ArmSwissBank CJSC

Financial statements

Year ended 31 December 2024
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 2024, 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 2024, 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.

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and advances to customers	
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.	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.

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Other information included in the Bank's 2024 Annual Report

Other information consists of the information included in the Bank's 2024 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2024 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, 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.
- 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

30 April 2025

Statement of financial position

As at 31 December 2024

(thousands of Armenian drams)

	Notes	*31 December 2024*	*31 December 2023*
Assets			
Cash and cash equivalents	6	27,139,747	23,499,645
Derivative financial assets	8	35,781	9,262
Amounts due from credit institutions	7	13,962,886	12,266,393
Loans and advances to customers	9	204,925,841	171,176,527
Investment securities	10	116,048,596	122,468,152
Investment securities pledged under repurchase agreements	10	90,151,363	88,595,879
Property and equipment and right-of-use assets	11	1,925,452	2,056,184
Intangible assets	12	117,082	111,222
Repossessed assets	13	1,750,995	872,185
Prepayments on income tax		–	45,526
Deferred tax assets	14	643,713	1,822,121
Other assets	16	11,322,484	6,267,006
Total assets		**468,023,940**	**429,190,102**
Liabilities			
Amounts due to banks	17	84,664,361	91,826,669
Derivative financial liabilities	8	80,370	29,556
Amounts due to customers	18	173,610,357	160,775,017
Debt securities issued	19	69,773,790	55,022,320
Other borrowed funds	20	29,629,001	28,493,452
Current income tax liabilities		1,098,856	–
Other liabilities	16	3,898,796	1,826,542
Subordinated loans	21	30,148,534	32,161,126
Total liabilities		**392,904,065**	**370,134,682**
Equity	22		
Share capital		10,000,200	10,000,200
Share premium		6,205,548	6,205,548
Statutory general reserve		40,000,000	40,000,000
Retained earnings		21,520,203	11,705,333
Revaluation reserve for investment securities		(4,164,844)	(10,414,429)
Revaluation reserve of property		1,558,768	1,558,768
Total equity		**75,119,875**	**59,055,420**
Total equity and liabilities		**468,023,940**	**429,190,102**

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

Gevorg Machanyan — Chief Executive Officer

Sedrak Baghdasaryan — Chief Accountant

ARMSWISSBANK 02574955

30 April 2025

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 2024

(thousands of Armenian drams)

	Notes	*2024*	*2023*
Interest income calculated using effective interest rate	24	41,439,737	36,979,006
Other interest income	24	1,297,077	622,967
Interest expense	24	(28,140,511)	(28,014,222)
Net interest income	24	**14,596,303**	**9,587,751**
Credit loss (expense)/recovery	15	(1,872,522)	1,220,453
Net interest income after credit loss (expense)/recovery		**12,723,781**	**10,808,204**
Fee and commission income	25	1,551,040	862,895
Fee and commission expense	25	(335,655)	(220,956)
Net trading income	26	1,772,459	1,104,024
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		183,141	138,915
Net loss on derecognition of financial assets at amortized cost	27	–	(8,309,288)
Net losses from foreign currency translation		(224,750)	(94,089)
Other income	28	591,937	429,852
Non-interest income		**3,538,172**	**(6,088,647)**
Personnel expenses	29	(2,971,807)	(2,164,124)
Depreciation of property and equipment	11	(232,917)	(221,269)
Amortization of intangible assets	12	(35,606)	(33,068)
Other expenses	29	(740,078)	(668,732)
Other impairments expense	15	(226,375)	(15,182)
Non-interest expense		**(4,206,783)**	**(3,102,375)**
Profit before income tax expense		**12,055,170**	**1,617,182**
Income tax expense	14	(2,240,300)	(1,666,854)
Profit/(loss) for the year		**9,814,870**	**(49,672)**

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

Statement of comprehensive income

For the year ended 31 December 2024

(thousands of Armenian drams)

	Notes	2024	2023
Profit/(loss) for the year		**9,814,870**	**(49,672)**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of corporate shares		52,219	–
Income tax relating to components of other comprehensive income	14	(9,399)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**42,820**	**–**
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		7,541,169	10,136,294
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		28,057	71,230
Income tax relating to components of other comprehensive income	14	(1,362,461)	(1,837,354)
Net other comprehensive profit to be reclassified to profit or loss in subsequent periods		**6,206,765**	**8,370,170**
Other comprehensive profit for the year, net of tax		**6,249,585**	**8,370,170**
Total comprehensive profit for the year		**16,064,455**	**8,320,498**

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 2024

(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 2023	**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**
Profit for the year	–	–	–	–	–	9,814,870	**9,814,870**
Other comprehensive income for the year							
Net change in fair value of investment securities at FVOCI	–	–	–	7,795,400	–	–	**7,795,400**
Net loss reclassified to profit or loss on sale of investment securities at FVOCI	–	–	–	(202,012)	–	–	**(202,012)**
Net changes in allowance for expected credit losses of investment securities at FVOCI	–	–	–	28,057	–	–	**28,057**
Income tax relating to components of other comprehensive income	–	–	–	(1,371,860)	–	–	**(1,371,860)**
Total comprehensive income for the year	**–**	**–**	**–**	**6,249,585**	**–**	**–**	**6,249,585**
31 December 2024	**10,000,200**	**6,205,548**	**40,000,000**	**(4,164,844)**	**1,558,768**	**21,520,203**	**75,119,875**

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

Statement of cash flows

For the year ended 31 December 2024

(thousands of Armenian drams)

	Notes	*2024*	*2023*
Cash flows from operating activities			
Profit before tax		12,055,170	1,617,182
Adjustments for:			
Impairment recovery/(loss) of financial assets	15	1,872,522	(1,220,453)
Other impairments	15	226,375	15,182
Amortization and depreciation allowances	11,12	268,523	254,337
Interest receivable		(218,030)	(346,654)
Interest payable		(2,770)	93,287
Net income from disposal of property and equipment		(1,299)	–
Net gain from disposal of repossessed assets	28	–	(30,275)
Foreign currency translation net loss		224,750	94,089
Net loss/(income) from revaluation of precious metals		(21,386)	1,361
Net loss from changes in fair value of derivatives		24,296	17,438
Cash flows from operating activities before changes in operating assets and liabilities		**14,428,151**	**495,494**
(Increase)/decrease in operating assets			
Amounts due from credit institutions		(1,528,013)	(4,568,119)
Loans and advances to customers		(37,174,261)	(42,155,813)
Repossessed assets		(878,810)	388,043
Other assets		(5,055,018)	(1,708,913)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		(6,810,542)	10,627,960
Amounts due to customers		14,945,886	29,047,006
Other liabilities		2,041,905	(466,687)
Net cash flows used in operating activities before income tax		**(20,030,702)**	**(8,341,029)**
Income tax paid		(1,286,614)	(1,379,997)
Net cash used in operating activities		**(21,317,316)**	**(9,721,026)**
Cash flows from investing activities			
Purchase of investment securities		(15,775,129)	(42,748,549)
Proceeds from sale and redemption of investment securities		27,405,562	54,365,884
Purchase of property and equipment	11	(102,184)	(257,376)
Sale of property and equipment		1,261	–
Purchase of intangible assets	12	(41,504)	(61,888)
Net cash from investing activities		**11,488,006**	**11,298,071**
Cash flows from financing activities			
Proceeds from other borrowed funds	36	12,539,792	5,055,714
Repayment of other borrowed funds	36	(11,365,500)	(11,343,494)
Proceeds from debt securities issued	36	23,130,656	13,014,650
Redemption of debt securities issued	36	(7,578,808)	(11,451,670)
Proceeds from subordinated debt	36	3,702,238	8,000,000
Repayment of subordinated debt	36	(5,642,307)	(10,326,129)
Repayment of lease liabilities	36	(105,600)	(92,640)
Net cash (used in)/from financing activities		**14,680,471**	**(7,143,569)**
Effect of exchange rates changes on cash and cash equivalents		(1,185,926)	529,292
Effect of expected credit losses on cash and cash equivalents	6	(25,133)	(15,596)
Net increase/(decrease) in cash and cash equivalents		**3,640,102**	**(5,052,828)**
Cash and cash equivalents at the beginning of the year	6	23,499,645	28,552,473
Cash and cash equivalents at the end of the year	**6**	**27,139,747**	**23,499,645**

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

(thousands of Armenian drams)

1. Principal activities

a) Organisation and operations

ArmSwissBank CJSC (the "Bank") was formed in 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 2024, the number of Bank's employees is 172 (31 December 2023: 158).

As of 31 December 2024, the shareholders of the Bank are:

Shareholder	*31 December 2024, %*	*31 December 2023, %*
"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 Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

In 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 Bank. 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 Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2024 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

The amendments in IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments had no impact on the Bank's financial statements.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The Bank disclosed the corresponding information in Note 20 to the financial statements.

Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

The amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments had no impact on the Bank's financial statements.

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 Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

New and amended standards and interpretations (continued)

Lack of exchangeability – Amendments to IAS 21

In August 2023, the IASB issued amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.

The amendments are not expected to have a material impact on the Bank's financial statements.

Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments *to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments* (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date;
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed;
- Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments;
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

With respect to the amendments on the derecognition of financial liabilities that are settled through an electronic payment system, the Bank is currently performing an assessment of all material electronic payment systems utilised in the various jurisdictions it operates, in order to assess whether the amendments will result in a material change with respect to current practices and whether it meets the conditions to apply the accounting policy option to derecognise such financial liabilities before the settlement date. Moreover, the Bank is reviewing all its other payment systems (such as cheques, credit cards, debit cards) to ensure that the corresponding financial assets are derecognised when the right to cash flows are extinguished and that the corresponding financial liabilities are derecognised on settlement date.

In addition, the Bank is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features, as well as on non-recourse financing and contractually linked instruments.

The Bank is currently working to identify all impacts the amendments will have on the financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 *Presentation of Financial Statements*. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new.

It also requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

New and amended standards and interpretations (continued)

In addition, narrow-scope amendments have been made to IAS 7 *Statement of Cash Flows*, which include changing the starting point for determining cash flows from operations under the indirect method, from ‘profit or loss’ to ‘operating profit or loss’ and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

IFRS 18, and the amendments to the other standards, is effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively.

The Bank is currently working to identify all impacts the amendments will have on the primary financial statements and notes to the financial statements.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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), including obligatory reserves, and amounts due from banks which can be converted into cash at short notice.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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 asset cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

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 2024 and 31 December 2023, were AMD 396.56 and AMD 404.79 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:

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.

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

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 2024 or 2023.

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

2024	*Investment banking*	*Corporate banking*	*Total*
External income			
Interest income calculated using effective interest rate	21,372,182	20,067,555	**41,439,737**
Other interest income	–	1,297,077	**1,297,077**
Interest expense	(14,257,071)	(13,883,440)	**(28,140,511)**
Net interest income	**7,115,111**	**7,481,192**	**14,596,303**
Credit loss expense	(23,865)	(1,848,657)	**(1,872,522)**
Fee and commission income	7,325	1,543,715	**1,551,040**
Fee and commission expense	–	(335,655)	**(335,655)**
Other non-interest income	1,665,840	881,697	**2,547,537**
Non-interest expense	(298,343)	(3,906,815)	**(4,205,158)**
Other impairments expense	–	(226,375)	**(226,375)**
Segment profit	**8,466,068**	**3,589,102**	**12,055,170**
Income tax expense	(1,606,664)	(633,636)	**(2,240,300)**
Profit for the period	**6,859,404**	**2,955,466**	**9,814,870**

(thousands of Armenian drams)

5. Segment information (continued)

2023	*Investment banking*	*Corporate banking*	*Total*
External income			
Interest income calculated using effective interest rate	22,189,067	14,789,939	**36,979,006**
Other interest income	–	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 (expense)/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)/benefit	(2,675,431)	1,008,577	**(1,666,854)**
Profit/(loss) for the period	**(381,917)**	**332,245**	(49,672)

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 2024	218,041,561	207,977,485	42,004,894	**468,023,940**
At 31 December 2023	181,071,693	215,312,167	32,806,242	**429,190,102**

	Corporate banking	*Investment banking*	*Unallocated balances*	*Total*
Segment liabilities				
At 31 December 2024	203,758,891	184,147,522	4,997,652	**392,904,065**
At 31 December 2023	192,936,143	175,371,997	1,826,542	**370,134,682**

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.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2024 and 2023 is as follows:

2024	*Investment banking*	*Corporate banking*	*Total*
Commission income			
Guarantees and letters of credit	–	907,502	**907,502**
Wire transfer fees	6,747	425,392	**432,139**
Plastic cards operations	–	190,965	**190,965**
Brokerage operations	548	17,280	**17,828**
Settlements operations	30	2,576	**2,606**
Total revenue from contracts with customers	**7,325**	**1,543,715**	**1,551,040**

(thousands of Armenian drams)

5. Segment information (continued)

Revenue from contracts with customers (continued)

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**
Settlements operations	–	109,135	**109,135**
Plastic cards operations	4,530	66,869	**71,399**
Brokerage operations	–	60,515	**60,515**
Other income	–	6,043	**6,043**
Total revenue from contracts with customers	**7,992**	**854,903**	**862,895**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2024	*31 December 2023*
Current accounts with the Central Bank	18,988,186	14,572,598
Current accounts with other credit institutions	5,975,799	3,304,390
Cash on hand	1,831,028	2,530,728
Time deposits with credit institutions up to 90 days	396,615	3,118,677
	27,191,628	**23,526,393**
Less: allowance for impairment	(51,881)	(26,748)
Cash and cash equivalents	**27,139,747**	**23,499,645**

All balances of cash equivalents are allocated to Stage 1.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2024	*31 December 2023*
Reverse repurchase agreements	11,053,790	8,576,708
Loans to credit organizations	1,555,367	2,839,036
Deposited funds with other financial institutions	398,536	411,720
Loans to investment organizations	250,362	160,472
Receivables from payment and settlement operations	72,348	1,278
Other amounts	674,137	351,247
	14,004,540	**12,340,461**
Less: allowance for impairment	(41,654)	(74,068)
Amounts due from credit institutions	**13,962,886**	**12,266,393**

The Bank had entered into reverse repurchase agreements with 12 (twelve) financial institutions as at 31 December 2024 (31 December 2023: 8 (eight)). The subject of these agreements are Armenian state securities with a fair value of AMD 11,596,803 thousand as of 31 December 2024 (31 December 2023: AMD 9,367,907 thousand).

As at 31 December 2024, 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 (2023: AMD 260,000 thousand).

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

(thousands of Armenian drams)

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 2024			*31 December 2023*		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Interest rate contracts						
Forwards and swaps − domestic	2,043,343	–	65,665	1,936,157	5,847	28,883
Foreign exchange contracts						
Forwards and swaps − domestic	3,330,473	35,781	14,705	1,158,994	3,415	673
Total derivative assets/ liabilities	**5,373,816**	**35,781**	**80,370**	**3,095,151**	**9,262**	**29,556**

As at 31 December 2024 and 31 December 2023, 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.

9. Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2024	***31 December 2023***
Corporate lending	128,268,183	111,825,539
Small business lending	27,303,243	24,149,665
Other	15,228,671	10,222,629
Gross loans and advances to legal entities at amortised cost	**170,800,097**	**146,197,833**
Residential mortgages	38,853,780	28,097,993
Consumer lending	4,522,018	4,227,590
Gross loans and advances to individuals at amortised cost	**43,375,798**	**32,325,583**
Gross loans and advances to customers at amortised cost	**214,175,895**	**178,523,416**
Less: allowance for impairment	(9,250,054)	(7,346,889)
Loans and advances to customers	**204,925,841**	**171,176,527**

	31 December 2024	***31 December 2023***
Overdrafts/Credit lines	107,620,049	104,420,219
Loans to customers	89,831,003	63,343,424
Financial lease receivables	11,862,852	7,583,321
Factoring	3,616,425	2,726,040
Letter of credit	799,730	192,185
Reverse repurchase agreements	410,796	258,227
Guarantee	35,040	–
Gross loans and advances to customers at amortised cost	**214,175,895**	**178,523,416**
Less: allowance for impairment	(9,250,054)	(7,346,889)
Loans and advances to customers	**204,925,841**	**171,176,527**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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 2024 is as follows:

Loans and advances to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2024	**125,101,815**	**11,083,549**	**10,012,469**	**146,197,833**
New assets originated or purchased	87,131,892	–	–	**87,131,892**
Assets repaid	(55,592,694)	(4,089,256)	(2,019,405)	**(61,701,355)**
Transfers to Stage 1	922,731	(922,731)	–	**–**
Transfers to Stage 2	(14,751,956)	14,962,277	(210,321)	**–**
Transfers to Stage 3	(4,169,588)	(6,128,572)	10,298,160	–
Recoveries	–	–	5,950,792	**5,950,792**
Amounts written off	–	–	(6,028,697)	**(6,028,697)**
Foreign exchange adjustments	(588,981)	(13,787)	(147,600)	**(750,368)**
As at 31 December 2024	**138,053,219**	**14,891,480**	**17,855,398**	**170,800,097**

Loans and advances to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2024	**1,189,188**	**1,764,429**	**3,992,515**	**6,946,132**
New assets originated or purchased	3,343,834	–	–	**3,343,834**
Assets repaid	(547,195)	(460,984)	(1,158,037)	**(2,166,216)**
Transfers to Stage 1	69,605	(69,605)	–	**–**
Transfers to Stage 2	(1,858,969)	1,960,618	(101,649)	**–**
Transfers to Stage 3	(748,781)	(917,570)	1,666,351	–
Impact on period end ECL of exposures transferred between stages during the period	(50,487)	(24,269)	3,045,095	**2,970,339**
Unwinding of discount (recognised in interest revenue)	–	–	119,444	**119,444**
Changes to models and inputs used for ECL calculations	1,132	(46,989)	(2,389,527)	**(2,435,384)**
Recoveries	–	–	5,950,792	**5,950,792**
Amounts written off	–	–	(6,028,697)	**(6,028,697)**
Foreign exchange adjustments	(63,067)	(4,155)	(23,624)	**(90,846)**
As at 31 December 2024	**1,335,260**	**2,201,475**	**5,072,663**	**8,609,398**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2024 is as follows:

Loans and advances to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2024	**30,836,372**	**212,503**	**1,276,708**	**32,325,583**
New assets originated or purchased	17,035,654	–	–	**17,035,654**
Assets repaid	(4,842,086)	(60,926)	(935,512)	**(5,838,524)**
Transfers to Stage 1	98,292	(98,292)	-	**–**
Transfers to Stage 2	(234,685)	255,194	(20,509)	**–**
Transfers to Stage 3	(315,088)	(45,723)	360,811	**–**
Recoveries	–	–	1,606	**1,606**
Amounts written off	–	–	(3,245)	**(3,245)**
Foreign exchange adjustments	(127,732)	(9,585)	(7,959)	**(145,276)**
As at 31 December 2024	**42,450,727**	**253,171**	**671,900**	**43,375,798**

(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 2024	**287,172**	**17,366**	**96,219**	**400,757**
New assets originated or purchased	213,073	-	-	213,073
Assets repaid	(52,133)	(10,716)	(55,635)	(118,484)
Transfers to Stage 1	3,929	(3,929)	-	-
Transfers to Stage 2	(1,529)	15,562	(14,033)	-
Transfers to Stage 3	(13,489)	(2,713)	16,202	-
Impact on period end ECL of exposures transferred between stages during the period	(4,546)	23,883	148,847	168,184
Unwinding of discount (recognised in interest revenue)	-	-	19	19
Changes to models and inputs used for ECL calculations	(21,023)	(66)	755	(20,334)
Recoveries	-	-	1,606	1,606
Amounts written off	-	-	(3,245)	(3,245)
Foreign exchange adjustments	(657)	(12)	(251)	(920)
As at 31 December 2024	**410,797**	**39,375**	**190,484**	**640,656**

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	(40,835,520)	(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	692,958	175,516	112,467	–	**980,941**
As at 31 December 2023	**125,101,815**	**11,083,549**	**10,012,469**	**–**	**146,197,833**

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**

(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 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)**
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**

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.

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

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 exposure*	*Associated ECL*
31 December 2024							
Corporate lending	15,056,609	4,148,646	688,723	(56,232)	**4,781,137**	10,275,472	3,734,020
Small business lending	783,338	688,599	53,265	(40,593)	**701,271**	82,067	380,953
Residential mortgages	292,758	43,776	−	(15,040)	**28,736**	264,022	7,592
Consumer lending	379,142	157,824	−	(104,895)	**52,929**	326,213	182,892
Other	2,015,451	1,364,416	112,128	−	**1,476,544**	538,907	957,690
	18,527,298	**6,403,261**	**854,116**	**(216,760)**	**7,040,617**	**11,486,681**	**5,263,147**

	Maximum exposure to credit risk	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2023							
Corporate lending	8,147,115	7,212,432	1,298,130	(2,855,780)	**5,654,782**	2,492,333	3,253,591
Small business lending	48,939	99,489	−	(50,550)	**48,939**	−	461
Residential mortgages	1,043,866	1,039,513	−	(88,956)	**950,557**	93,309	93,529
Consumer lending	232,842	250,849	−	(21,252)	**229,597**	3,245	2,690
Other	1,816,415	1,921,995	140,160	(276,110)	**1,786,045**	30,370	738,463
	11,289,177	**10,524,278**	**1,438,290**	**(3,292,648)**	**8,669,920**	**2,619,257**	**4,088,734**

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

Concentration of loans and advances to customers

As at 31 December 2024, the Bank had a concentration of loans represented by AMD 49,396,471 thousand due from the ten largest borrowers (23.07% of gross loan portfolio) (2023: AMD 42,769,252 thousand or 23.90%). An allowance of AMD 1,408,788 thousand (2023: AMD 1,591,554 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	31 December 2024	*31 December 2023*
Private companies	168,764,235	145,912,160
Individuals	44,944,080	32,325,583
State companies	467,580	285,673
	214,175,895	**178,523,416**

Loans are made principally within Armenia in the following sectors:

	31 December 2024	*31 December 2023*
Manufacturing	50,866,186	44,723,764
Construction	39,358,206	28,942,595
Mortgage loan	38,853,780	28,097,993
Retail	27,305,149	24,147,402
Electricity generation, transmission and distribution	18,515,866	19,413,242
Agriculture	9,416,805	10,697,982
Tourism / Hospitality	9,164,109	8,663,257
Consumer loan	3,928,596	2,246,532
Credit card loan	1,562,435	1,367,867
Other	15,204,763	10,222,782
	214,175,895	**178,523,416**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Concentration of loans and advances to customers (continued)

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2024 is as follows:

Gross investment in finance leases	
Not later than 1 year	4,647,068
Between 1 and 2 years	4,282,826
Between 2 and 3 years	3,456,128
Between 3 and 4 years	2,003,208
Between 4 and 5 years	972,160
Later than 5 years	239,477
	15,600,867
Unearned future finance income on finance leases	(3,738,015)
Net investment in finance leases before impairment allowance	**11,862,852**
Impairment allowance	(191,804)
Net investment in finance leases	**11,671,048**

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 investment in finance leases	**7,435,021**

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2024	***31 December 2023***
Debt securities at amortised cost		
Government bonds	70,941,675	78,370,436
	70,941,675	**78,370,436**
Less: allowance for impairment	(218,882)	(215,793)
Debt securities at amortised cost	**70,722,793**	**78,154,643**
Debt securities at FVOCI		
Government bonds	35,790,915	40,385,355
Corporate bonds	9,429,437	3,892,080
Debt securities at FVOCI	**45,220,352**	**44,277,435**
Government bonds	90,151,363	88,595,879
Debt securities at FVOCI pledged under repurchase agreements	**90,151,363**	**88,595,879**
Equity securities at FVOCI		
RA equity share	105,451	36,074
Equity securities at FVOCI	**105,451**	**36,074**
Investment securities at FVOCI including pledged under repurchase agreements	**135,477,166**	**132,909,388**
Credit loss allowance	**(401,447)**	**(373,390)**
Carrying amount – fair value	**135,477,166**	**132,909,388**

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

(thousands of Armenian drams)

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 2024	**1,812,894**	**176,731**	**341,232**	**166,545**	**59,065**	**332,520**	**2,888,987**
Additions/Modifications	–	5,399	7,906	–	–	88,879	**102,184**
Disposals and write-offs	–	(7,178)	(11,812)	–	–	**–**	**(18,990)**
31 December 2024	**1,812,894**	**174,952**	**337,326**	**166,545**	**59,065**	**421,399**	**2,972,181**
Accumulated depreciation							
1 January 2024	**78,034**	**137,177**	**243,522**	**77,995**	**59,034**	**237,040**	**832,802**
Depreciation charge	78,034	8,402	36,089	18,920	31	91,441	**232,917**
Disposals and write-offs	–	(7,178)	(11,812)	–	–	**–**	**(18,990)**
31 December 2024	**156,068**	**138,401**	**267,799**	**96,915**	**59,065**	**328,481**	**1,046,729**
Net book value							
1 January 2024	**1,734,860**	**39,554**	**97,710**	**88,550**	**31**	**95,480**	**2,056,185**
31 December 2024	**1,656,826**	**36,551**	**69,527**	**69,630**	**–**	**92,918**	**1,925,452**

	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**

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 257,518 thousand as of 31 December 2024 (2023: AMD 275,912 thousand).

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

	31 December 2024	*31 December 2023*
Cost	551,825	551,825
Accumulated depreciation and impairment	(294,307)	(275,913)
Net carrying amount	**257,518**	**275,912**

Fully depreciated items

As of 31 December 2024 property, plant and equipment included fully depreciated assets in amount of AMD 338,380 thousand (2023: AMD 289,290 thousand).

(thousands of Armenian drams)

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2023	**109,024**	**155,826**	**264,850**
Additions	5,574	35,930	41,504
Disposals and write-offs	(2,898)	–	(2,898)
31 December 2024	**111,700**	**191,756**	**303,456**
Accumulated amortization			
31 December 2023	**54,182**	**99,446**	**153,628**
Amortisation charge	13,244	22,362	**35,606**
Disposals and write-offs	(2,860)	–	**(2,860)**
31 December 2024	**64,566**	**121,808**	**186,374**
Net book value			
31 December 2023	**54,842**	**56,380**	**111,222**
31 December 2024	**47,134**	**69,948**	**117,082**

	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**

Fully amortized items

As of 31 December 2024, intangible assets included fully amortized assets in amount of AMD 42,769 thousand (2023: AMD 42,931 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 2024 and 31 December 2023 are shown below:

	31 December 2024	*31 December 2023*
Land and buildings	2,101,298	1,222,518
Other assets	139,457	139,427
	2,240,755	**1,361,945**
Less: allowance for impairment	(489,760)	(489,760)
Total repossessed collateral	**1,750,995**	**872,185**

(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 2024 the Bank repossessed assets in the amount of AMD 878,810 thousand (2023: no assets have been repossessed) and did not sell any assets (2023: AMD 357,798 thousand).

14. Taxation

The corporate income tax expense comprises:

	2024	*2023*
Current tax charge	2,433,752	1,147,940
Deferred tax (charge)/credit − origination and reversal of temporary differences	(193,452)	518,914
Income tax expense	**2,240,300**	**1,666,854**

For the year 2024 the corporate income tax within the Republic of Armenia is levied at the rate of 18% (2023: 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:

	2024	*2023*
Profit before tax	**12,055,170**	**1,617,182**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**2,169,931**	**291,093**
Net loss on derecognition of financial assets at amortized cost	−	1,327,992
Other non-deductible expenditures	70,369	47,769
Income tax expense	**2,240,300**	**1,666,854**

Deferred tax assets and liabilities as of 31 December 2024 and 31 December 2023 and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2022	***In the statement of profit or loss***	***In other compre-hensive income***	***31 December 2023***	***In the statement of profit or loss***	***In other compre-hensive income***	***31 December 2024***
Cash and cash equivalents	2,007	2,807	−	4,814	4,525	−	9,339
Derivative financial assets	(6,256)	12,458	−	6,202	(4,231)	−	1,971
Amounts due from credit institutions	(5,591)	1,223	−	(4,368)	(3,903)	−	(8,271)
Loans and advances to customers	73,747	(636,019)	−	(562,272)	97,651	−	(464,621)
Investment securities at FVOCI	4,177,836	17,875	(1,837,354)	2,358,357	(4)	(1,371,860)	986,493
Investment securities at amortised cost	61,038	145,485	−	206,523	(8,932)	−	197,591
Property and equipment	(261,697)	20,092	−	(241,605)	10,864	−	(230,741)
Repossessed assets	97,909	(9,747)	−	88,162	−	−	88,162
Other assets	(18,922)	(63,012)	−	(81,934)	(17,598)	−	(99,532)
Other provisions	2,794	6,879	−	9,673	4,344	−	14,017
Lease liabilities	(1,540)	-	−	(1,540)	−	−	(1,540)
Other liabilities	57,064	(16,955)	−	40,109	110,736	−	150,845
Net deferred tax assets/(liabilities)	**4,178,389**	**(518,914)**	**(1,837,354)**	**1,822,121**	**193,452**	**(1,371,860)**	**643,713**

(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 2024:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	25,133	–	–	**25,133**
Amounts due from credit institutions	7	(32,414)	–	–	**(32,414)**
Loans and advances to customers at amortised cost	9	2,882,655	(519,141)	(408,502)	**1,955,012**
Debt securities measured at amortised cost	10	3,089	–	–	**3,089**
Debt securities measured at FVOCI	10	28,057	–	–	**28,057**
Other financial assets	16	232	–	–	**232**
Loan commitments	23	(106,587)	–	–	**(106,587)**
Total credit loss expense/(recovery)		**2,800,165**	**(519,141)**	**(408,502)**	**1,872,522**

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 2023:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*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 expense/(recovery)		**236,786**	**298,148**	**(1,755,387)**	**(1,220,453)**

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

	Repossessed assets	*Guarantees*	*Total*
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**
Charge	–	226,375	**226,375**
31 December 2024	**489,760**	**445,184**	**934,944**

16. Other assets and liabilities

Other assets comprise:

	31 December 2024	*31 December 2023*
Other financial assets		
Non-cleared transactions*	3,295,616	–
Accounts receivable	781,967	1,509,289
Less: allowance for impairment of other financial assets	(40,534)	(40,302)
Total other financial assets	**4,037,049**	**1,468,987**
Prepayments to suppliers	6,464,900	4,478,075
Other prepaid taxes	734,475	284,153
Precious metals	72,615	2,524
Materials	10,141	8,023
Other non-financial assets	3,304	25,244
Total other non-financial assets	**7,285,435**	**4,798,019**
Other assets	**11,322,484**	**6,267,006**

* *Non-cleared transactions represent customer transactions that have not yet been debited from corresponding Bank accounts as at 31 December but have been cleared shortly after the year-end.*

(thousands of Armenian drams)

16. Other assets and liabilities (continued)

Other liabilities comprise:

	31 December 2024	*31 December 2023*
Other financial liabilities		
Due to personnel	888,724	269,881
Non-cleared transactions*	741,486	15,972
Accounts payable	396,684	345,889
Lease liabilities	97,045	99,726
Allowance for credit losses	62,349	168,968
Other financial liabilities	**2,186,288**	**900,436**
Other non-financial liabilities		
Tax payable, other than income tax	872,997	431,670
Provisions	445,216	218,809
Prepayments received for lease contracts	387,039	271,758
Other non-financial liabilities	7,256	3,869
Other non-financial liabilities	**1,712,508**	**926,106**
Other liabilities	**3,898,796**	**1,826,542**

* *Non-cleared transactions represent Vostro or customer transactions from outside the Bank that have not yet been credited to corresponding Bank accounts as at 31 December but have been cleared shortly after the year-end.*

17. Amounts due to banks

Amounts due to banks comprise:

	31 December 2024	*31 December 2023*
Repurchase agreements	81,433,975	83,490,557
Loans from banks	2,704,744	3,138,916
Letters of credit with banks	500,695	5,173,270
Correspondent accounts with banks	19,946	21,001
Other liabilities	5,001	2,925
Amounts due to banks	**84,664,361**	**91,826,669**

The Bank had entered into repurchase agreements with 4 banks and Central Bank of Armenia as at 31 December 2024 (31 December 2023: 6 banks). The subject of these agreements are Armenian state securities with a fair value of AMD 90,151,363 thousand as of 31 December 2024 (31 December 2023: AMD 88,595,879 thousand). See Note 10.

18. Amounts due to customers

The amounts due to customers include the following:

	31 December 2024	*31 December 2023*
Corporate customers		
Term deposits	71,864,397	81,677,155
Current/settlement accounts	64,476,333	49,047,782
Repurchase agreements	1,001,327	100,101
Retail customers		
Term deposits	23,325,082	23,652,139
Current/settlement accounts	12,943,218	6,297,840
Amounts due to customers	**173,610,357**	**160,775,017**

As at 31 December 2024, amounts due to customers of AMD 94,419,124 thousand (54.39%) were due to the ten largest customers (2023: AMD 89,130,942 thousand (55.44%)).

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.

(thousands of Armenian drams)

18. Amounts due to customers (continued)

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

	31 December 2024	*31 December 2023*
Commercial organizations	89,023,064	84,919,026
Individuals	36,268,300	29,949,979
Financial institutions	11,588,467	17,160,137
Investment companies	13,722,042	13,882,634
State and budgetary organizations	14,305,031	10,209,983
Personal entrepreneur	5,700,194	2,406,857
Non-commercial organizations	2,899,405	2,129,256
Other	103,854	117,145
	173,610,357	**160,775,017**

19. Debt securities issued

Debt securities issued consisted of the following:

	31 December 2024	*31 December 2023*
Domestic bonds in AMD	41,376,397	26,438,470
Domestic bonds in USD	19,466,605	20,014,880
Domestic bonds in EUR	8,930,788	8,568,970
Debt securities issued	**69,773,790**	**55,022,320**

The contractual maturity of AMD, USD and EUR bonds ranges from 2025-2028. Coupon rates are 8.50%, 9.00%, 10.00%, 10.20% and 11.75% for bonds denominated in AMD, 6.00%, 6.25% and 6.50% for bonds denominated in USD and 3.50%, 4.50% and 5.00% for bonds denominated in EUR.

Bonds issued by the Bank are listed in Armenia Securities Exchange.

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31 December 2024	*31 December 2023*
Loans from CBA	22,204,392	22,869,094
Loans from international financial organizations	4,080,320	2,781,530
Loans from refinancing credit organizations	3,344,289	2,842,828
Other borrowed funds	**29,629,001**	**28,493,452**

As at 31 December 2024, 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.

Loans from international financial organizations include loans from European Bank for Reconstruction and Development and from European Investment Bank.

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

Covenants

The borrowing arrangement by EBRD with carrying value of AMD 800,437 thousand as at 31 December 2024 is subject to the following covenants for the Bank: CBA Capital adequacy ratio, Liquidity coverage ratio, Net stable funding ratio etc. All the covenants are tested quarterly based on managerial accounting and annually based on IFRS financial statements. The Bank has no indication that it will have difficulty complying with these covenants over the next twelve months from the reporting date.

As at 31 December 2024 and 31 December 2023 the Bank was in compliance with all debt covenants.

(thousands of Armenian drams)

21. Subordinated loans

Subordinated loans consisted of the following:

	31 December 2024	*31 December 2023*
Subordinated loans provided by related parties	30,148,534	32,161,126
Subordinated loans	**30,148,534**	**32,161,126**

Subordinated loans represent 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 at 31 December 2024, the Bank's registered and paid-in share capital was AMD 10,000,200 thousand (31 December 2023: 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 2024 and 31 December 2023 may be specified as follows:

	31 December 2024		*31 December 2023*	
	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 2024 and 2023 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.

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.

(thousands of Armenian drams)

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 at 31 December 2024, 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 2024	***31 December 2023***
Commitments and contingencies		
Guarantees	30,798,927	16,504,240
Undrawn loan commitments	7,869,936	5,026,239
Unused part of factoring	5,284,278	3,723,443
	43,953,141	**25,253,922**
Less: allowance for impairment	(507,565)	(387,777)
Commitments and contingencies	**43,445,576**	**24,866,145**

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 at 31 December 2024 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:

	2024	*2023*
Financial assets measured at amortized cost		
Loans and advances to customers	20,096,096	14,959,579
Investment securities	8,617,323	8,934,864
Amounts due from credit institutions	516,030	336,464
Cash equivalents	3,440	3,124
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI	12,206,848	12,744,975
Interest revenue calculated using effective interest rate	**41,439,737**	**36,979,006**
Finance leases	1,297,077	622,967
Other interest revenue	**1,297,077**	**622,967**
Total interest revenue	**42,736,814**	**37,601,973**
Amounts due to customers	9,885,717	10,751,379
Amounts due to banks	8,022,861	7,709,627
Debt securities issued	4,585,863	3,841,795
Subordinated debt	3,713,596	3,823,157
Other borrowed funds	1,918,435	1,878,124
Lease liabilities	14,039	10,140
Interest expense	**28,140,511**	**28,014,222**
Net interest income	**14,596,303**	**9,587,751**

25. Net fee and commission income

Net fee and commission income comprises:

	2024	*2023*
Guarantees and letters of credit	907,502	454,916
Wire transfer fees	432,139	160,887
Plastic cards operations	190,965	71,399
Brokerage operations	17,828	60,515
Settlement operations	2,606	109,135
Other income	–	6,043
Fee and commission income	**1,551,040**	**862,895**
Wire transfer fees	134,124	84,579
Expenses paid to Armenian Card	111,159	74,374
Brokerage operations	70,490	51,354
Other expenses	19,882	10,649
Fee and commission expense	**335,655**	**220,956**
Net fee and commission income	**1,215,385**	**641,939**

26. Net trading income

	2024	*2023*
Net gain from foreign currency transactions	1,676,734	1,141,619
Net gain/(loss) on derivative financial instruments	95,725	(37,595)
Total net trading income	**1,772,459**	**1,104,024**

(thousands of Armenian drams)

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

According to the decision of the Government of the Republic of Armenia, in 2023 the Government of the Republic of Armenia provided the Group with long-term coupon bonds of the Ministry of Finance of Republic of Armenia in exchange for the right to claim money on the bonds of the Republic of Artsakh and loans to the residents 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

	2024	*2023*
Fines and penalties	523,415	321,733
Income from cash collection services	43,741	36,304
Dividend income	3,199	−
Net gain from disposal of property, plant and equipment	1,299	979
Net gain from operations with precious metals	1,138	7,240
Net gain from disposal of repossessed assets	−	30,275
Other	19,145	33,321
Total other income	**591,937**	**429,852**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2024	*2023*
Salaries and bonuses	2,959,046	2,157,171
Other expenses	12,761	6,953
Personnel expenses	**2,971,807**	**2,164,124**
Communications	152,842	147,164
Insurance of deposits	120,200	124,332
Consulting and other services	99,927	52,546
Insurance expenses	67,775	52,769
Fixed assets maintenance	66,248	55,234
Representative expenses	57,691	48,962
Financial system mediator	42,905	38,664
Business trip expenses	31,366	23,031
Taxes, other than income tax, duties	14,148	15,130
Security	8,334	9,600
Office supplies and maintenance	5,585	12,599
Charity	−	26,307
Other administrative expenses	73,057	62,394
Other operating expenses	**740,078**	**668,732**

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.

(thousands of Armenian drams)

30. Risk management (continued)

Introduction (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

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.

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 Bank does not have internal credit grading system to evaluate credit quality of loans to customers and manages credit risk based on information about overdue days.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

The following table provides information on the credit quality of gross loans to legal entities and individuals as at 31 December 2024 and 31 December 2023:

31 December 2024		***Stage 1***	***Stage 2***	***Stage 3***	***Total***
- Corporate lending	Not overdue	55,762,316	67,184	22,787	**55,852,287**
	Less than 30 days	33,612,287	3,363,616	1,871,141	**38,847,044**
	30-89 days	9,550,135	1,299,632	–	**10,849,767**
	90-179 days	4,058,412	1,522,340	6,367,949	**11,948,701**
	180-270 days	3,074,597	141,323	547,486	**3,763,406**
	More than 270 days	488,039	271,693	6,247,246	**7,006,978**
Total gross loans		**106,545,786**	**6,665,788**	**15,056,609**	**128,268,183**
ECL		**(1,037,231)**	**(625,217)**	**(3,734,018)**	**(5,396,466)**
Net Loans		**105,508,555**	**6,040,571**	**11,322,591**	**122,871,717**
- Small Business lending	Not overdue	15,280,956	61,958	286,856	**15,629,770**
	Less than 30 days	7,150,271	925,938	–	**8,076,209**
	30-89 days	530,161	1,679,456	–	**2,209,617**
	90-179 days	39,678	15,545	47,099	**102,322**
	180-270 days	–	–	–	**–**
	More than 270 days	336,013	499,929	449,383	**1,285,325**
Total gross loans		**23,337,079**	**3,182,826**	**783,338**	**27,303,243**
ECL		**(234,326)**	**(825,696)**	**(380,955)**	**(1,440,977)**
Net Loans		**23,102,753**	**2,357,130**	**402,383**	**25,862,266**
- Residential Mortgages	Not overdue	28,562,403	–	–	**28,562,403**
	Less than 30 days	7,706,292	6,828	39,520	**7,752,640**
	30-89 days	901,333	23,957	–	**925,290**
	90-179 days	870,509	–	–	**870,509**
	180-270 days	39,927	46,552	–	**86,479**
	More than 270 days	245,183	158,038	253,238	**656,459**
Total gross loans		**38,325,647**	**235,375**	**292,758**	**38,853,780**
ECL		**(326,544)**	**(33,483)**	**(7,592)**	**(367,619)**
Net Loans		**37,999,103**	**201,892**	**285,166**	**38,486,161**
- Consumer lending	Not overdue	2,843,997	11,595	14,534	**2,870,126**
	Less than 30 days	930,235	–	–	**930,235**
	30-89 days	134,915	–	–	**134,915**
	90-179 days	123,331	5,075	1,483	**129,889**
	180-270 days	61,312	1,126	5,655	**68,093**
	More than 270 days	31,290	–	357,470	**388,760**
Total gross loans		**4,125,080**	**17,796**	**379,142**	**4,522,018**
ECL		**(84,253)**	**(5,892)**	**(182,892)**	**(273,037)**
Net Loans		**4,040,827**	**11,904**	**196,250**	**4,248,981**
- Other	Not overdue	5,458,997	4,986,010	–	**10,445,007**
	Less than 30 days	1,881,461	48,813	–	**1,930,274**
	30-89 days	728,574	–	816,723	**1,545,297**
	90-179 days	101,322	–	–	**101,322**
	180-270 days	–	–	–	**–**
	More than 270 days	–	8,043	1,198,728	**1,206,771**
Total gross loans		**8,170,354**	**5,042,866**	**2,015,451**	**15,228,671**
ECL		**(63,703)**	**(750,562)**	**(957,690)**	**(1,771,955)**
Net Loans		**8,106,651**	**4,292,304**	**1,057,761**	**13,456,716**

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

31 December 2023		***Stage 1***	***Stage 2***	***Stage 3***	***Total***
- Corporate lending	Not overdue	55,221,799	5,631	–	**55,227,430**
	Less than 30 days	33,982,097	6,674,644	101,573	**40,758,314**
	30-89 days	2,177,882	2,088,862	–	**4,266,744**
	90-179 days	1,673,265	560,963	444,929	**2,679,157**
	180-270 days	860,261	51,395	1,095,060	**2,006,716**
	More than 270 days	291,456	90,169	6,505,553	**6,887,178**
Total gross loans		**94,206,760**	**9,471,664**	**8,147,115**	**111,825,539**
ECL		**(868,388)**	**(1,503,041)**	**(3,253,591)**	**(5,625,020)**
Net Loans		**93,338,372**	**7,968,623**	**4,893,524**	**106,200,519**
- Small Business lending	Not overdue	13,502,022	39,891	–	**13,541,913**
	Less than 30 days	7,617,875	520,609	–	**8,138,484**
	30-89 days	1,049,713	53,196	–	**1,102,909**
	90-179 days	336,740	414,084	–	**750,824**
	180-270 days	–	18,210	–	**18,210**
	More than 270 days	–	548,386	48,939	**597,325**
Total gross loans		**22,506,350**	**1,594,376**	**48,939**	**24,149,665**
ECL		**(246,122)**	**(260,716)**	**(461)**	**(507,299)**
Net Loans		**22,260,228**	**1,333,659**	**48,479**	**23,642,366**
- Residential mortgages	Not overdue	19,024,576	–	–	**19,024,576**
	Less than 30 days	6,443,720	26,927	–	**6,470,647**
	30-89 days	735,072	5,230	15,074	**755,376**
	90-179 days	295,162	39,759	–	**334,921**
	180-270 days	195,648	51,458	74,011	**321,117**
	More than 270 days	177,385	59,190	954,781	**1,191,356**
Total gross loans		**26,871,563**	**182,564**	**1,043,866**	**28,097,993**
ECL		**(206,756)**	**(12,568)**	**(93,529)**	**(312,853)**
Net Loans		**26,664,807**	**169,996**	**950,337**	**27,785,140**
- Consumer lending	Not overdue	2,381,517	-	-	**2,381,517**
	Less than 30 days	766,220	-	-	**766,220**
	30-89 days	467,225	5,187	-	**472,412**
	90-179 days	330,265	3,539	3,246	**337,050**
	180-270 days	3,815	-	-	**3,815**
	More than 270 days	15,767	21,213	229,596	**266,576**
Total gross loans		**3,964,809**	**29,939**	**232,842**	**4,227,590**
ECL		**(80,416)**	**(4,798)**	**(2,690)**	**(87,904)**
Net Loans		**3,884,393**	**25,141**	**230,152**	**4,139,686**
- Other	Not overdue	7,310,640	–	–	**7,310,640**
	Less than 30 days	780,027	–	–	**780,027**
	30-89 days	173,812	1,735	–	**175,547**
	90-179 days	104,150	15,774	–	**119,924**
	180-270 days	–	–	–	**–**
	More than 270 days	20,076	–	1,816,415	**1,836,491**
Total gross loans		**8,388,705**	**17,509**	**1,816,415**	**10,222,629**
ECL		**(74,678)**	**(672)**	**(738,463)**	**(813,813)**
Net Loans		**8,314,027**	**16,837**	**1,077,952**	**9,408,816**

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

As at 31 December 2024:

31 December 2024	*Notes*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	500,692	24,859,908	–	–	**25,360,600**
Amounts due from credit institutions	7	Stage 1	–	14,004,540	–	–	**14,004,540**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	45,220,352	–	–	**45,220,352**
- Measured at amortised cost		Stage 1	–	70,722,793	–	–	**70,722,793**
Other financial assets	16	Stage 1	–	4,077,583	–	–	**4,077,583**
Undrawn loan commitments	23	Stage 1	–	7,869,936	–	–	**7,869,936**
Unused part of factoring	23	Stage 1	–	5,284,278			**5,284,278**
Total			**500,692**	**172,039,390**	**–**	**–**	**172,540,082**

As at 31 December 2023:

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**
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			**226,674**	**166,016,294**	**–**	**–**	**166,027,173**

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.

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 2024 and 31 December 2023, these ratios were as follows:

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	Threshold	*31 December 2024, %*	*31 December 2023, %*
N21 “General Liquidity Ratio” (highly liquid assets/total assets)	min 15%	39.55	45.76
N22 “Current Liquidity Ratio” (highly liquid assets/liabilities payable on demand)	min 60%	197.60	268.51

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 2024	*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	81,981,155	2,330,147	339,846	71,480	–	**84,722,628**	**84,664,361**
Derivative financial liabilities	80,370	–	–	–	–	**80,370**	**80,370**
Amounts due to customers	82,067,831	28,519,874	34,599,440	32,219,106	4,957,638	**182,363,889**	**173,610,357**
Other borrowed funds	489,292	326,332	2,994,453	19,748,160	20,470,635	**44,028,872**	**29,629,001**
Debt securities issued	451,332	902,664	4,137,209	74,861,179	–	**80,352,384**	**69,773,790**
Subordinated loans	449,767	602,466	2,761,301	36,660,000	8,127,333	**48,600,867**	**30,148,534**
Other financial liabilities	–	–	2,186,288	–	–	**2,186,288**	**2,186,288**
Total undiscounted financial liabilities	**165,519,747**	**32,681,483**	**47,018,537**	**163,559,925**	**33,555,606**	**442,335,298**	**390,092,701**
Commitments and contingent liabilities	**43,445,576**	**–**	**–**	**–**	**–**	**43,445,576**	

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**	

(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 2024. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets measured at FVOCI at 31 December 2024 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 2024*	*Sensitivity of net interest income 2024*	*Sensitivity of equity 2024*
AMD	2.26%	(6,708,291)	(17,517,276)
USD	3.16%	(1,555,211)	(1,251,572)
EUR	1.26%	(242,961)	(1,325)

Currency	*Decrease in basis points 2024*	*Sensitivity of net interest income 2024*	*Sensitivity of equity 2024*
AMD	1.97%	5,848,535	15,272,208
USD	0.83%	410,270	330,169
EUR	0.85%	164,687	898

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 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 % 2024*	*Effect on profit before tax 2024*	*Change in currency rate in % 2023*	*Effect on profit before tax 2023*
USD	3.40%	(105,280)	10.00%	8,063
USD	(3.84%)	118,803	(10.00%)	(8,063)
EUR	6.60%	(87,380)	10.00%	(3,041)
EUR	(3.17%)	42,017	(10.00%)	3,041
RUB	9.56%	39,340	10.00%	27,014
RUB	(21.45%)	(88,255)	(10.00%)	(27,014)

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 2024	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Investment securities at FVOCI pledged under repurchase agreements	–	90,151,363	–	**90,151,363**
Investment securities measured at FVOCI	–	45,325,803	–	**45,325,803**
Property and equipment and right-of-use assets - buildings	–	–	1,656,826	**1,656,826**
Derivative financial assets	–	35,781	–	**35,781**
Total	–	**135,512,947**	**1,656,826**	**137,169,773**
Assets for which fair value are disclosed				
Investment securities measured at amortized cost	–	87,748,279	–	**87,748,279**
Loans and advances to customers	–	–	206,158,558	**206,158,558**
Total	**–**	**87,748,279**	**206,158,558**	**293,906,837**
Liabilities measured at fair value				
Derivative financial liabilities	–	80,370	–	**80,370**
Total	**–**	**80,370**	**–**	**80,370**
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	84,664,361	**84,664,361**
Amounts due to customers	–	–	175,358,952	**175,358,952**
Other borrowed funds	–	–	28,504,727	**28,504,727**
Debt securities issued	–	70,233,698	–	**70,233,698**
Subordinated loans	–	–	28,811,755	**28,811,755**
Total	**–**	**70,233,698**	**317,339,795**	**387,573,493**

	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	–	–	1,734,860	**1,734,860**
Derivative financial assets	–	9,262	–	**9,262**
Total	–	**132,918,651**	**1,734,860**	**134,653,511**
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**

(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 2024	Fair value 31 December 2024	Unrecognised gain/(loss) 31 December 2024	Carrying value 31 December 2023	Fair value 31 December 2023	Unrecognised gain/(loss) 31 December 2023
Financial assets						
Loans and advances to customers at amortised cost	204,925,841	206,158,558	(1,232,717)	171,176,527	171,928,537	(752,010)
Investment securities − debt securities at amortised cost	70,722,793	87,748,279	(17,025,486)	78,154,643	81,732,133	(3,577,490)
Financial liabilities						
Amounts due to customers	173,610,357	175,358,952	(1,748,595)	160,775,017	161,990,166	(1,215,149)
Debt securities issued	69,773,790	70,233,698	(459,908)	55,022,320	55,500,073	(477,753)
Other borrowed funds	29,629,001	28,504,727	1,124,274	28,493,452	26,342,048	2,151,404
Subordinated loans	30,148,534	28,811,755	1,336,779	32,161,126	30,428,213	1,732,913
Total unrecognised change in fair value			**(18,005,653)**			**(2,138,085)**

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	***2024***	***2023***
Balance as at 1 January	**1,734,860**	**1,812,894**
Depreciation charge	(78,034)	(78,034)
Net fair value at 31 December	**1,656,826**	**1,734,860**

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 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 2024 the Bank has securities sold under repurchase agreements amounted to AMD 90,151,363 thousand which were classified as measured at FVOCI and amortised cost (31 December 2023: AMD 88,595,879 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 2024 as amounts due to banks with carrying amount of AMD 81,433,975 thousand (31 December 2023: AMD 83,490,557 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 2024	*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*		*Net amount*
				Financial instruments	*Collateral received*	
Financial assets						
Amounts due from credit institutions – reverse repo	11,053,790	–	11,053,790	–	(11,596,803)	(543,013)
Loans and advances to customers – reverse repo	410,796	–	410,796	–	(440,359)	(29,563)
Total	**11,464,586**	**–**	**11,464,586**	**–**	**(12,037,162)**	**(572,576)**
Financial liabilities						
Amounts due to banks – repo	(81,433,975)	–	(81,433,975)	73,600,000	–	**(7,833,975)**
Amounts due to customers – repo	(1,001,327)	–	(1,001,327)	1,081,000	–	**79,673**
Total	**(82,435,302)**	**–**	**(82,435,302)**	**74,681,000**	**–**	**(7,754,302)**

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*		*Net amount*
				Financial instruments	*Cash collateral received*	
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**

(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 2024			*31 December 2023*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	27,139,747	−	**27,139,747**	23,499,645	−	**23,499,645**
Amounts due from credit institutions	12,797,738	1,165,148	**13,962,886**	11,463,892	802,501	**12,266,393**
Derivative financial assets	35,781	−	**35,781**	9,262	−	**9,262**
Loans and advances to customers	43,051,246	161,874,595	**204,925,841**	29,370,287	141,806,240	**171,176,527**
Investment securities	11,347,338	104,701,258	**116,048,596**	3,594,071	118,874,081	**122,468,152**
Investment securities pledged under repurchase agreements	90,151,363	−	**90,151,363**	88,595,879	−	**88,595,879**
Property and equipment	−	1,925,452	**1,925,452**	−	2,056,184	**2,056,184**
Intangible assets	−	117,082	**117,082**	−	111,222	**111,222**
Repossessed assets	1,750,995	−	**1,750,995**	872,185	−	**872,185**
Prepayments on income tax	−	−	−	45,526	−	**45,526**
Deferred income tax assets	−	643,713	**643,713**	−	1,822,121	**1,822,121**
Other assets	11,322,484	−	**11,322,484**	6,249,398	17,608	**6,267,006**
Total	**197,596,692**	**270,427,248**	**468,023,940**	**163,700,145**	**265,489,957**	**429,190,102**
Amounts due to banks	84,592,881	71,480	**84,664,361**	91,826,669	−	**91,826,669**
Derivative financial liabilities	80,370	−	**80,370**	29,556	−	**29,556**
Amounts due to customers	140,603,785	33,006,572	**173,610,357**	97,402,092	63,372,925	**160,775,017**
Other borrowed funds	3,189,043	26,439,958	**29,629,001**	1,063,251	27,430,201	**28,493,452**
Debt securities issued	19,320,961	50,452,829	**69,773,790**	8,589,703	46,432,617	**55,022,320**
Current income tax liabilities	1,098,856	−	**1,098,856**	−	−	**−**
Subordinated debt	−	30,148,534	**30,148,534**	2,161,126	30,000,000	**32,161,126**
Other liabilities	3,898,796	−	**3,898,796**	1,826,542	−	**1,826,542**
Total	**252,784,692**	**140,119,373**	**392,904,065**	**202,898,939**	**167,235,743**	**370,134,682**
Net	**(55,188,000)**	**130,307,875**	**75,119,875**	**(39,198,794)**	**98,254,214**	**59,055,420**

(thousands of Armenian drams)

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.

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:

	2024			*2023*		
	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	**–**	**7,774,771**	**597,557**	**–**	**5,355,553**	**311,329**
Loans issued during the year	–	10,277,737	1,351,987	–	5,224,509	1,479,133
Loan repayments during the year	–	(11,643,458)	(1,332,869)	–	(2,805,291)	(1,192,905)
Loans outstanding at 31 December, gross	**–**	**6,409,050**	**616,675**	**–**	**7,774,771**	**597,557**
Less: allowance for impairment at 31 December	–	(156,818)	(6,498)	–	(822,014)	(7,060)
Loans outstanding at 31 December, net	**–**	**6,252,232**	**610,177**	**–**	**6,952,757**	**590,497**
Amounts due to banks						
At 1 January	**–**	**9,276**	**–**	**–**	**6,349**	**–**
Increase	–	3,305	–	–	22,943	–
Decrease	–	(3,759)	–	–	(20,016)	–
At 31 December	–	**8,822**	–	–	**9,276**	–
Amounts due to customers						
Deposits at 1 January	**35,703,236**	**21,086,868**	**308,222**	**40,083,790**	**20,926,228**	**252,478**
Deposits received during the year	50,528,980	48,222,789	5,148,713	73,289,824	46,311,153	10,269,044
Deposits repaid during the year	(51,473,551)	(57,640,619)	(5,154,414)	(77,670,378)	(46,150,513)	(10,213,300)
Deposits at 31 December	**34,758,665**	**11,669,038**	**302,521**	**35,703,236**	**21,086,868**	**308,222**
Debt securities issued						
At 1 January	**26,353,261**	**3,437,298**	**389,335**	**25,121,527**	**3,831,003**	**219,617**
Increase	6,598,200	2,527,611	175,446	10,292,702	2,761,146	309,709
Decrease	(6,870,971)	(2,635,740)	(253,941)	(9,060,968)	(3,154,851)	(139,991)
At 31 December	**26,080,490**	**3,329,169**	**310,840**	**26,353,261**	**3,437,298**	**389,335**
Subordinated debt						
At 1 January	**30,136,178**	**2,024,948**	**–**	**32,121,092**	**2,363,037**	**–**
Increase	7,350,082	195,558	–	15,648,108	550,393	–
Decrease	(7,337,726)	(2,220,506)	–	(17,633,022)	(888,482)	–
At 31 December	**30,148,534**	**–**	**–**	**30,136,178**	**2,024,948**	**–**
Commitments and guarantees issued	–	859,825	25,565	–	588,292	31,686
Statement of profit or loss						
Interest income	–	717,875	73,823	–	76,136	52,233
Expected credit loss charge	–	(16,458)	1,211	–	(392,218)	(3,316)
Fee and commission income	16,214	12,508	1,285	17,874	4,015	1,190
Net trading income	127,391	8,542	1,281	174,808	13,411	14,772
Interest expense	(8,855,503)	(1,032,323)	(28,471)	(9,103,918)	(816,016)	(30,676)
Administrative and other expenses	–	(103)	(12,721)	–	–	(13,890)
Fee and commission expense	–	(16)	(53)	–	–	–
Personnel expenses	–	(509)	(579)	–	–	(864)
Other income	–	19,969	766	–	–	23
Depreciation of property and equipment	–	(1,443)	–	–	–	–

(thousands of Armenian drams)

35. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2024	*2023*
Salaries and other short-term benefits	926,857	714,223
Total key management personnel compensation	**926,857**	**714,223**

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 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**
Proceeds from issue/Modification		23,130,656	12,539,792	3,702,238	88,880	**39,461,566**
Redemption		(7,578,808)	(11,365,500)	(5,642,307)	(105,600)	**(24,692,215)**
Foreign currency translation		(1,112,810)	(41,693)	(83,881)	–	**(1,238,384)**
Other		312,432	2,950	11,358	14,039	**340,779**
Carrying amount at 31 December 2024	**16, 19, 20,21**	**69,773,790**	**29,629,001**	**30,148,534**	**97,045**	**129,648,370**

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 2024 this minimum level was 11% (2023: 11%). The Bank is in compliance with the statutory capital ratio as at 31 December 2024 and 31 December 2023.

Starting from June 2024 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 2024 and 31 December 2023:

	31 December 2024	***31 December 2023***
Tier 1 capital	72,833,891	55,610,722
Tier 2 capital	25,768,564	20,558,003
Total capital	**98,602,455**	**76,168,725**
Risk weighted assets	**422,214,042**	**402,439,576**
Capital adequacy ratio N1.1	**17.25%**	**13.82%**
Capital adequacy ratio N1.2	**23.35%**	**18.93%**