	**2,290,233**	**3,095,999**

* *Vehicles, machinery, other fixed assets, inventory and trade receivables.*

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Concentration of loans and advances to customers

As of 31 December 2023, the Bank had a concentration of loans represented by AMD 41,177,698 thousand due from the ten largest borrowers (23.90% of gross loan portfolio) (2022 – AMD 32,347,346 thousand or 25.88%). An allowance of AMD 1,591,554 thousand (2022: AMD 170,953,907 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	31 December 2023	*31 December 2022*
Private companies	145,912,160	109,454,783
Individuals	32,325,583	21,293,674
State companies	285,673	455,744
Financial organizations	–	71,458
	178,523,416	**131,275,659**

Loans are made principally within Armenia in the following sectors:

	31 December 2023	*31 December 2022*
Manufacturing	44,723,764	40,235,648
Mortgage loan	28,097,993	18,604,753
Construction	28,942,595	13,400,522
Retail	24,147,402	18,898,791
Electricity generation, transmission and distribution	19,413,242	17,501,485
Agriculture	10,697,982	9,559,733
Tourism / Hospitality	8,663,257	6,528,902
Consumer loan	2,246,532	1,632,396
Credit card loan	1,367,867	448,213
Other	10,222,782	4,465,216
	178,523,416	**131,275,659**

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2023 is as follows:

Gross investment in finance leases	
Not later than 1 year	2,471,517
Between 1 and 2 years	2,275,984
Between 2 and 3 years	2,000,464
Between 3 and 4 years	1,749,430
Between 4 and 5 years	1,046,664
Later than 5 years	710,601
	10,254,660
Unearned future finance income on finance leases	(2,671,339)
Net investment in finance leases before impairment allowance	**7,583,321**
Impairment allowance	(148,300)
Net in investment in finance leases	**7,435,021**

The analysis of finance lease receivables at 31 December 2022 is as follows:

Gross investment in finance leases	
Not later than 1 year	1,173,535
Between 1 and 2 years	1,082,234
Between 2 and 3 years	928,696
Between 3 and 4 years	846,335
Between 4 and 5 years	735,123
Later than 5 years	1,038,174
	5,804,097
Unearned future finance income on finance leases	(1,696,275)
Net investment in finance leases before impairment allowance	**4,107,822**
Impairment allowance	(194,774)
Net in investment in finance leases	**3,913,048**

(thousands of Armenian drams)

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2023	*31 December 2022*
Debt securities at amortised cost		
Government bonds	78,370,436	86,767,519
Corporate bonds	–	911,092
	78,370,436	**87,678,611**
Less: allowance for impairment	(215,793)	(339,097)
Debt securities at amortised cost	**78,154,643**	**87,339,514**
Debt securities at FVOCI		
Government bonds	40,385,355	41,854,755
Corporate bonds	3,892,080	2,220,261
US Treasury bonds	–	1,966,005
Debt securities at FVOCI	**44,277,435**	**46,041,021**
Government bonds	88,595,879	78,718,547
Debt securities at FVOCI pledged under repurchase agreements	**88,595,879**	**78,718,547**
Equity securities at FVOCI		
RA equity share	36,074	51,948
Equity securities at FVOCI	**36,074**	**51,948**
Investment securities at FVOCI including pledged under repurchase agreements	**132,909,388**	**124,811,516**

All balances of debt securities at amortised cost and FVOCI are allocated to Stage 1.

11. Property and equipment and right-of-use assets

The movements in property and equipment and right-of-use assets were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvement*	*Right-of-use assets*	*Total*
Cost or revalued amount							
1 January 2023	**1,812,894**	**166,849**	**319,711**	**114,256**	**59,065**	**173,764**	**2,646,539**
Additions/Modifications	–	12,686	33,645	52,289	–	158,756	**257,376**
Disposals and write-offs	–	(2,804)	(12,124)	–	–	**–**	**(14,928)**
31 December 2023	**1,812,894**	**176,731**	**341,232**	**166,545**	**59,065**	**332,520**	**2,888,987**
Accumulated depreciation							
1 January 2023	**–**	**131,790**	**221,912**	**65,425**	**52,090**	**155,246**	**626,463**
Depreciation charge	78,034	8,193	33,734	12,570	6,944	81,794	**221,269**
Disposals and write-offs	–	(2,805)	(12,124)	–	–	**–**	**(14,929)**
31 December 2023	**78,034**	**137,178**	**243,522**	**77,995**	**59,034**	**237,040**	**832,803**
Net book value							
1 January 2023	**1,812,894**	**35,059**	**97,799**	**48,831**	**6,975**	**18,518**	**2,020,076**
31 December 2023	**1,734,860**	**39,553**	**97,710**	**88,550**	**31**	**95,480**	**2,056,184**

(thousands of Armenian drams)

11. Property and equipment and right-of-use assets (continued)

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvement*	*Right-of-use assets*	*Total*
Cost or revalued amount							
1 January 2022	**1,821,262**	**166,019**	**322,611**	**93,296**	**59,065**	**173,764**	**2,636,017**
Additions	–	1,306	23,005	20,960	–	**–**	**45,271**
Disposals and write-offs	–	(476)	(25,905)	–	–	**–**	**(26,381)**
Revaluation	517,152	–	–	–	–	**–**	**517,152**
Elimination of accumulated depreciation on revalued assets	(525,520)	–	–	–	–	**–**	**(525,520)**
31 December 2022	**1,812,894**	**166,849**	**319,711**	**114,256**	**59,065**	**173,764**	**2,646,539**
Accumulated depreciation							
1 January 2022	**447,696**	**125,004**	**219,393**	**55,295**	**40,598**	**110,608**	**998,594**
Depreciation charge	77,824	7,262	28,424	10,130	11,492	44,638	**179,770**
Disposals and write-offs	–	(476)	(25,905)	–	–	**–**	**(26,381)**
Elimination of accumulated depreciation on revalued assets	(525,520)	–	–	–	–	**–**	**(525,520)**
31 December 2022	**–**	**131,790**	**221,912**	**65,425**	**52,090**	**155,246**	**626,463**
Net book value							
1 January 2022	**1,373,566**	**41,015**	**103,218**	**38,001**	**18,467**	**63,156**	**1,637,423**
31 December 2022	**1,812,894**	**35,059**	**97,799**	**48,831**	**6,975**	**18,518**	**2,020,076**

Revaluation of assets

The buildings owned by the Bank were revalued by an independent appraiser in 2022.

The net book value of buildings that would have been recognized under the historic cost method is AMD 275,912 thousand as of 31 December 2023 (2022: AMD 294,307 thousand).

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2023	*31 December 2022*
Cost	551,825	551,825
Accumulated depreciation and impairment	(275,913)	(257,518)
Net carrying amount	**275,912**	**294,307**

Fully depreciated items

As of 31 December 2023 property, plant and equipment included fully depreciated assets in amount of AMD 289,290 thousand (2022: AMD 245,153 thousand).

(thousands of Armenian drams)

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2022	**80,230**	**143,227**	**223,457**
Additions	31,191	30,697	61,888
Disposals and write-offs	(2,397)	(18,098)	(20,495)
31 December 2023	**109,024**	**155,826**	**264,850**
Accumulated amortization			
31 December 2022	**42,942**	**98,113**	**141,055**
Amortisation charge	13,637	19,431	**33,068**
Disposals and write-offs	(2,397)	(18,098)	**(20,495)**
31 December 2023	**54,182**	**99,446**	**153,628**
Net book value			
31 December 2022	**37,288**	**45,114**	**82,402**
31 December 2023	**54,842**	**56,380**	**111,222**

	Licenses	*Computer software*	*Total*
Cost			
31 December 2021	**81,198**	**119,858**	**201,056**
Additions	3,763	28,319	32,082
Disposals and write-offs	(4,731)	(4,950)	(9,681)
31 December 2022	**80,230**	**143,227**	**223,457**
Accumulated amortization			
31 December 2021	**36,069**	**86,294**	**122,363**
Amortisation charge	11,604	16,769	**28,373**
Disposals and write-offs	(4,731)	(4,950)	**(9,681)**
31 December 2022	**42,942**	**98,113**	**141,055**
Net book value			
31 December 2021	**45,129**	**33,564**	**78,693**
31 December 2022	**37,288**	**45,114**	**82,402**

Fully amortized items

As of 31 December 2023, intangible assets included fully amortized assets in amount of AMD 42,931 thousand (2022: AMD 36,713 thousand).

13. Repossessed assets

Details of assets obtained by the Bank by taking possession of collateral held as security against loans and advances as at 31 December 2023 and 31 December 2022 are shown below:

	31 December 2023	*31 December 2022*
Land and buildings	1,222,518	1,640,255
Other assets	139,427	79,488
	1,361,945	**1,719,743**
Less: allowance for impairment	(489,760)	(543,939)
Total repossessed collateral	**872,185**	**1,175,804**

(thousands of Armenian drams)

13. Repossessed assets (continued)

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell. For the year ended 31 December 2023 the Bank did not repossess any assets (2022: AMD 320,142 thousand) and sold assets with a carrying amount of AMD 357,798 thousand (2022: AMD 395,159 thousand).

14. Taxation

The corporate income tax expense comprises:

	2023	*2022*
Current tax charge	1,147,940	1,569,701
Deferred tax charge − origination and reversal of temporary differences	518,914	160,204
Income tax expense	**1,666,854**	**1,729,905**

For the year 2023 the corporate income tax within the Republic of Armenia is levied at the rate of 18% (2022: 18%). Differences between IFRS and RA statutory tax legislations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

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

	2023	*2022*
Profit before tax	**1,617,182**	**8,929,620**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**291,093**	**1,607,332**
Net loss on derecognition of financial assets at amortized cost	1,327,992	−
Other non-deductible expenditures	47,769	156,088
Adjustments in respect of current income tax of previous year	−	(33,515)
Income tax expense	**1,666,854**	**1,729,905**

Deferred tax assets and liabilities as of 31 December 2023 and 31 December 2022 and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2021	*In the statement of profit or loss*	*In other compre-hensive income*	*31 December 2022*	*In the statement of profit or loss*	*In other compre-hensive income*	*31 December 2023*
Cash and cash equivalents	−	2,007	−	2,007	2,807	−	4,814
Derivative financial assets	−	(6,256)	−	(6,256)	12,458	−	6,202
Amounts due from credit institutions	5,646	(11,237)	−	(5,591)	1,223	−	(4,368)
Loans and advances to customers	220,792	(147,045)	−	73,747	(636,019)	−	(562,272)
Investment securities at FVOCI	769,912	(94,569)	3,502,493	4,177,836	17,875	(1,837,354)	2,358,357
Investment securities at amortised cost	102,339	(41,301)	−	61,038	145,485	−	206,523
Property and equipment	(177,723)	9,113	(93,087)	(261,697)	20,092	−	(241,605)
Repossessed assets	−	97,909	−	97,909	(9,747)	−	88,162
Other assets	(14,792)	(4,130)	−	(18,922)	(63,012)	−	(81,934)
Other provisions	(30,977)	33,771	−	2,794	6,879	−	9,673
Lease liabilities	(14,344)	12,804	−	(1,540)	-	−	(1,540)
Other liabilities	68,334	(11,270)	−	57,064	(16,955)	−	40,109
Net deferred tax assets/(liabilities)	**929,187**	**(160,204)**	**3,409,406**	**4,178,389**	**(518,914)**	**(1,837,354)**	**1,822,121**

(thousands of Armenian drams)

15. Credit loss expense and other impairment and provisions

The table below shows the ECL recovery on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2023:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	15,596	–	–	–	**15,596**
Amounts due from credit institutions	7	62,194	–	–	–	**62,194**
Loans and advances to customers at amortised cost	9	94,317	298,148	(1,755,387)	–	**(1,362,922)**
Debt securities measured at amortised cost	10	(123,304)	–	–	–	**(123,304)**
Debt securities measured at FVOCI	10	71,230	–	–	–	**71,230**
Other financial assets	16	18,748	–	–	–	**18,748**
Loan commitments	23	98,005	–	–	–	**98,005**
Total credit loss recovery		**236,786**	**298,148**	**1 755,387**	**–**	**(1,220,453)**

The table below table below shows the ECL recovery on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2022:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	11,152	–	–	–	**11,152**
Amounts due from credit institutions	7	(44,259)	–	–	–	**(44,259)**
Loans and advances to customers at amortised cost	9	593,554	(877,709)	(2,183,744)	13,145	**(2,454,754)**
Debt securities measured at amortised cost	10	(221,105)	–	–	–	**(221,105)**
Debt securities measured at FVOCI	10	(521,125)	–	–	–	**(521,125)**
Other financial assets	16	21,554	–	–	–	**21,554**
Loan commitments	23	70,963	–	–	–	**70,963**
Total credit loss recovery		**(89,266)**	**(877,709)**	**(2,183,744)**	**13,145**	**(3,137,574)**

The movements in other impairment allowances and provisions were as follows:

	Repossessed assets	*Guarantees*	*Total*
31 December 2021	**–**	**25,542**	**25,542**
Charge	543,939	123,906	**667,845**
31 December 2022	**543,939**	**149,448**	**693,387**
Charge/(Recovery)	(54,179)	69,361	**15,182**
31 December 2023	**489,760**	**218,809**	**708,569**

16. Other assets and liabilities

Other assets comprise:

	31 December 2023	*31 December 2022*
Other financial assets		
Accounts receivables	1,509,289	798,986
Less: allowance for impairment of other financial assets	(40,302)	(21,554)
Total other financial assets	**1,468,987**	**777,432**
Prepayments to suppliers	4,478,075	3,544,913
Other prepaid taxes	284,153	164,130
Materials	8,023	6,179
Precious metals	2,524	38,239
Other non-financial assets	25,244	2,786
Total other non-financial assets	**4,798,019**	**3,756,247**
Other assets	**6,267,006**	**4,533,679**

(thousands of Armenian drams)

16. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2023 is as follows:

Other financial assets	***Stage 1***	***Total***
ECL as at 1 January 2023	**40,302**	**21,554**
Changes in ECL	18,748	**18,748**
As at 31 December 2023	**59,050**	**40,302**

Other liabilities comprise:

	31 December 2023	***31 December 2022***
Other financial liabilities		
Accounts payable	345,889	326,542
Due to personnel	269,883	361,199
Allowance for credit losses (Note 23)	168,968	70,963
Lease liabilities	99,726	23,470
Transit accounts	15,972	33,653
Other financial liabilities	**900,438**	**815,827**
Other non-financial liabilities		
Tax payable, other than income tax	431,668	302,625
Prepayments received for lease contracts	271,758	941,586
Provisions (Note 23)	218,809	149,448
Other non-financial liabilities	3,869	824
Other non-financial liabilities	**926,104**	**1,394,483**
Other liabilities	**1,826,542**	**2,210,310**

17. Amounts due to banks

Amounts due to banks comprise:

	31 December 2023	***31 December 2022***
Repurchase agreements	83,490,557	74,982,612
Loans from banks	5,173,270	2,296,123
Letters of credit with banks	3,138,916	3,503,711
Correspondent accounts with banks	21,001	17,252
Other liabilities	2,925	4,028
Amounts due to banks	**91,826,669**	**80,803,726**

The Bank had entered into repurchase agreements with 4 banks and Central Bank of Armenia as of 31 December 2023 (31 December 2022: 8 banks). The subject of these agreements are Armenian state securities with a fair value of AMD 88,595,879 thousand as of 31 December 2023 (31 December 2022: AMD 78,718,547 thousand). See Note 10.

18. Amounts due to customers

The amounts due to customers include the following:

	31 December 2023	***31 December 2022***
Corporate customers		
Term deposits	81,677,155	79,569,002
Current/settlement accounts	49,047,782	22,706,528
Repurchase agreements	100,101	–
Retail customers		
Term deposits	23,652,139	18,700,258
Current/settlement accounts	6,297,840	8,560,256
Amounts due to customers	**160,775,017**	**129,536,044**

(thousands of Armenian drams)

18. Amounts due to customers (continued)

At 31 December 2023, amounts due to customers of AMD 89,130,942 thousand (55.44%) were due to the ten largest customers (2022: AMD 88,281,270 thousand (68.15%)).

In accordance with the Armenian Civil Code, the Bank is obliged to repay deposits of individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	31 December 2023	*31 December 2022*
Commercial organizations	84,919,026	74,724,997
Individuals	29,949,979	27,260,513
Financial institutions	17,160,137	19,178,661
Investment companies	13,882,634	2,233,620
State and budgetary organizations	10,209,983	4,390,750
Personal entrepreneur	2,406,857	71,585
Non-commercial organizations	2,129,256	954,312
Other	117,145	721,605
	160,775,017	**129,536,044**

19. Debt securities issued

Debt securities issued consisted of the following:

	31 December 2023	*31 December 2022*
Domestic bonds in AMD	26,438,470	26,486,434
Domestic bonds in USD	20,014,880	16,230,440
Domestic bonds in EUR	8,568,970	9,691,869
Debt securities issued	**55,022,320**	**52,408,743**

During 2023, the Bank registered Prospectus in Central Bank of Armenia for issuing AMD, USD and EUR bonds with nominal amount of AMD 6,000,000 thousand, USD 10,000 thousand and USD 10,000 thousand accordingly, which have not been fully allocated at the reporting date. As at 31 December 2023 the carrying value of the newly placed AMD, USD and EUR denominated bonds is correspondingly AMD 6,059,126 thousand, AMD 3,322,117 thousand and AMD 4,076,862 thousand.

The contractual maturity of AMD, USD and EUR bonds ranges from 2024-2027. Coupon rates are 8.50%, 9.00% and 11.75% for bonds denominated in AMD, 6.00%, 6.50% and 6.75% for bonds denominated in USD and 3.50%, 4.00% and 5.00% for bonds denominated in EUR.

Bonds issued by the Bank are listed in Armenia Securities Exchange. However, bonds issued in the fourth quarter of 2023 with carrying value of AMD 1,103,961 thousand are not listed in Armenian Securities Exchange as at 31 December 2023.

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31 December 2023	*31 December 2022*
Loans from CBA	22,869,093	22,861,157
Loans from refinancing credit organizations	2,842,829	1,617,124
Loans from international financial organizations	2,781,530	10,300,385
Other borrowed funds	**28,493,452**	**34,778,666**

As of 31 December 2023, loans from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

(thousands of Armenian drams)

20. Other borrowed funds (continued)

Loans from international financial organizations include loans from European Bank for Reconstruction and Development. Loans from Asian Development Bank and International Bank for Economic Co-operation were repaid during 2023.

Loans from refinancing credit organizations include loans from National Mortgage Company and Home for Youth.

Covenants

As at 31 December 2023 and 31 December 2022 the Bank was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	31 December 2023	*31 December 2022*
Subordinated loans provided by related parties	32,161,126	34,484,130
Subordinated loans	**32,161,126**	**34,484,130**

Subordinated loans represent a long-term borrowing agreements, which, in case of the Bank's default, would be subordinated to the Bank's other obligations, including deposits and other debt instruments.

Subordinated loans from related parties are issued in USD and AMD.

22. Equity

As of 31 December 2023, the Bank's registered and paid-in share capital was AMD 10,000,200 thousand (2022: AMD 10,000,200 thousand).

In accordance with the Bank's statues, the share capital consists of 16,667 ordinary shares, all of which have a par value of AMD 600,000 thousand each.

The respective shareholdings as at 31 December 2023 and 31 December 2022 may be specified as follows:

	31 December 2023		*31 December 2022*	
	Paid-in share capital	*% of total paid-in capital*	*Paid-in share capital*	*% of total paid-in capital*
HVS Holding S.a.r.	8,752,800	87.53	8,752,800	87.53
FMTM Distribution LTD	1,247,400	12.47	1,247,400	12.47
	10,000,200	**100.00**	**10,000,200**	**100.00**

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

During 2023 and 2022 no dividends were declared and paid.

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Republic of Armenia, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve is created in accordance with the Bank's charter, which requires creation of statutory general reserve not less than 15% of the Bank's actually paid up Statutory Capital, which may be used to cover losses (damages) faced by the Bank, if the Bank's profit is insufficient for this purpose.

(thousands of Armenian drams)

22. Equity (continued)

Revaluation surplus of property

Revaluation surplus of property is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for investment securities

Revaluation reserve for investment securities records fair value and expected credit loss changes on financial assets at FVOCI.

23. Commitments and contingencies

Operating environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal

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

Taxation

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that at any time in the future the tax authorities may challenge transactions and operations of the Bank that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As of 31 December 2023, Management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

The Bank's commitments and contingencies comprised the following:

	31 December 2023	*31 December 2022*
Commitments and contingencies		
Guarantees	16,504,240	8,529,391
Undrawn loan commitments	5,026,239	5,745,810
Unused part of factoring	3,723,443	3,542,663
	25,253,922	**17,817,864**
Less: allowance for impairment	(387,777)	(220,411)
Commitments and contingencies	**24,866,145**	**17,597,453**

Commitments and contingencies

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as of 31 December 2023 the Bank possesses insurance for its transportation (also compulsory motor third party liability insurance), buildings, properties, ATM, banking risks, electronic or computer crimes and for professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(thousands of Armenian drams)

24. Net interest income

Net interest income comprises:

	2023	2022
Financial assets measured at amortized cost		
Loans and advances to customers	14,959,579	11,671,717
Investment securities	8,934,864	9,049,588
Amounts due from credit institutions	336,464	45,005
Cash equivalents	3,124	7,158
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI	12,744,975	13,001,597
Interest revenue calculated using effective interest rate	**36,979,006**	**33,775,065**
Finance leases	622,967	337,003
Other interest revenue	**622,967**	**337,003**
Total interest revenue	**37,601,973**	**34,112,068**
Amounts due to customers	10,751,379	9,052,302
Amounts due to banks	7,709,627	7,217,621
Debt securities issued	3,841,795	3,982,670
Subordinated debt	3,823,157	3,857,277
Other borrowed funds	1,878,124	2,057,282
Lease liabilities	10,140	1,131
Interest expense	**28,014,222**	**26,168,283**
Net interest income	**9,587,751**	**7,943,785**

25. Net fee and commission income

Net fee and commission income comprises:

	2023	2022
Guarantees and letters of credit	454,916	194,218
Wire transfer fees	160,887	109,974
Plastic cards operations	109,135	64,323
Brokerage operations	71,399	50,166
Settlements operations	60,515	76,585
Other	6,043	9,728
Fee and commission income	**862,895**	**504,994**
Wire transfer fees	84,579	71,220
Expenses paid to Armenian Card	74,374	55,124
Brokerage operations	51,354	51,243
Other expenses	10,649	7,179
Fee and commission expense	**220,956**	**184,766**
Net fee and commission income	**641,939**	**320,228**

26. Net trading income

	2023	2022
Net gain from foreign currency transactions	1,141,619	1,491,260
Net (loss)/gain on derivative financial instruments	(37,595)	56,730
Total net trading income	**1,104,024**	**1,547,990**

(thousands of Armenian drams)

27. Net loss on derecognition of financial assets at amortized cost

In accordance with the decision of the Government of the Republic of Armenia, the Company received long-term coupon bonds from the Ministry of Finance of the Republic of Armenia in exchange for its claim on bonds of the Republic of Artsakh.

The newly acquired bonds from the Ministry of Finance of the Republic of Armenia amounted to 70% of the value of the Republic of Artsakh bonds. Consequently, the Company recorded a loss of AMD 8,309,288 thousand, representing the variance between the carrying value of AMD 24,591,919 for the Republic of Artsakh bonds and the fair value of AMD 16,282,630 for the Ministry of Finance bonds of the Republic of Armenia, as a result of derecognition of financial assets at amortized cost.

These bonds have a maturity period of 10 years and carry a nominal interest rate of 9.60%.

28. Other income

	2023	*2022*
Fines and penalties	321,733	237,867
Income from cash collection services	36,304	20,197
Net gain from disposal of repossessed assets	30,275	36,739
Dividend income	7,240	2,949
Net gain from disposal of property, plant and equipment	979	275
Other	33,321	18,939
Total other income	**429,852**	**316,966**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2023	*2022*
Salaries and bonuses	2,157,171	1,909,137
Other expenses	6,953	10,050
Personnel expenses	**2,164,124**	**1,919,187**
Communications	147,164	78,818
Insurance of deposits	124,332	119,901
Fixed assets maintenance	55,234	103,452
Insurance expenses	52,769	45,340
Consulting and other services	52,546	67,192
Representative expenses	48,962	49,388
Financial system mediator	38,664	40,174
Charity	26,307	21,165
Business trip expenses	23,031	28,792
Taxes, other than income tax, duties	15,130	12,953
Office supplies and maintenance	12,599	14,709
Security	9,600	9,075
Net loss from operations with precious metals	–	24,685
Other administrative expenses	62,394	19,132
Other operating expenses	**668,732**	**634,776**

30. Risk management

Introduction

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

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Bank and is designed to improve the financial position and the reputation of the Bank.

(thousands of Armenian drams)

30. Risk management (continued)

Introduction (continued)

The aim of the risk management process is the assistance to the management of the Bank in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Bank and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Bank's authorized body. The identification, measurement, supervision and monitoring of the Bank's risks are ongoing and regular processes. The risk analysis is an integral part of the Bank's strategic planning, as well as the evaluation of investment programs. The Bank's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Bank's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Bank, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Supervisory Board

The Supervisory Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- Approval of risk management policies, risk appetite and risk strategy;
- Approval of recovery plans'
- Determining prohibitions for several transactions;
- Determining limits for transactions without collateral for the Bank's counterparties;
- Determining internal norms for banking risks regulation and supervision.

Risk management department

The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Bank, as well as monitoring over their implementation;
- Monitoring of defined limits and risk analysis reporting to the Board and Supervisory Board;
- Analysis of the risk level of loans issued by the Bank and the monitoring over the lending process in the framework of program loans;
- Monitoring of issued loans, identification of issues related to them and reporting;
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property;
- Implementation of anti-money laundering and counter-terrorist financing (AML/CFT) functions;
- Implementation of compliance function;
- Maintenance of information security.

Internal audit

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk measurement and reporting systems

Depending upon various factors, the Bank divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Bank are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, staff and money laundering risks.

The country risk is managed by the Bank using the rating of international rating agencies (Moody's, S&P, Fitch), granted to international banks and organizations. The risk management division monitors the rating of internal bank counterparties of the Bank and quarterly presents to the Bank's Executive Board approval the limits for each bank and financial institution.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile, etc.

The management of competition risk is implemented by the business divisions and business development department, by periodically comparing the range of services and conditions provided by the Bank and its competitors.

The interest rate risk is managed by the Risk Management Division of the Bank by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Bank's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models for interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis.

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Bank's Risk management division presents monthly analysis of the Bank's expected repayments, amounts to be lent and the positions to the Bank's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Bank, limits of amounts attracted by the Bank, their types or gross interest expenses, limits on concentrations of the financial sources used by the Bank for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Bank's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Bank's assets and liabilities, the ways of coordinating the Bank's other divisions activities, who can influence the Bank's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Bank's executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.). The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti-money laundering legislation and Bank's internal legal acts.

Excessive risk concentration

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

(thousands of Armenian drams)

30. Risk management (continued)

Excessive risk concentration (continued)

For avoiding the excessive risk concentrations, the Bank's policy and procedures include special principles aimed at maintaining diversified assets types, loan and securities portfolios.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.
The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 91 days past due on its contractual payments.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as the quality of credits due to affiliated parties, the state of being rescheduled which are approved by the management.

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

- Stage of the customer per maximum overdue days of borrowed financial asset;
- Subjectively classified loans due to overdue loans of the borrower in other financial organizations;
- Problematic, refinanced/restructured and not subjectively classified loans that have at least 31 overdue days as at the reporting date.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Bucketing

For stage 1 and stage 2 loans and advances to customers, as well as for individually not significant stage 3 exposures, the Bank calculates ECL on portfolio level. The following portfolios are segregated by the Bank.

- Large business loans;
- Small business loans;
- Consumer loans;
- Mortgage loans;
- Other loans.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

PDs for loans and advances to customers are based on historic information and calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring to defaulted category during 12-month period from the total number of credits at the beginning of the period. In calculation of PDs the Bank considers forward looking macroeconomic parameters that had significant impact on the probability of default estimated through time series regression analysis. The forecasts of PDs are evaluated based on the officially available forward-looking macroeconomic parameters.

Based on the estimated deviation of the historical forecasts of the selected macroeconomic parameters from the actual trends three scenarios of the forward-looking macroeconomic development are directed to the final outcome of three PD PIT transition matrices, which are weighted by 15%, 70% and 15% probabilities corresponding to the best, base and worst-case scenarios.

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The Bank has rating grades as per which classifies its financial assets per High, Standard, Sub-standard and Impaired grades. The rating grades are as follows:

International external rating agency (Moody's, Fitch) rating	***Rating description***
A3 to AAA/ A- to AAA	High grade
Ba3 to Baa1/ BB- to BBB+	Standard grade
B3 to B1/ B- to B+	Sub-standard grade
Below B3/ B-	Impaired

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The Loss on Default (LGD) indicator is calculated taking into account the value of collateral for each instrument and is updated on each provisioning date. The LGD reflects the expected EAD compared to the amounts expected to be recovered or realized from the sale of the collateral held.

The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket.

Significant increase in credit risk

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- Overdue days of the borrower in other financial institutions in Armenia;
- The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system as at 31 December 2023.

In the table below loans to customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises not past due loans below standard grade but not individually impaired.

31 December 2023	*Notes*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	226,173	20,769,492	–	–	**20,995,665**
Amounts due from credit institutions	7	Stage 1	501	12,339,960	–	–	**12,340,461**
Loans and advances to customers at amortised cost	9						
- Corporate lending		Stage 1	2,706,630	91,500,130	–	–	**94,206,760**
		Stage 2	–	–	9,471,667	–	**9,471,667**
		Stage 3	–	–	–	8,147,112	**8,147,112**
- Small Business lending		Stage 1	1,255,374	21,250,977	–	–	**22,506,351**
		Stage 2	–	–	1,594,374	–	**1,594,374**
		Stage 3	–	–	–	48,940	**48,940**
- Residential Mortgages		Stage 1	46,914	26,824,648	–	–	**26,871,562**
		Stage 2	–	–	182,564	–	**182,564**
		Stage 3	–	–	–	1,043,867	**1,043,867**
- Consumer lending		Stage 1	147,223	3,817,587	–	–	**3,964,810**
		Stage 2	–	–	29,939	–	**29,939**
		Stage 3	–	–	–	232,841	**232,841**
- Other		Stage 1	168,122	8,220,582	–	–	**8,388,704**
		Stage 2	–	–	17,508	–	**17,508**
		Stage 3	–	–	–	1,816,417	**1,816,417**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	44,277,435	–	–	**44,277,435**
- Measured at amortised cost		Stage 1	–	78,370,436	–	–	**78,370,436**
Other financial assets	16	Stage 1	–	1,509,289	–	–	**1,509,289**
Undrawn loan commitments	23	Stage 1	–	5,026,239	–	–	**5,026,239**
Unused part of factoring	23	Stage 1	–	3,723,443	–	–	**3,723,443**
Total			**4,550,937**	**317,630,218**	**11,296,052**	**11,289,177**	**344,766,384**

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system as at 31 December 2022.

31 December 2022	*Notes*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	117,192	25,498,470	–	–	**25,615,662**
Amounts due from credit institutions	7	Stage 1	2,739,247	4,709,782	–	–	**7,449,029**
Loans and advances to customers at amortised cost	9						
- Corporate lending		Stage 1	25,140	67,423,322	–	–	**67,448,462**
		Stage 2	–	–	14,729,693	–	**14,729,693**
		Stage 3	–	–	–	5,083,921	**5,083,921**
		Stage 1	1,148,325	16,823,677	–	–	**17,972,002**
		Stage 2	–	–	358,248	–	**358,248**
- Small Business lending		Stage 3	–	–	–	568,541	**568,541**
		Stage 1	–	17,567,420	–	–	**17,567,420**
		Stage 2	–	–	179,315	–	**179,315**
- Residential Mortgages		Stage 3	–	–	–	858,015	**858,015**
		Stage 1	33,300	1,510,989	–	–	**1,544,289**
		Stage 2	–	–	293,863	–	**293,863**
- Consumer lending		Stage 3	–	–	–	206,674	**206,674**
		Stage 1	33,111	3,034,606	–	–	**3,067,717**
		Stage 2	–	–	57,731	–	**57,731**
- Other		Stage 3	–	–	–	1,322,937	**1,322,937**
		POCI	–	–	–	16,831	**16,831**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	1,966,005	44,075,016	–	–	**46,041,021**
- Measured at amortised cost		Stage 1	–	87,678,611	–	–	**87,678,611**
Other financial assets	16	Stage 1	–	777,432	–	–	**777,432**
Undrawn loan commitments	23	Stage 1	–	5,745,810	–	–	**5,745,810**
Unused part of factoring	23	Stage 1	–	3,542,663	–	–	**3,542,663**
Total			**6,062,320**	**278,399,672**	**15,618,850**	**8,056,919**	**308,137,761**

It is the Bank's policy to assign accurate and consistent risk ratings across its loan portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information, to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to various categories and are determined in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

See Note 9 for more detailed information with respect to the allowance for impairment of loans and advances to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

The geographical concentration of Bank's financial assets and liabilities is set out below:

	31 December 2023				31 December 2022			
	Armenia	**OECD**	**CIS and other foreign countries**	**Total**	**Armenia**	**OECD**	**CIS and other foreign countries**	**Total**
Assets								
Cash and cash equivalents	16,188,469	2,946,632	4,364,544	**23,499,645**	25,791,358	24,030	2,737,085	**28,552,473**
Amounts due from credit institutions	12,235,809	894	29,690	**12,266,393**	4,676,206	2,739,247	33,576	**7,449,029**
Derivative financial assets	9,262	–	–	**9,262**	26,252	–	–	**26,252**
Loans and advances to customers	168,970,207	1,781,728	424,592	**171,176,527**	123,094,528	1,509,775	398,745	**125,003,048**
Investment securities	121,226,414	–	1,241,738	**122,468,152**	131,466,478	1,966,005	–	**133,432,483**
Securities pledged under repurchase agreements	88,595,879	–	–	**88,595,879**	78,718,547	–	–	**78,718,547**
Other financial assets	1,468,987	–	–	**1,468,987**	777,432	–	–	**777,432**
	408,695,027	**4,729,254**	**6,060,564**	**419,484,845**	**364,550,801**	**6,239,057**	**3,169,406**	**373,959,264**
Liabilities								
Amounts due to banks	85,677,830	6,023,650	125,189	**91,826,669**	66,796,630	3,503,774	10,503,322	**80,803,726**
Derivative financial liabilities	29,556	–	–	**29,556**	29,108	–	–	**29,108**
Amounts due to customers	104,822,602	11,989,586	43,962,829	**160,775,017**	65,254,784	23,650,851	40,630,409	**129,536,044**
Debt securities issued	20,204,940	3,265,874	31,551,506	**55,022,320**	19,313,528	2,987,030	30,108,185	**52,408,743**
Other borrowed funds	25,711,922	2,781,530	–	**28,493,452**	24,478,281	9,534,472	765,913	**34,778,666**
Subordinated loans	–	2,024,948	30,136,178	**32,161,126**	–	2,363,037	32,121,093	**34,484,130**
Other financial liabilities	898,695	1,620	123	**900,438**	815,172	655	–	**815,827**
	237,345,545	**26,087,208**	**105,775,825**	**369,208,578**	**176,687,503**	**42,039,819**	**114,128,922**	**332,856,244**
Net assets/(liabilities)	**171,349,482**	**(21,357,954)**	**(99,715,261)**	**50,276,267**	**187,863,298**	**(35,800,762)**	**(110,959,516)**	**41,103,020**

Liquidity risk and funding management

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

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBA. As at 31 December 2023 and 31 December 2022, these ratios were as follows:

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	Threshold	*31 December 2023, %*	*31 December 2022, %*
N21 "General Liquidity Ratio" (highly liquid assets/total assets)	min 15%	45.76	53.84
N22 "Current Liquidity Ratio" (highly liquid assets/liabilities payable on demand)	min 60%	268.51	509.90

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2023	*Less than 1 month*	*From 1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities							
Amounts due to banks	90,165,084	94,049	2,840,266	–	–	**93,099,399**	**91,826,669**
Derivative financial liabilities	29,556	–	–	–	–	**29,556**	**29,556**
Amounts due to customers	70,074,476	8,829,082	24,966,142	65,419,355	2,704,618	**171,993,673**	**160,775,017**
Other borrowed funds	440,029	477,026	1,835,329	17,308,409	18,753,929	**38,814,722**	**28,493,452**
Debt securities issued	332,158	665,381	3,044,779	59,535,149	–	**63,577,467**	**55,022,320**
Subordinated loans	443,400	612,447	4,810,038	23,533,288	21,329,945	**50,729,118**	**32,161,126**
Other financial liabilities	–	–	900,438	–	–	**900,438**	**900,438**
Total undiscounted financial liabilities	**161,484,703**	**10,677,985**	**38,396,992**	**165,796,201**	**42,788,492**	**419,144,373**	**369,208,578**
Commitments and contingent liabilities	**24,866,145**	**–**	**–**	**–**	**–**	**24,866,145**	

As at 31 December 2022	*Less than 1 month*	*From 1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities							
Amounts due to banks	80,425,745	146,805	248,452	–	–	**80,821,002**	**80,803,726**
Derivative financial liabilities	29,108	–	–	–	–	**29,108**	**29,108**
Amounts due to customers	35,611,175	5,221,351	40,302,780	63,010,630	221,125	**144,367,061**	**129,536,044**
Other borrowed funds	3,130,239	1,409,963	3,249,309	21,567,162	15,318,576	**44,675,249**	**34,778,666**
Debt securities issued	317,819	880,327	13,899,068	45,721,676	–	**60,818,890**	**52,408,743**
Subordinated loans	871,132	8,491,199	2,242,532	14,752,872	22,946,438	**49,304,173**	**34,484,130**
Other financial liabilities	33,653	–	782,174	–	–	**815,827**	**815,827**
Total undiscounted financial liabilities	**120,418,871**	**16,149,645**	**60,724,315**	**145,052,340**	**38,486,139**	**380,831,310**	**332,856,244**
Commitments and contingent liabilities	**17,597,453**	**–**	**–**	**–**	**–**	**17,597,453**	

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one months in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2023. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets measured at FVOCI at 31 December 2023 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2023***	***Sensitivity of net interest income 2023***	***Sensitivity of equity 2023***
AMD	1.00%	(958,133)	(8,794,439)
USD	1.00%	(322,764)	(558,397)

Currency	***Decrease in basis points 2023***	***Sensitivity of net interest income 2023***	***Sensitivity of equity 2023***
AMD	1.00%	958,133	8,794,439
USD	1.00%	322,764	558,397

Currency	***Increase in basis points 2022***	***Sensitivity of net interest income 2022***	***Sensitivity of equity 2022***
AMD	3.18%	(4,081,065)	(26,330,148)
USD	2.18%	(554,331)	(1,403,551)

Currency	***Decrease in basis points 2022***	***Sensitivity of net interest income 2022***	***Sensitivity of equity 2022***
AMD	3.18%	4,081,065	26,330,148
USD	2.18%	554,331	1,403,551

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

(thousands of Armenian drams)

30. Risk management (continued)

Market risk (continued)

Currency	*Change in currency rate in % 2023*	*Effect on profit before tax 2023*	*Change in currency rate in % 2022*	*Effect on profit before tax 2022*
USD	10.00%	8,063	12.62%	119,895
USD	(10.00%)	(8,063)	(12.62%)	(119,985)
EUR	10.00%	(3,041)	21.31%	39,278
EUR	(10.00%)	3,041	(21.31%)	(39,278)
RUB	10.00%	27,014	16.00%	40,278
RUB	(10.00%)	(27,014)	(16.00%)	(40,278)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31. Fair value measurements

Fair value measurement procedures

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as investment securities at FVOCI and derivatives and for non-recurring measurement, such as buildings and repossessed assets.

External valuers are involved for valuation of significant assets, such as buildings and repossessed assets. Involvement of external valuers is decided upon annually by the Supervisory Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
At 31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Investment securities at FVOCI pledged under repurchase agreements	–	88,595,879	–	**88,595,879**
Investment securities measured at FVOCI	–	44,313,510	–	**44,313,510**
Property and equipment and right-of-use assets - buildings	–	–	1,743,228	**1,743,228**
Derivative financial assets	–	9,262	–	**9,262**
Total	**–**	**132,918,651**	**1,743,228**	**134,661,879**
Assets for which fair value are disclosed				
Investment securities measured at amortized cost	–	81,732,133	–	**81,732,133**
Loans and advances to customers	–	–	171,928,537	**171,928,537**
Total	**–**	**81,732,133**	**171,928,537**	**253,660,670**
Liabilities measured at fair value				
Derivative financial liabilities	–	29,556	–	**29,556**
Total	**–**	**29,556**	**–**	**29,556**
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	91,826,669	**91,826,669**
Amounts due to customers	–	–	161,990,166	**161,990,166**
Other borrowed funds	–	–	26,342,048	**26,342,048**
Debt securities issued	–	55,500,073	–	**55,500,073**
Subordinated loans	–	–	30,428,213	**30,428,213**
Total	**–**	**55,500,073**	**310,587,096**	**366,087,169**

	Fair value measurement using			
At 31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Investment securities at FVOCI pledged under repurchase agreements	–	78,718,547	–	**78,718,547**
Investment securities measured at FVOCI	1,966,005	44,126,964	–	**46,092,969**
Property and equipment and right-of-use assets - buildings	–	–	1,821,262	**1,821,262**
Derivative financial assets	–	26,252	–	**26,252**
Total	**1,966,005**	**122,871,763**	**1,821,262**	**126,659,030**
Assets for which fair value are disclosed				
Investment securities measured at amortized cost	–	81,785,826	–	**81,785,826**
Loans and advances to customers	–	–	125,693,518	**125,693,518**
Total	**–**	**81,785,826**	**125,693,518**	**207,479,344**
Liabilities measured at fair value				
Derivative financial liabilities	–	29,108	–	**29,108**
Total	**–**	**29,108**	**–**	**29,108**
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	80,803,726	**80,803,726**
Amounts due to customers	–	–	130,315,815	**130,315,815**
Other borrowed funds	–	–	34,379,759	**34,379,759**
Debt securities issued	–	52,408,743	–	**52,408,743**
Subordinated loans	–	–	34,432,580	**34,432,580**
Total	**–**	**52,408,743**	**279,931,880**	**332,340,623**

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 31 December 2023	Fair value 31 December 2023	Unrecognised gain/(loss) 31 December 2023	Carrying value 31 December 2022	Fair value 31 December 2022	Unrecognised gain/(loss) 31 December 2022
Financial assets						
Loans and advances to customers at amortised cost	171,176,527	171,928,537	(752,010)	125,003,048	125,693,518	(690,470)
Investment securities − debt securities at amortised cost	78,154,643	81,732,133	(3,577,490)	87,339,514	81,785,826	5,553,688
Financial liabilities						
Amounts due to customers	160,775,017	161,990,166	(1,215,149)	129,536,044	130,315,815	(779,771)
Debt securities issued	55,022,320	55,500,073	(477,753)	52,408,743	52,878,756	(470,013)
Other borrowed funds	28,493,452	26,342,048	2,151,404	34,778,666	34,379,759	398,907
Subordinated loans	32,161,126	30,428,213	1,732,913	34,484,130	34,432,580	51,550
Total unrecognised change in fair value			**(2,138,085)**			**4,063,891**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Investment securities

Investment securities measured at fair value through other comprehensive income are valued using a valuation technique or pricing models and consist primarily of Armenian Government debt securities. These securities are valued using yield curves which incorporate data observable in the market and published by CBA.

Corporate securities measured at fair value through other comprehensive income are valued using a valuation technique or pricing models based on daily Armenian Securities exchange quotations.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly Currency swaps and Forward contracts. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including foreign exchange spot rates, forward rates and risk-free interest rate curves.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted bonds is based on price quotations for corporate bonds and yield curves for government bonds as of the reporting date. The fair value of non-quoted instruments, loans and advances to customers, customer deposits, amounts due from credit institutions, amounts due to banks, and other financial assets and liabilities are measured by discounting future cash flows based on the existing interest rates applicable to borrowed funds on similar conditions, credit risk and maturity.

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurements in Level 3

The Bank's non-financial assets classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets within this level can be reconciled from beginning to ending balance as follows:

Non-financial assets	***2023***	***2022***
Balance as at 1 January	**1,821,262**	**1,373,566**
Revaluation	–	525,520
Depreciation charge	(78,034)	(77,824)
Net fair value at 31 December	**1,743,228**	**1,821,262**

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property appraisers. The significant inputs and assumptions are developed in close consultation with management.

The appraisal was carried out using a comparative method that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the premise in question, including plot size, location, land/building consideration, internal works discount and negotiation discount.

The buildings were revalued during 2022. The buildings were previously revalued on 31 December 2016.

The significant unobservable input is the adjustment for factors specific to revalued property. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. The reasonably possible range of capitalization rate is 5.00%-15.00%. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

32. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognised a financial liability for cash received.

Similarly, the Bank may sell or re-pledge securities borrowed or purchased under agreements to resell but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Bank, which instead records a separate asset for any cash given.

As at December 31 December 2023 the Bank has securities sold under repurchase agreements amounted to AMD 88,595,879 thousand which were classified as measured at FVOCI and amortised cost (2022: AMD 78,718,547 thousand).

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2023 as amounts due to banks with carrying amount of AMD 83,490,557 thousand (2022: AMD 74,982,612 thousand).

(thousands of Armenian drams)

33. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the statement of financial position:

31 December 2023	*Gross amount of recognised financial assets/liabilities*	*Gross amount of recognised financial assets/liabilities set off in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not set off in the statement of financial position: Financial instruments*	*Related amounts not set off in the statement of financial position: Collateral received*	*Net amount*
Financial assets						
Amounts due from credit institutions – reverse repo	8,576,708	–	8,576,708	–	(9,096,586)	(519,878)
Loans and advances to customers – reverse repo	258,227	–	258,227	–	(271,321)	(13,094)
Total	**8,834,935**	**–**	**8,834,935**	**–**	(9,367,907)	**(532,972)**
Financial liabilities						
Amounts due to banks – repo	(83,490,557)	–	(83,490,557)	88,595,879	–	**5,105,322**
Amounts due to customers – repo	(100,101)	–	(100,101)	116,000	–	**15,899**
Total	**(83,590,658)**	**–**	**(83,590,658)**	**88,711,879**	**–**	**5,121,221**

31 December 2022	*Gross amount of recognised financial assets/liabilities*	*Gross amount of recognised financial assets/liabilities set off in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not set off in the statement of financial position: Financial instruments*	*Related amounts not set off in the statement of financial position: Cash collateral received*	*Net amount*
Financial assets						
Amounts due from credit institutions – reverse repo	2,327,437	–	2,327,437	–	1,967,831	**359,606**
Loans and advances to customers – reverse repo	179,687	–	179,687	–	428,278	**(248,591)**
Total	**2,507,124**	**–**	**2,507,124**	–	**(2,396,109)**	**111,015**
Financial liabilities						
Amounts due to banks – repo	(74,982,612)	–	(74,982,612)	78,718,547	–	**3,735,935**
Total	**(74,982,612)**	**–**	**(74,982,612)**	**78,718,547**	**–**	**3,736,935**

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 30 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	31 December 2023			*31 December 2022*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	23,499,645	–	**23,499,645**	28,552,473	–	**28,552,473**
Amounts due from credit institutions	11,463,892	802,501	**12,266,393**	7,289,392	159,637	**7,449,029**
Derivative financial assets	9,262	–	**9,262**	26,252	–	**26,252**
Loans and advances to customers	29,370,287	141,806,240	**171,176,527**	39,814,980	85,188,068	**125,003,048**
Investment securities	3,594,071	118,874,081	**122,468,152**	3,650,185	129,782,298	**133,432,483**
Investment securities pledged under repurchase agreements	88,595,879	–	**88,595,879**	78,718,547	–	**78,718,547**
Property and equipment	–	2,056,184	**2,056,184**	–	2,020,076	**2,020,076**
Intangible assets	–	111,222	**111,222**	–	82,402	**82,402**
Repossessed assets	872,185	–	**872,185**	1,175,804	–	**1,175,804**
Prepayments on income tax	45,526	–	**45,526**	–	–	**–**
Deferred income tax assets	–	1,822,121	**1,822,121**	–	4,178,389	**4,178,389**
Other assets	6,249,398	17,608	**6,267,006**	4,515,725	17,954	**4,533,679**
Total	**163,700,145**	**265,489,957**	**429,190,102**	**163,743,358**	**221,428,824**	**385,172,182**
Amounts due to banks	91,826,669	–	**91,826,669**	80,803,726	–	**80,803,726**
Derivative financial liabilities	29,556	–	**29,556**	29,108	–	**29,108**
Amounts due to customers	97,402,092	63,372,925	**160,775,017**	66,253,938	63,282,106	**129,536,044**
Other borrowed funds	1,063,251	27,430,201	**28,493,452**	7,170,876	27,607,790	**34,778,666**
Debt securities issued	8,589,703	46,432,617	**55,022,320**	11,949,934	40,458,809	**52,408,743**
Current income tax liabilities	–	–	**–**	186,533	–	**186,533**
Subordinated debt	2,161,126	30,000,000	**32,161,126**	10,516,280	23,967,850	**34,484,130**
Other liabilities	1,826,542	–	**1,826,542**	2,210,310	–	**2,210,310**
Total	**202,898,939**	**167,235,743**	**370,134,682**	**179,120,705**	**155,316,555**	**334,437,260**
Net	**(39,198,794)**	**98,254,214**	**59,055,420**	**(15,377,347)**	**66,112,269**	**50,734,922**

35. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of these financial statements, related parties include the Parent, entities under common control, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Bank is Vartan Sirmakes.

(thousands of Armenian drams)

35. Related party disclosures (continued)

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2023			*2022*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Loans and advances to customers						
Loans outstanding at 1 January, gross	**–**	**5,355,553**	**311,329**	**–**	**9,642,903**	**292,065**
Loans issued during the year	–	5,224,509	1,479,133	–	6,004,098	420,761
Loan repayments during the year	–	(2,805,291)	(1,192,905)	–	(10,291,448)	(401,497)
Loans outstanding at 31 December, gross	**–**	**7,774,771**	**597,557**	**–**	**5,355,553**	**311,329**
Less: allowance for impairment at 31 December	–	(822,014)	(7,060)	–	(429,796)	(3,744)
Loans outstanding at 31 December, net	**–**	**6,952,757**	**590,497**	**–**	**4,925,757**	**307,585**
Amounts due to banks						
At 1 January	**–**	**6,349**	**–**	**–**	**8,653**	**–**
Increase	–	22,943	–	–	1,837,123	–
Decrease	–	(20,016)	–	–	(1,839,427)	–
At 31 December	–	**9,276**	–	–	6,349	–
Deposits at 1 January	**40,083,790**	**20,926,228**	**252,478**	**54,014,694**	**17,487,368**	**19,146,647**
Deposits received during the year	73,289,824	46,311,153	10,269,044	48,602,476	44,115,562	2,636,507
Deposits repaid during the year	(77,670,378)	(46,150,513)	(10,213,300)	(62,533,380)	(40,676,702)	(21,530,676)
Deposits at 31 December	**35,703,236**	**21,086,868**	**308,222**	**40,083,790**	**20,926,228**	**252,478**
Debt securities issued						
At 1 January	**25,121,527**	**3,831,003**	**219,617**	**26,812,905**	**4,511,043**	**6,716,163**
Increase	10,292,702	2,761,146	309,709	33,919,485	6,368,765	433,222
Decrease	(9,060,968)	(3,154,851)	(139,991)	(35,610,863)	(7,048,805)	(6,929,768)
At 31 December	**26,353,261**	**3,437,298**	**389,335**	**25,121,527**	**3,831,003**	**219,617**
Subordinated debt						
At 1 January	**32,121,092**	**2,363,037**	**–**	**20,534,509**	**2,882,576**	**–**
Increase	15,648,108	550,393	–	20,184,071	906,608	–
Decrease	(17,633,022)	(888,482)	–	(8,597,488)	(1,426,147)	–
At 31 December	**30,136,178**	**2,024,948**	**–**	**32,121,092**	**2,363,037**	**–**
Commitments and guarantees issued	–	588,292	31,686	–	355,415	18,357
Statement of profit or loss						
Interest income	–	76,136	52,233	–	295,536	40,045
Expected credit loss charge	–	(392,218)	(3,316)	–	830,575	2,258
Fee and commission income	17,874	4,015	1,190	9,826	14,258	577
Net trading income	174,808	13,411	14,772	92,520	13,479	8,962
Interest expense	(9,103,918)	(816,016)	(30,676)	(9,399,452)	(1,901,904)	(22,912)
Administrative and other expenses	–	–	(13,890)	–	–	(23,904)
Fee and commission expense	–	–	–	–	(20)	–
Personnel expenses	–	–	(864)	–	(894)	(1,895)
Other income	–	–	23	–	8,461	2,018

(thousands of Armenian drams)

35. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2023	*2022*
Salaries and other short-term benefits	714,223	610,989
Total key management personnel compensation	**714,223**	**610,989**

36. Changes in liabilities arising from financing activities

	Notes	Debt securities issued	Other borrowed funds	Subordinated loans	Lease liabilities	Total liabilities from financing activities
Carrying amount at 31 December 2021	**16, 19, 20, 21**	**58,839,075**	**31,964,736**	**23,417,085**	**79,689**	**114,300,585**
Proceeds from issue		–	19,042,056	12,000,000	–	**31,042,056**
Redemption		–	(13,760,849)	–	(61,885)	**(13,822,734)**
Foreign currency translation		(6,458,780)	(2,637,025)	(953,854)	–	**(10,049,659)**
Other		28,448	169,748	20,899	5,666	**224,761**
Carrying amount at 31 December 2022	**16, 19, 20,21**	**52,408,743**	**34,778,666**	**34,484,130**	**23,470**	**121,695,009**
Proceeds from issue/Modification		13,014,650	5,055,714	8,000,000	158,756	**26,229,120**
Redemption		(11,451,670)	(11,343,494)	(10,326,129)	(92,640)	**(33,213,933)**
Foreign currency translation		1,113,159	139,182	20,809	–	**1,273,150**
Other		(62,562)	(136,616)	(17,684)	10,140	**(206,722)**
Carrying amount at 31 December 2023	**16, 19, 20,21**	**55,022,320**	**28,493,452**	**32,161,126**	**99,726**	**115,776,624**

The “Other” line includes the net effect of paid and accrued interest on debt securities issued, other borrowed funds, subordinated loans and lease liabilities during the year. The Bank classifies interest paid as cash flows from operating activities.

37. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank’s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (“BIS rules/ratios”) and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may attract subordinated loans, adjust the amount of dividend payment to shareholders or issue capital. No changes were made in the objectives, policies and processes from the previous years.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2023 this minimum level was 11% (2022: 12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2023 and 31 December 2022.

Starting from June 2023 the composition of Tier 1 and Tier 2 capital elements has been changed and these elements include FVOCI revaluation reserve which transferred from Tier 2 to Tier 1, and credit loss general reserve which added in Tier 2 with a maximum level of 1.25% included in the calculation of risk weighted assets.

(thousands of Armenian drams)

37. Capital adequacy (continued)

The following table shows the composition of capital position calculated in accordance with Basel Capital Accord 1988 with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2023 and 31 December 2022:

	31 December 2023	***31 December 2022***
Tier 1 capital	55,610,722	67,960,753
Tier 2 capital	20,558,003	17,523,779
Total capital	**76,168,724**	**85,484,532**
Risk weighted assets	**402,439,576**	**319,637,636**
Capital adequacy ratio N1.1	**13.82%**	**21.26%**
Capital adequacy ratio N1.2	**18.93%**	**26.74%**