Fast Bank CJSC

Financial statements

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

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Independent auditor's report

To the Shareholders and the Board of
Fast Bank CJSC

Opinion

We have audited the financial statements of Fast Bank CJSC (hereinafter, "the Bank") which comprise the statement of financial position as at 31 December 2023, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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 it
Allowance for impairment of loans to customers	
Allowance for impairment of loans to customers is a key audit matter due to both the significance of loans to customers (75.9% of total assets of the Bank as at 31 December 2023) and the complexity and judgments 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, 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 use of different modelling techniques and assumptions could produce significantly different estimates of ECL. In particular, ECLs are sensitive to existence and valuation of underlying collateral represented by gold. This could have material effect on the financial results of the Bank. Information on the allowance for impairment of loans to customers is included in Note 9 "Loans to customers" and Note 27 "Risk management".	We focused our audit on the following: ▸ Evaluation 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. To test the allowance calculated on a portfolio basis, we evaluated 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 focused our procedures on existence and measurement of gold collateral on gold secured loans. We attended collateral stock take and, on a sample basis, tested existence and physical characteristics of gold collateral. We assessed competence and objectivity of management's expert involved in evaluation of physical characteristics of gold collateral. We tested key statistical data underlying credit risk factors calculation, such as overdue days of loans and statistics of recoveries of loans to customers after the default date. We also assessed the consistency of application of the criteria selected by management to identify significant increase in credit risk as of the reporting date. We recalculated ECL as at 31 December 2023. We also performed procedures regarding the financial statements' disclosures of the Bank's exposure to credit risk.

Other information included in the Bank's 2023 Annual Report

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

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

In connection with our audit of the financial statements, 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 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 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 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 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 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

22 April 2024

Statement of financial position

As of 31 December 2023

(thousands of Armenian Drams)

	Notes	2023	2022
Assets			
Cash and cash equivalents	5	10,984,112	3,180,144
Amounts due from banks	6	964,295	110,319
Investment securities	8	5,258,863	4,551,296
Investment securities pledged under repurchase agreements	8	3,126,410	–
Loans to customers	9	88,772,092	56,410,990
Finance lease receivables	10	254,628	–
Property, equipment and right-of-use assets	11	3,829,455	2,690,069
Intangible assets	12	1,402,503	613,470
Other assets	15	2,413,495	815,423
Total assets		**117,005,853**	**68,371,711**
Liabilities			
Derivative financial liabilities	7	–	2,549
Amounts due to customers	16	34,325,150	582,925
Amounts due to banks	17	8,011,202	7,765,422
Current income tax liabilities		1,620,547	1,504,320
Debt securities issued	18	5,964,869	1,451,539
Other borrowed funds	19	7,934,059	3,333,190
Lease liability	20	1,754,993	1,787,052
Other liabilities	21	1,774,439	950,983
Deferred tax liabilities	13	1,636,032	2,260,052
Total liabilities		**63,021,291**	**19,638,032**
Equity			
Share capital	22	30,100,000	30,100,000
Retained earnings		24,316,477	19,437,015
Revaluation reserve for investment securities	22	(431,915)	(803,336)
Total equity		**53,984,562**	**48,733,679**
Total equity and liabilities		**117,005,853**	**68,371,711**

Signed and authorized for release on behalf of the Management of the Bank.

Garegin Darbinyan — Executive director

Tatul Tamrazyan — Chief Accountant

22 April 2024

The accompanying notes from 1 to 33 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

(thousands of Armenian Drams)

	Notes	*2023*	*2022*
Interest revenue calculated using effective interest rate	24	14,254,982	13,458,719
Other interest revenue	24	18,011	–
Interest expense	24	(2,467,074)	(2,421,795)
Net interest income		**11,805,919**	**11,036,924**
Reversal of credit loss expense/ (Credit loss expense)	14	136,864	(663,007)
Net interest income after credit loss expense		**11,942,783**	**10,373,917**
Fee and commission income	25	204,025	26,155
Fee and commission expense	25	(89,146)	(156,641)
Net gain/(loss) from financial instruments at fair value through profit or loss		61,480	(1,200)
Net gain from foreign currencies		547,693	1,657,826
- dealing		716,851	986,780
- translation difference		(169,158)	671,046
Other income		90,641	45,855
Non-interest income		**814,693**	**1,571,995**
Personnel expenses	26	(4,417,622)	(3,393,873)
Depreciation and amortisation	11,12	(659,618)	(417,348)
Other operating expenses	26	(1,647,101)	(1,010,906)
Non-interest expense		**(6,724,341)**	**(4,822,127)**
Profit before income tax expense		**6,033,135**	**7,123,785**
Income tax expense	13	(1,153,673)	(1,217,049)
Profit for the year		**4,879,462**	**5,906,736**
Other comprehensive income			
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		402,644	(537,448)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		50,309	(13,527)
Income tax relating to components of other comprehensive income	13	(81,532)	99,175
Net other comprehensive income/ (loss) to be reclassified to profit or loss in subsequent periods		**371,421**	**(451,800)**
Other comprehensive income/ (loss) for the year, net of tax		**371,421**	**(451,800)**
Total comprehensive income for the year		**5,250,883**	**5,454,936**

The accompanying notes from 1 to 33 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

(thousands of Armenian Drams)

	Notes	*Share capital*	*Revaluation reserve for investment securities*	*Retained earnings*	*Total equity*
Balance as at 1 January 2022		**7,000,000**	**(351,536)**	**15,530,279**	**22,178,743**
Total comprehensive income					
Profit for the period		–	–	5,906,736	**5,906,736**
Other comprehensive loss for the period		–	(451,800)	–	**(451,800)**
Total comprehensive income for the period		**–**	**(451,800)**	**5,906,736**	**5,454,936**
Debt to equity swap	22	21,200,000	–	–	**21,200,000**
Dividend capitalization	22	1,900,000	–	(1,900,000)	–
Dividends paid to shareholders of the Bank	22	–	–	(100,000)	**(100,000)**
Balance as at 31 December 2022		**30,100,000**	**(803,336)**	**19,437,015**	**48,733,679**
Profit for the period		–	–	4,879,462	**4,879,462**
Other comprehensive income for the period		–	371,421	–	**371,421**
Total comprehensive income for the period		**–**	**371,421**	**4,879,462**	**5,250,883**
Dividends paid to shareholders of the Bank	22	–	–	–	**–**
Balance as at 31 December 2023		**30,100,000**	**(431,915)**	**24,316,477**	**53,984,562**

The accompanying notes from 1 to 33 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

(thousands of Armenian Drams)

	Note	2023	2022 Restated (Note 2d)
Cash flows from operating activities			
Interest received		14,398,572	13,306,740
Interest paid		(2,038,844)	(2,626,124)
Fees and commissions received		201,020	26,155
Fees and commissions paid		(85,232)	(156,641)
Net receipts from foreign exchange		716,848	986,780
Net payment from financial instruments at fair value through profit or loss		(90,772)	–
Salary and other equivalent payments		(4,388,660)	(3,554,083)
Other operating expenses paid		(1,554,828)	(958,929)
Other operating income received		71,864	45,855
Cash flows from changes in operating assets and liabilities		**7,229,968**	**7,069,753**
(Increase)/decrease in operating assets			
Loans to customers		(32,094,174)	(5,927,564)
Finance lease to customers		(244,195)	–
Amounts due from banks		(855,254)	(118,781)
Other assets		(1,939,457)	(387,155)
Increase/(decrease) in operating liabilities			
Amounts payable under repurchase agreements		2,936,591	–
Amounts due to customers		33,132,334	581,847
Derivative financial liabilities		89,423	–
Other liabilities		712,278	715,834
Net cash flows from operating activities before income tax		**8,967,514**	**1,933,934**
Income tax paid		(1,742,998)	(34,635)
Net cash from operating activities		**7,224,516**	**1,899,299**
Cash flows from investing activities			
Purchases of investment securities		(4,317,080)	–
Sale and repayment of investment securities		1,000,000	–
Purchase of property and equipment		(1,113,382)	(742,949)
Proceeds from sale of property and equipment		12,847	–
Purchase of intangible assets		(888,763)	(619,703)
Net cash (used in) investing activities		**(5,306,378)**	**(1,362,652)**
Cash flows from financing activities			
Proceeds from banks	32	26,119,172	42,008,865
Repayment of loans from banks	32	(29,061,929)	(39,424,030)
Proceeds from bonds issued	32	4,758,175	1,119,158
Redemption of bonds issued	32	(323,220)	–
Proceeds from other borrowed funds	32	5,363,220	28,315,722
Repayment of other borrowed funds	32	(827,028)	(30,772,415)
Lease payments	32	(257,266)	(193,785)
Dividends paid to shareholders of the Bank	22	–	(100,000)
Net cash from financing activities		**5,771,124**	**953,515**
Effect of exchange rates changes on cash and cash equivalents		119,978	(722,837)
Effect of expected credit losses on cash and cash equivalents		(5,272)	275
Net increase in cash and cash equivalents		**7,803,968**	**767,600**
Cash and cash equivalents, beginning		3,180,144	2,412,544
Cash and cash equivalents, ending	5	**10,984,112**	**3,180,144**

The accompanying notes from 1 to 33 are an integral part of these financial statements.

1. Principal activities

a) Organisation and operations

Fast Bank CJSC (the “Bank”) former Fast Credit UCO CJSC, was established in the Republic of Armenia as a closed joint stock company in October 2011. The organization received a credit organization license in 14 October 2011. Having more than 30 years of experience in the financial sector, with the goal of becoming a bank, the organization has actively implemented large-scale transformational measures in recent years in the direction of financial, human resource integration, as well as risk management. According to the decision of the Central Bank of RA on 9 November 2022, Fast Credit Capital UCO CJSC received a banking activity license and henceforth is known as Fast Bank CJSC. The activity of the Bank is regulated by the Central Bank of Armenia (the CBA). The Bank is a member of the state deposit insurance system in the Republic of Armenia.

As of 31 December 2023 the Bank has around 953 employees (31 December 2022: 750 employees).

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan and the Bank’s registered legal address is 32/6 G. Hovsepyan Street, Nork-Marash, Yerevan 0047, Republic of Armenia.

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

Shareholder	***2023, %***	***2022, %***
Vahe Badalyan	50%	50%
Vigen Badalyan	50%	50%
Total	**100%**	**100%**

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. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories has led to a social unrest in Armenia. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment.

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

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

2. Basis of preparation

(a) 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”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that investment securities at fair value through other comprehensive income (FVOCI) and derivative financial instruments are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements. The official CBA exchange rates as at 31 December 2023 and 2022, were AMD 404.79 and AMD 393.57 to 1 USD and AMD 447.9 and AMD 420.06 to EUR 1, respectively.

Financial information presented in AMD is rounded to the nearest thousand.

2. Basis of preparation (continued)

(d) Voluntary change in accounting policies

The Bank changed its accounting policy to present its statement of cash flows. Starting from the annual period ended 31 December 2023, the Bank presents cash flows from operating activities using direct method, as opposed to indirect method applied in prior periods. Under direct method, the Bank discloses major classes of gross cash receipts and gross cash payments arising from operating activities. The Bank considers direct method of presentation of cash flows from operating activities to provide more relevant and reliable information to the users of financial statements, as it may be more useful in estimating future cash flows of the Bank. Comparative statement of cash flows for the year ended 31 December 2022 was represented to comply with the new presentation.

3. Summary of accounting policies

a) Changes in 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 2023 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. With exception of amendments to IAS 1 and IFRS Practice Statement 2 as disclosed in this Note, no other standard or amendment affected the Bank's financial statements:

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

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

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

IFRS 17 Insurance Contracts

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

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

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

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

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

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

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

3. Summary of accounting policies (continued)

a) Changes in accounting policies (continued)

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

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

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

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

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

b) Quantitative information such as:

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

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

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

Definition of Accounting Estimates - Amendments to IAS 8

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

b) Significant accounting policies

In accordance with the amendments to IFRSs Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 that became effective on 1 January 2023, the Bank revised its disclosure of accounting policies. The revised material accounting policy information focuses on how the Bank has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Bank chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

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

Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Nostro accounts in banks and amounts due from the CBA, including obligatory reserves in AMD free from contractual encumbrances.

Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

For information on when financial assets are credit-impaired, see Note 3(b)(ii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- Interest on financial assets measured at amortised cost;
- Interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Fees and commission

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

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.

Financial assets and financial liabilities

Financial assets

i. Classification

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

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

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

The Bank's financial assets at amortised cost include cash and cash equivalents, loans to customers and amounts due from banks.

Business model assessment

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

The information considered includes:

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

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

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank measures debt instruments at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

ii. Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

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.

iii. Repurchase and reverse repurchase agreements

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 income 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.

iv. *Offsetting*

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.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

v. Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBA key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- Change the currency of the financial asset;
- Change in collateral or other credit enhancement;
- Change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- Change the currency of the financial liability;
- Change in collateral or other credit enhancement;
- Inclusion of conversion option;
- Change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in in ‘Credit loss expense’ in the statement of profit or loss and other comprehensive income.

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

Loans to customers

‘Loans to customers’ caption in the statement of financial position include loans to customers measured at amortised cost they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Finance lease receivables and finance lease income recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

- A lease is classified as a finance lease; and
- The amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Upon commencement of a finance lease, the Bank recognises the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

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

Investment securities

The ‘investment securities’ caption in the statement of financial position includes government bonds of Republic of Armenia measured at FVOCI and local companies’ equity shares measured at FVOCI.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost comprises purchase price including import duties, non-refundable taxes and other directly attributable costs, as well as all the expenses incurred for bringing the assets to the working state and location needed for their purposeful use. Exploitation and preproduction expenses are not included in the cost of property and equipment.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent expenditure on the property and equipment is capitalized when it is probable that future economic benefits associated with the item will flow to the entity at more amount than anticipated. Repairs and maintenance is recognized in the statement of profit or loss during the period in which they are incurred. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

− buildings	20 years
− computers and communication equipment	1-8 years
− motor vehicles	8 years
− fixtures, fittings and other	8 years

Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure

incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

Precious metals

London Bullion Market rates are used for estimation of fair values for gold collaterals.

Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments 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.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

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.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Chief operating decision maker evaluates the Bank as a single operating segment, based on its reported IFRS results. Majority of the Bank's income and assets are located in Armenia. There was no single external counterparty whose revenue amounted to more than 10% of Bank's revenue for 2023 or 2022.

c) 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. The amendments are not expected to have a material effect on the Bank's financial statements:

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

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

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 28.

Impairment losses on loans to customers

The measurement of impairment losses on loans to customers under IFRS 9 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 27). 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.

The amount of allowance for loans to customers impairment recognized in statement of financial position at 31 December 2023 was AMD 2,232,091 thousand (2022: AMD 2,729,952 thousand). More details are provided in Note 9.

4. Significant accounting judgments and estimates (continued)

Climate-related matters

The Bank considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the Bank due to both physical and transition risks. The Bank 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 Bank is closely monitoring relevant changes and developments, such as new climate-related legislation.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	*2022*
Cash on hand	7,756,921	2,266,322
Current accounts with the Central Bank, including obligatory reserves (not restricted part, see Note 6)	2,833,161	249,266
Current accounts with other banks	400,421	665,675
Impairment	(6,391)	(1,119)
Cash and cash equivalents	**10,984,112**	**3,180,144**

As of 31 December 2023, current accounts with Central Bank of Armenia include obligatory reserves in the amount of AMD 1,295,257 thousand (2022: 85,268 thousand AMD).

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 4% (2022: 4%) of the amounts attracted in Armenian drams and 18% (2022: 18%) of the amounts attracted in foreign currencies.

The banks are required to maintain 6% (2022: 6%) of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 12% (2022: 12%) – in the foreign currency.

Moreover, the banks' ability to withdraw reserved amounts in foreign currency is restricted, so the Bank classifies obligatory reserves deposited in foreign currency as amounts due from banks (Note 6).

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

	2023	*2022*
ECL allowance as at 1 January	**1,119**	**1,394**
Changes in ECL	5,272	(275)
At 31 December	**6,391**	**1,119**

Information about credit quality of cash and cash equivalents is presented in Note 27 “Risk management”.

6. Amounts due from banks

Amounts due from banks comprise:

	2023	*2022*
Mandatory reserves in CBA (in foreign currencies) (Note 5)	964,802	110,377
Impairment	(507)	(58)
	964,295	**110,319**

As of 31 December 2023, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 964,802 thousand (2022: AMD 110,377 thousand) (See Note 5).

6. Amounts due from banks (continued)

Balance of amounts due from banks is allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	2023	*2022*
ECL allowance as of 1 January	**58**	–
Changes in ECL	449	58
On 31 December	**507**	**58**

Information about credit quality of amounts due from banks is presented in Note 27 "Risk management".

7. 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.

	2023		*2022*	
	Notional amount	***Fair value***	***Notional amount***	***Fair value***
Assets				
Derivative financial instruments				
Forwards and swaps domestic	–	–	–	–
	–	**–**	**–**	**–**
Liabilities				
Derivative financial instruments				
Forwards and swaps domestic	–	–	1,967,850	2,549
	–	**–**	**1,967,850**	**2,549**

8. Investment securities

Investment securities as at 31 December 2023 and 31 December 2022 comprise:

	2023	*2022*
Debt securities at FVOCI		
Government bonds of the Republic of Armenia	5,242,363	4,551,296
Debt securities at FVOCI pledged under repurchase agreements		
Government bonds of the Republic of Armenia	3,126,410	–
Debt securities at FVOCI	**8,368,773**	**4,551,296**
Equity securities at FVOCI		
Unquoted equity shares – local companies	16,500	–
Equity securities at FVOCI	**16,500**	**–**
Investment securities at FVOCI	**8,385,273**	**4,551,296**

Information about credit quality of debt instruments is presented in Note 27 "Risk management".

8. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Fair value as of 1 January 2023	**4,551,296**	**4,551,296**
New assets originated or purchased	4,906,453	4,906,453
Assets repaid	(1,491,620)	(1,491,620)
Net change in fair value	402,644	402,644
On 31 December 2023	**8,368,773**	**8,368,773**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as of 1 January 2023	**52,083**	**52,083**
Changes in ECL	50,309	50,309
On 31 December 2023	**102,392**	**102,392**

Debt securities at FVOCI	***Stage 1***	***Total***
Fair value as of 1 January 2022	**5,116,897**	**5,116,897**
New assets originated or purchased	463,460	463,460
Assets repaid	(491,613)	(491,613)
Net change in fair value	(537,448)	(537,448)
On 31 December 2022	**4,551,296**	**4,551,296**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as of 1 January 2022	**65,610**	**65,610**
Changes in ECL	(13,527)	(13,527)
At 31 December 2022	**52,083**	**52,083**

9. Loans to customers

	2023	***2022***
Gold-secured loans	54,146,491	48,608,346
Mortgage and other loans secured by real estate	19,274,800	7,426,959
Corporate loans	13,592,765	1,512,019
Other retail loans	3,990,127	1,593,618
Gross loans to customers	**91,004,183**	**59,140,942**
Impairment allowance	(2,232,091)	(2,729,952)
Net loans to customers at amortised cost	**88,772,092**	**56,410,990**

The Bank's operations are primarily focused on providing loans to individuals secured by gold.

Allowance for impairment of loans to customers at amortised cost

Since 2023, the Bank reconsidered presentation of movements in gross carrying value and corresponding ECL in relation to loans to customers and presented the movements for 2023 separately for corporate and retail customers. These changes were implemented to enhance the clarity and relevance of the financial information provided to users. Presentation of comparative financial information for 2022 was not changed.

9. Loans to customers (continued)

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

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

Loans to customers – retail customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**32,843,051**	**18,372,568**	**6,413,304**	**57,628,923**
New assets originated or purchased	58,563,285	–	–	**58,563,285**
Assets repaid	(20,959,576)	(13,070,708)	(4,390,124)	**(38,420,408)**
Transfers to Stage 1	829,042	(796,089)	(32,953)	**–**
Transfers to Stage 2	(11,172,337)	11,641,623	(469,286)	**–**
Transfers to Stage 3	(2,346,651)	(1,936,425)	4,283,076	**–**
Recoveries	–	–	231,317	**231,317**
Amounts written off	–	–	(673,675)	**(673,675)**
Foreign exchange adjustments	59,762	14,857	7,357	**81,976**
At 31 December 2023	**57,816,576**	**14,225,827**	**5,369,015**	**77,411,418**

Loans to customers – retail customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**228,056**	**813,952**	**1,627,289**	**2,669,297**
New assets originated or purchased	974,739	–	–	**974,739**
Assets repaid	(144,525)	(533,172)	(1,513,531)	**(2,191,228)**
Transfers to Stage 1	46,883	(42,806)	(4,077)	**–**
Transfers to Stage 2	(403,241)	492,570	(89,329)	**–**
Transfers to Stage 3	(291,606)	(91,169)	382,775	**–**
Changes to models and inputs and other movements	(84,469)	(144,390)	1,223,508	**994,649**
Unwinding of discount	–	–	125,154	**125,154**
Recoveries	–	–	231,317	**231,317**
Amounts written off	–	–	(673,675)	**(673,675)**
Foreign exchange adjustments	123	516	605	**1,244**
At 31 December 2023	**325,960**	**495,501**	**1,310,036**	**2,131,497**

Loans to customers – corporate customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**1,393,449**	**114,088**	**4,482**	**1,512,019**
New assets originated or purchased	12,476,665	–	–	**12,476,665**
Assets repaid	(397,164)	(8,344)	(68,668)	**(474,176)**
Transfers to Stage 1	3,655	(3,655)		**–**
Transfers to Stage 2	(192,209)	196,691	(4,482)	**–**
Transfers to Stage 3	(4,223)	(85,822)	90,045	**–**
Recoveries	–	–	64,446	**64,446**
Foreign exchange adjustments	10,910	575	2,326	**13,811**
At 31 December 2023	**13,291,083**	**213,533**	**88,149**	**13,592,765**

Loans to – corporate customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**21,739**	**36,828**	**2,088**	**60,655**
New assets originated or purchased	22,643	–	–	**22,643**
Assets repaid	(3,545)	(1,939)	(64,446)	**(69,930)**
Transfers to Stage 1	1,908	(1,908)		**–**
Transfers to Stage 2	(7,552)	9,641	(2,089)	**–**
Transfers to Stage 3	(2,818)	(31,441)	34,259	**–**
Changes to models and inputs and other movements	(16,906)	15,129	24,377	**22,600**
Recoveries	–	–	64,446	**64,446**
Foreign exchange adjustments	8	21	151	**180**
At 31 December 2023	**15,477**	**26,331**	**58,786**	**100,594**

9. Loans to customers (continued)

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

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

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**28,413,792**	**15,171,928**	**12,545,866**	**56,131,586**
New assets originated or purchased	45,339,913	–	–	**45,339,913**
Assets repaid	(19,686,226)	(10,962,536)	(8,984,429)	**(39,633,191)**
Transfers to Stage 1	604,731	(604,731)	–	**–**
Transfers to Stage 2	(15,211,044)	18,226,528	(3,015,484)	**–**
Transfers to Stage 3	(4,598,071)	(3,190,488)	7,788,559	**–**
Recoveries	–	–	207,884	**207,884**
Amounts written off	–	–	(2,038,650)	**(2,038,650)**
Foreign exchange adjustments	(626,595)	(154,045)	(85,960)	**(866,600)**
At 31 December 2022	**34,236,500**	**18,486,656**	**6,417,786**	**59,140,942**

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**361,934**	**1,077,529**	**2,373,193**	**3,812,656**
New assets originated or purchased	453,399	–	–	**453,399**
Assets repaid	(251,526)	(745,093)	(831,767)	**(1,828,386)**
Transfers to Stage 1	42,949	(42,949)	–	**–**
Transfers to Stage 2	(193,758)	764,171	(570,413)	**–**
Transfers to Stage 3	(58,570)	(386,803)	445,373	**–**
Changes to models and inputs and other movements	(123,503)	176,381	1,970,958	**2,023,836**
Unwinding of discount	–	–	66,569	**66,569**
Recoveries	–	–	207,884	**207,884**
Amounts written off	–	–	(2,038,650)	**(2,038,650)**
Foreign exchange adjustments	18,870	7,544	6,230	**32,644**
At 31 December 2022	**249,795**	**850,780**	**1,629,377**	**2,729,952**

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:

- Gold;
- Real estate

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

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

9. Loans to customers (continued)

Collateral and other credit enhancements (continued)

		Fair value of collateral held under the base scenario						
	Maximum exposure to credit risk	***Property***	***Gold***	***Other***	***Surplus***	***Total collateral***	***Net Exposure***	***Associated ECL***
31-Dec-23								
Gold-secured loans	4,732,632	–	4,894,098	–	(373,662)	4,520,436	212,396	1,014,419
Mortgage loans	581,713	707,200	–	–	(199,892)	507,308	74,405	254,217
Other corporate loans	88,149	–	–	100,000	(16,097)	83,903	4,246	58,786
Other retail loans	54,670	–	–	9,648	(3,106)	6,542	48,128	41,400
	5,457,164	**707,200**	**4,894,098**	**109,648**	**(592,757)**	**5,118,189**	**338,975**	**1,368,822**

			Fair value of collateral held under the base scenario					
	Maximum exposure to credit risk	**Property**	***Gold***	***Other***	***Surplus***	***Total collateral***	**Net Exposure**	**Associa-ted ECL**
31-Dec-22								
Gold-secured loans	6,159,631	–	5,520,399	–	(180,323)	5,340,076	819,555	1,510,010
Mortgage loans	221,413	337,840	–	–	(166,555)	171,285	50,128	94,600
Other corporate loans	4,482	8,000	–	–	(3,634)	4,366	116	2,088
Other retail loans	32,260	4,000		7,479	(3,795)	7,684	24,576	22,679
	6,417,786	**349,840**	**5,520,399**	**7,479**	**(354,307)**	**5,523,411**	**894,375**	**1,629,377**

Assets under lien

As at 31 December 2023, loans to customers with a gross value of AMD 9,145,692 thousand (2022: AMD 3,290,742 thousand) serve as collateral for other borrowed funds (see Note 19).

Concentration of loans to customers

As at 31 December 2023, the Bank had a concentration of loans represented by AMD 6,463,784 thousand due from the ten largest third-party borrowers (7.1% of gross loan portfolio) (2022: AMD 891,146 thousand or 1.5%).

An allowance of AMD 6,815 thousand (2022: AMD 38,842 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2023	***2022***
Individuals	77,411,418	57,628,923
Private companies	12,971,593	1,512,019
Financial institutions	621,172	–
Gross loans to customers	**91,004,183**	**59,140,942**
Less: allowance for impairment	(2,232,091)	(2,729,952)
Loans to customers	**88,772,092**	**56,410,990**

9. Loans to customers (continued)

Concentration of loans to customers

Loans are made principally within Armenia in the following industry sectors:

	2023	*2022*
Individuals	77,411,418	57,628,923
Trading enterprises	4,211,509	874,689
Services	3,771,036	350,459
Construction	3,439,042	34,887
Agriculture and food processing	924,895	116,221
Financial sector	621,172	–
Manufacturing	601,785	131,628
Other	23,326	4,135
Gross loans to customers	**91,004,183**	**59,140,942**
Less: allowance for impairment	(2,232,091)	(2,729,952)
Loans to customers	**88,772,092**	**56,410,990**

10. Finance lease receivables

Finance leases have been extended to the following types of customers:

	2023	*2022*
Private companies	255,096	–
Gross finance leases	**255,096**	**–**
Less: allowance for impairment	(468)	–
Net finance leases to customers	**254,628**	**–**

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

Finance lease receivables	***Stage 1***	***Total***
Gross carrying value as at 1 January 2023	**–**	**–**
New assets originated or purchased	295,741	**295,741**
Assets repaid	(51,592)	**(51,592)**
Foreign exchange adjustments	10,947	**10,947**
At 31 December 2023	**255,096**	**255,096**

Finance lease receivables	***Stage 1***	***Total***
ECL as at 1 January 2023	**–**	**–**
New assets originated or purchased	563	**563**
Assets repaid	(95)	**(95)**
At 31 December 2023	**468**	**468**

Finance leases were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2023	*2022*
Agriculture and food processing	131,409	–
Construction	104,742	–
Services	18,945	–
Gross loans to customers	**255,096**	**–**
Less: allowance for impairment	(468)	–
Loans to customers	**254,628**	**–**

10. Finance lease receivables (continued)

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

Gross investment in finance leases:

	31 December 2023	31 December 2022
Not later than 1 year	53,703	–
Between 1 and 2 years	82,399	–
Between 2 and 3 years	89,575	–
Between 3 and 4 years	41,653	–
Between 4 and 5 years	22,982	–
Later than 5 years	53,479	–
	343,791	**–**
Unearned future finance income on finance leases	(88,695)	–
Net investment in finance leases before impairment allowance	**255,096**	**–**
Impairment allowance	(468)	–
Net in investment in finance leases	**254,628**	**–**

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

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

	Buildings	Leasehold improve-ments	Computers and communi-cation equipment	Motor vehicles	Fixtures and fittings and other	Total Property, equipment	Right of use assets	Grand Total
Cost								
31 December 2022	**130,130**	**197,709**	**592,299**	**168,167**	**803,422**	**1,891,727**	**2,237,667**	**4,129,394**
Additions	5,924	384,091	393,757	22,649	669,000	**1,475,421**	225,207	**1,700,628**
Disposals and write-offs	–	–	(480)	(132,409)	(3,365)	**(136,254)**	–	**(136,254)**
31 December 2023	**136,054**	**581,800**	**985,576**	**58,407**	**1,469,057**	**3,230,894**	**2,462,874**	**5,693,768**
Accumulated depreciation								
31 December 2022	**45,664**	**33,897**	**393,056**	**154,322**	**235,767**	**862,706**	**576,619**	**1,439,325**
Depreciation charge	6,801	18,649	101,682	4,392	136,485	**268,009**	291,879	**559,888**
Disposals and write-offs	–	–	(197)	(132,409)	(2,294)	**(134,900)**	–	**(134,900)**
31 December 2023	**52,465**	**52,546**	**494,541**	**26,305**	**369,958**	**995,815**	**868,498**	**1,864,313**
Net book value								
31 December 2023	**83,589**	**529,254**	**491,035**	**32,102**	**1,099,099**	**2,235,079**	**1,594,376**	**3,829,455**

	Land and buildings	*Leasehold improve-ments*	*Computers and communi-cation equipment*	*Motor vehicles*	*Fixtures and Fittings*	*Property, equipment*	*Right-of-use assets*	*Total*
Cost								
31 December 2021	**130,130**	**93,671**	**370,550**	**168,167**	**398,151**	**1,160,669**	**1,601,372**	**2,762,041**
Additions	–	104,038	234,548	–	407,740	**746,326**	636,295	**1,382,621**
Disposals and write-offs	–	–	(12,799)	–	(2,469)	**(15,268)**	–	**(15,268)**
31 December 2022	**130,130**	**197,709**	**592,299**	**168,167**	**803,422**	**1,891,727**	**2,237,667**	**4,129,394**
Accumulated depreciation and impairment								
31 December 2021	**39,108**	**27,162**	**324,310**	**150,966**	**179,243**	**720,789**	**354,071**	**1,074,860**
Depreciation charge	6,556	6,735	81,392	3,356	58,993	**157,032**	222,548	**379,580**
Disposals and write-offs	–	–	(12,646)	–	(2,469)	**(15,115)**	–	**(15,115)**
31 December 2022	**45,664**	**33,897**	**393,056**	**154,322**	**235,767**	**862,706**	**576,619**	**1,439,325**
Net book value								
31 December 2022	**84,466**	**163,812**	**199,243**	**13,845**	**567,655**	**1,029,021**	**1,661,048**	**2,690,069**

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

Right-of-use assets include only buildings.

As of 31 December 2023 property and equipment included fully depreciated assets in amount of AMD 608,937 thousand (2022: AMD 557,143 thousand).

As of 31 December 2023 property and equipment included assets in the phase of installation in amount of AMD 443,718 thousand (2022: AMD 148,156 thousand).

12. Intangible assets

The movements in other intangible assets were as follows:

	Licenses	*Computer software*	*Development cost*	*Total*
Cost				
31 December 2022	**116,334**	**365,843**	**205,436**	**687,613**
Additions	240,663	406,090	242,010	**888,763**
Disposals and write-offs	(1,072)	(133)	–	**(1,205)**
Transfers	–	257,912	(257,912)	**–**
31 December 2023	**355,925**	**1,029,712**	**189,534**	**1,575,171**
Accumulated amortization and impairment				
31 December 2022	**53,278**	**20,865**	**–**	**74,143**
Amortisation charge	35,885	63,845	–	**99,730**
Disposals and write-offs	(1,072)	(133)	–	**(1,205)**
31 December 2023	**88,091**	**84,577**	**–**	**172,668**
Net book value				
31 December 2023	**267,834**	**945,135**	**189,534**	**1,402,503**

	Licenses	*Computer Software*	*Development cost*	*Total*
Cost				
31 December 2021	**55,679**	**12,230**	**–**	**67,909**
Additions	60,655	353,613	205,436	619,704
31 December 2022	**116,334**	**365,843**	**205,436**	**687,613**
Accumulated amortisation and impairment				
31 December 2021	**27,210**	**9,165**	**–**	**36,375**
Amortization charge	26,068	11,700	–	37,768
31 December 2022	**53,278**	**20,865**	**–**	**74,143**
Net book value				
31 December 2022	**63,056**	**344,978**	**205,436**	**613,470**

Transfer made in 2023 is related to internally developed Mobile Banking system, which became available for use in December 2023. Development costs include internally developed online banking system’s related costs, which is not available for use yet.

13. Taxation

The corporate income tax expense comprises:

	2023	*2022*
Current tax charge	1,859,225	1,478,479
Under provided in prior period	−	58,239
Deferred tax credit − origination and reversal of temporary differences	(705,552)	(319,669)
Income tax expense	**1,153,673**	**1,217,049**

In 2023 the applicable tax rate for current and deferred tax is 18% (2022: 18%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2023	*2022*
Profit before income tax	**6,033,135**	**7,123,785**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**1,085,964**	**1,282,281**
Non-deductible expenses	78,775	19,557
Tax exempt income	(11,066)	(109,438)
Under provided in prior period	−	58,239
Utilised tax losses carried forward, not recognized previously	−	(33,590)
Income tax expense	**1,153,673**	**1,217,049**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 1 January 2022	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 Decem-ber 2022*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2023*
Deferred tax assets/ (liabilities)							
Investment securities	77,167	4,824	99,175	181,166	13,902	(81,532)	113,536
Cash and cash equivalents	−	(37)	−	(37)	938	−	901
Loans to customers	(2,839,538)	286,309	−	(2,553,229)	724,513	−	(1,828,716)
Finance lease receivables	−	−	−	−	84	−	84
Property, equipment and right of use asset	(224,514)	(74,933)	−	(299,447)	(19,903)	−	(319,350)
Other assets	(4,990)	(5,504)	−	(10,494)	(7,183)	−	(17,677)
Other borrowed funds	−	6,776	−	6,776	(39)	−	6,737
Financial liabilities measured at FVTPL	−	203	−	203	−	−	203
Amounts due to customers	−	−	−	−	(3,013)	−	(3,013)
Lease liability	242,063	79,645	−	321,708	(5,168)	−	316,540
Other liabilities	37,326	55,976	−	93,302	1,421	−	94,723
Tax loss carry forwards	33,590	(33,590)	−	−	−	−	−
Deferred tax liabilities, net	**(2,678,896)**	**319,669**	**99,175**	**(2,260,052)**	**705,552**	**(81,532)**	**(1,636,032)**

14. Credit loss expense

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(5,272)	–	–	**(5,272)**
Amounts due from banks	6	(449)	–	–	**(449)**
Loans to customers at amortized cost	9	(747,937)	664,372	330,092	**246,527**
Finance lease receivables	10	(468)	–		**(468)**
Debt securities measured at FVOCI	8	(50,309)	–	–	**(50,309)**
Other financial assets	15	7,804	–	–	**7,804**
Financial guarantees	23	(60,969)	–	–	**(60,969)**
Total credit loss expense		**(857,600)**	**664,372**	**330,092**	**136,864**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	275	–	–	**275**
Amounts due from banks	6	(58)	–	–	**(58)**
Loans to customers at amortized cost	9	(78,370)	568,712	(1,139,191)	**(648,849)**
Debt securities measured at FVOCI	8	13,527	–	–	**13,527**
Other financial assets	15	2,166	–	–	**2,166**
Financial guarantees	23	(30,184)	–	–	**(30,184)**
Total credit loss expense		**(92,528)**	**568,712**	**(1,139,191)**	**(663,007)**

15. Other assets

Other assets comprise:

	2023	*2022*
Other receivables	217,372	185,446
Less: allowance for impairment of other financial assets	(727)	(8,531)
Total other financial assets	**216,645**	**176,915**
Advances paid to leased property suppliers	1,873,907	–
Prepayments	143,987	440,126
Repossessed assets	98,023	110,443
Prepaid taxes other than income tax	59,815	54,862
Other non-financial assets	21,118	33,077
Total other non-financial assets	**2,196,850**	**638,508**
Total other assets	**2,413,495**	**815,423**

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

	Stage1	*Total*
ECL at 1 January 2023	**8,531**	**8,531**
Changes in ECL	(7,804)	(7,804)
At 31 December 2023	**727**	**727**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2022 is as follows:

	Stage 1	*Total*
ECL at 1 January 2022	**10,697**	**10,697**
Changes in ECL	(2,166)	(2,166)
At 31 December 2022	**8,531**	**8,531**

16. Amounts due to customers

Current accounts and deposits from customers include the following:

	2023	*2022*
Current accounts and demand deposits		
Retail	1,253,325	176,428
Corporate	10,087,327	87,806
Term deposits		
Retail	18,024,306	222,789
Corporate	4,960,192	95,902
Total	**34,325,150**	**582,925**

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

	2023	*2022*
Individuals	18,577,638	344,249
Private companies	8,594,948	87,806
Financial institutions	6,452,571	95,902
Employees	699,993	54,968
Amounts due to customers	**34,325,150**	**582,925**

At 31 December 2023, current accounts and deposits from customers of AMD 12,371,700 thousand (36.05%) were due to the ten largest customers (2022: AMD 464,729 thousand, 79.7%).

As of 31 December 2023, the Bank has no customers (2022: none) whose balances exceed 10% of equity.

In accordance with the Armenian legislation, Bank is obliged to repay deposits 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.

17. Amounts due to banks

Amounts due to banks include the following:

	2023	*2022*
Loans from banks	5,059,016	7,765,422
Amounts payable under repurchase agreements	2,952,186	–
Total	**8,011,202**	**7,765,422**

As of 31 December 2023, the Bank had loans from 3 Armenian commercial banks (2022: 6 banks).

As of 31 December 2023, amounts due to banks include AMD denominated loans with the total amount of 114,764 thousand (2022: 762,009 thousand) and annual interest rate of 12.5% (2022: 12.5%) and USD denominated loans with the total amount of 4,944,252 thousand (2022: 7,003,413 thousand) and annual interest rate of 6.6-8.3% (2022: 6.5-8.0%).

The contractual maturity of AMD and USD denominated loans ranges from 2024-2025.

The Bank has entered into a repurchase agreement with 1 bank as of 31 December 2023 (31 December 2022: no repurchase agreements with banks).

As at 31 December 2023, amounts payable under repurchase agreements with banks were collateralized by RA government bonds with fair value of AMD 3,126,410 thousand. See Notes 8, 29 and 30.

18. Debt securities issued

Debt securities issued consisted of the following:

	2023	*2022*
Domestic bonds in USD	3,496,986	938,276
Domestic bonds in AMD	2,467,883	513,263
Total	**5,964,869**	**1,451,539**

During 2023, the Bank registered Prospectus in Central Bank of Armenia for issuing AMD and USD bonds with nominal amount of AMD 5,000,000 thousand and USD 10,000 thousand accordingly, which have not been fully placed at the reporting date. As at 31 December 2023 the carrying value of the newly placed AMD and USD denominated bonds is correspondingly AMD 1,954,620 thousand and AMD 2,880,730 thousand.

During the third quarter of 2022, the Bank issued AMD and USD bonds with nominal amount of AMD 500,000 thousand and USD 1,501 thousand accordingly. As at 31 December 2023 the carrying value of these AMD and USD denominated bonds is correspondingly AMD 513,263 thousand and AMD 616,256 thousand.

Bonds, denominated in AMD, bear annual interest rate of 11.25% and 11.5% and USD denominated bonds, bear annual interest rate of 6.0%, 6.2% and 6.25%. The contractual maturity of AMD and USD bonds ranges from 2024-2026.

Bonds issued by the Bank are listed in Armenia Securities Exchange. However, bonds issued during 2023 with carrying value of AMD 1,459,678 thousand are not listed in Armenian Securities Exchange as at 31 December 2023.

19. Other borrowed funds

Other borrowed funds consisted of the following:

	2023	*2022*
Loans from refinancing credit organizations	5,715,675	2,660,114
Loans from CBA	2,119,636	535,696
Borrowings from commercial organizations	90,739	128,034
Borrowings from government non-profit organizations	8,009	9,346
Total	**7,934,059**	**3,333,190**

As at 31 December 2023 and 31 December 2022 the Bank has no other borrowed funds from lenders, whose balance exceed 10% of equity.

There are no covenants within the scope of other borrowed funds that the Bank is obliged to abide.

As of 31 December 2023, loans to customers with a gross value of AMD 9,145,692 thousand (2022: AMD 3,290,742 thousand) serve as collateral for secured borrowings from refinancing financial organizations with a carrying value of AMD 7,835,312 thousand (2022: AMD 3,195,810 thousand) (see Note 9).

20. Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2023	*2022*
As at 1 January	**1,787,052**	**1,344,542**
Additions	225,207	636,295
Accretion of interest	181,300	156,362
Payments	(438,566)	(350,147)
As at 31 December	**1,754,993**	**1,787,052**

20. Lease liability (continued)

The Bank had total cash outflows for leases of AMD 452,871 in 2023 (2022: AMD 381,471 thousand).

In 2023 the Bank also had non-cash additions to right-of-use assets and lease liabilities in amount of AMD 225,207 thousand (2022: AMD 636,295 thousand).

21. Other liabilities

	2023	*2022*
Payables to employees	527,402	498,440
Non-cleared transactions	409,577	–
Accounts payable	402,365	316,021
Provision for guarantees	91,153	30,184
Total other financial liabilities	**1,430,497**	**844,645**
Prepayments from lessees	170,949	–
Non-income tax payable	158,209	106,338
Payables to Deposit Guarantee Fund	14,784	–
Total other non-financial liabilities	**343,942**	**106,338**
Total other liabilities	**1,774,439**	**950,983**

Non-cleared transactions represent customer transactions from outside of 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.

22. Equity

Issued capital

As of 31 December 2023, the Bank's share capital was AMD 30,100,000 thousand (2022: 30,100,000 thousand). The authorized, issued, and outstanding share capital comprises 1,400,000 ordinary shares (2022: 1,400,000 ordinary shares) with a par value of AMD 21,500 (2022: AMD 21,500) each.

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

On 4 July 2022 shareholders of the Bank approved the increase of share capital by 23,100,000 thousand AMD to comply with the minimum capital requirement regulation of the Central Bank of RA. The replenishment of share capital was performed by capitalizing dividends of AMD 1,900,000 thousand and other borrowed funds from shareholders with carrying value of AMD 21,200,000 thousand in a debt-to-equity swap transaction. The increase of share capital was implemented by increase of nominal value of the existing shares from AMD 5,000 to AMD 21,500.

Nature and purpose of reserves

Revaluation reserve for investment securities

The revaluation reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

Dividends

Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to Armenian legislation.

During 2023 no dividends were declared and paid in respect of the year ended 31 December 2022.

At the Shareholders' Meeting in 5 April 2022, the Bank declared dividends in respect of the year ended 31 December 2021, totaling AMD 2,000,000 thousand on ordinary shares (AMD 1,429 per share). Dividends with the total amount of AMD 100,000 thousand were paid in cash during 2022 and AMD 1,900,000 thousand capitalized to increase share capital of the Bank.

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

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

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

Commitments and contingencies

As at 31 December the Bank's commitments and contingencies comprised the following:

	2023	***2022***
Credit related commitments		
Financial guarantees	3,210,301	754,600
Commitments and contingencies	**3,210,301**	**754,600**

An analysis of changes in the ECLs during the year ended 31 December 2023 is as follows:

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2023	**30,184**	**30,184**
New exposures	71,875	**71,875**
Amounts paid	(3,024)	**(3,024)**
Impact on period end ECL of exposures transferred between stages during the period	(7,882)	**(7,882)**
As at 31 December 2023	**91,153**	**91,153**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2022	**–**	**–**
New exposures	30,184	**30,184**
As at 31 December 2022	**30,184**	**30,184**

24. Net interest income

Net interest income comprises:	*2023*	*2022*
Financial assets measured at amortized cost		
Loans to customers	13,614,920	12,991,619
Amounts receivable under reverse repurchase agreements	29,593	–
Cash and cash equivalents	4,595	3,633
	13,649,108	**12,995,252**
Financial assets measured at fair value through other comprehensive income		
Investment securities	605,874	463,467
Interest revenue calculated using effective rate	**14,254,982**	**13,458,719**
Finance lease receivables	18,011	–
Other interest income	**18,011**	**–**
Total interest income	**14,272,993**	**13,458,719**
Interest expense		
Amounts due to customers	960,670	1,814
Amounts due to banks	616,254	840,885
Other borrowed funds	334,823	1,326,165
Debt securities issued	183,931	68,443
Lease liabilities	181,300	156,362
Amounts payable under repurchase agreements	100,673	26,780
Derivative financial instruments	89,423	1,346
Interest expense	**2,467,074**	**2,421,795**
Net interest income	**11,805,919**	**11,036,924**

25. Net fee and commission income

Net fee and commission income comprise:

	2023	*2022*
Cash operations	109,181	–
Guarantees	83,996	19,929
Insurances	8,147	2,815
Other	2,701	3,411
Fee and commission income	**204,025**	**26,155**
Cash operations	57,370	10,838
Settlements operations	17,173	115,939
Securities operations	11,919	8,041
Money transfers	1,414	5,139
Service fee for account maintenance	1,080	7,834
Plastic card maintenance services	14	6,027
Other	176	2,823
Fee and commission expense	**89,146**	**156,641**
Net fee and commission expense	**114,879**	**(130,486)**

26. Personnel and Other operating expenses

Personnel and other operating expenses comprise:

	2023	*2022*
Salaries and bonuses	4,112,011	3,191,875
Mandatory pension contributions	233,182	155,842
Personnel insurances	72,429	46,156
Personnel expenses	**4,417,622**	**3,393,873**

26. Personnel and Other operating expenses (continued)

Other operating expenses

	2023	*2022*
Marketing and advertising	437,177	108,323
Repairs and maintenance	205,615	129,061
Office supplies	164,051	121,242
Professional services	141,045	84,856
Charity	134,316	94,013
Security	115,476	100,730
Non-refundable taxes and duties other than on income	43,176	42,821
Communications	42,442	35,657
Expenses of disbursement and collection of loans	41,256	31,577
Deposit insurance expenses	28,325	16,000
Business travel and related expenses	23,249	21,052
Personnel training	20,895	7,344
Membership fees	20,153	38,141
Representation expenses	15,398	30,978
Operating lease expenses	14,305	31,324
Penalties incurred	10,000	−
Entertainment	9,568	32,711
Expenses of disposal of properties	5,930	−
Financial system mediator expenses	5,476	30,819
Other	169,248	54,257
Other operating expenses	**1,647,101**	**1,010,906**

The Bank recognised rent expense from short-term leases of AMD 6,420 thousand and leases of low-value assets of AMD 7,885 thousand for the year ended 31 December 2023 (2022 − rent expense from short-term leases of AMD 24,058 thousand and leases of low-value assets of AMD 7,266 thousand).

Fees for the audit of Bank’s financial statements for the year ended 31 December 2023 amounted to AMD 33,000 thousand VAT exclusive (2022: AMD 43,750 thousand VAT exclusive). No non-audit services were provided by the Bank’s external auditors during 2023.

27. Risk management

Introduction

The Bank's activities are characterized by certain risks, for managing of which the Bank develops and implements risk management mechanisms and an internal control system. The main risks inherent in the bank's activities are credit, liquidity and market risks. The market risk in its turn includes foreign currency, interest rate and price risks. Operational risk is also a characteristic of the bank's activity. Risk management involves a continuous process of identifying, measuring and monitoring risks within the framework of risk limits and internal control system. The process of risk management is of decisive importance in maintaining a constant level of profitability of the Bank, and every employee of the Bank is responsible for the risks arising within the scope of his duties.

The risk management function also covers business risks such as changes in the environment, technology and economic sectors through the involvement of various departments related to them.

Risk management system

The ultimate responsibility for risk identification and control rests with the Bank's Board, but there are separate bodies responsible for the risk management and monitoring.

The Bank’s Board

The Bank's board is responsible for approving the overall risk management approach, risk management strategy and principles.

The Bank Management/Chief Executive Officer

The Bank Management/Chief Executive Officer is responsible for monitoring the risk management process in the Bank.

27. Risk management (continued)

Introduction (continued)

Risk management department

The risk management department is responsible for the development and implementation of risk management procedures under the strategy and risk management policy approved by the Board, for the identification, assessment and continuous monitoring of risks according to these procedures, including the control of compliance with the established risk limits, as well as the risk assessment of new processes and products.

The following department also ensures the submission of risk reports to the competent management bodies, the Bank's Board and the management.

Asset and Liability Management Committee

The Assets and Liabilities Management Committee is responsible for the management of the Bank's assets and for managing liabilities and overall financial structure. It is also responsible for funding and liquidity risks.

Internal audit

The risk management process carried out by the Bank is audited by the Internal Audit Department, which verifies both the completeness of the procedures and the compliance of the Bank's activities with the procedures. The Internal Audit department discusses the results of the conducted inspections with the management and presents its conclusions and proposals to the Internal Audit Commission attached to the Board.

Risk assessment and reporting systems

During the analysis and assessment of various risks, the Bank applies statistical models, sensitivity analyses, analyzes the dynamics of various risk indicators and, if necessary, takes appropriate measures. The models are further tested for validity purposes. The Bank also applies worst-case scenarios that will occur when extreme events, which are unlikely to occur, do actually occur.

Risk monitoring and control is mainly carried out based on the limits approved by the Bank. These limits reflect the Bank's strategy and market environment, as well as the level of the risk the Bank is willing to accept, with additional emphasis on selected sectors of the economy. In addition, the Bank observes and evaluates the risk absorption capacity and the overall risk exposure level for all types of risks and activity directions.

Credit risk information related to all the business directions is analyzed and processed to analyze, monitor and detect the risks early. This information is submitted to the Bank's Management. The report presented includes analysis of exposure to total credit risk, results of monitoring credit concentration limits, gap (GAP) analysis, VaR assessment, liquidity ratios, stress test analysis, control of overall risk appetite and changes in risk profile. On a quarterly basis, a detailed report on the risks of customers, economy and business directions is submitted to the Risk Management and Compliance Committee attached to the Board.

Risk mitigation

As part of the overall risk management process, the Bank uses derivative and other instruments to manage the risk arising from changes in foreign exchange rates.

The Bank makes extensive use of collateral to reduce credit risk.

Overconcentration of risks

Risk concentration appears in cases when a number of partners carry out similar activities, or when they conduct their activities in one geographical region, or when they are under the influence of similar economic factors, as a result of which the fulfillment of their obligations manifests itself in the case of changes in economic, political and other conditions. Risk concentrations reflect the relative sensitivity of the Bank's performance to conditions affecting a particular industry or geographic region.

In order to avoid over-concentration of risk, the Bank's policies and procedures include principles and limits aimed at maximum diversification of the portfolio. These benchmarks are subject to continuous monitoring and internal accountability.

27. Risk management (continued)

Credit risk

Credit risk is the risk due to which the Bank may suffer losses in case of non-fulfillment of obligations by customers or partners. The Bank monitors and manages credit risk by setting the risk limit it is willing to accept for individual counterparties and geographic and economic concentrations, as well as considering sensitivity to such limits.

The Bank has established a credit quality screening process to ensure early detection of potential changes in counterparty creditworthiness, including regular review of collateral.

For financial instruments carried at fair value, the carrying amount reflects the current credit risk, but not the maximum amount of risk that could arise in the future from a change in value.

Impairment assessment

The Bank calculates ECL under a number of probability-weighted scenarios to estimate expected cash shortfalls, discounted at an approximation to the EIR. 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 considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

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

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

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 Stages 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.

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.

27. Risk management (continued)

Credit risk (continued)

Definition of Default

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 credit-impaired based on other defined quantitative and qualitative factors, such as the state of being rescheduled, as well as the outcome of financial monitoring.

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.

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

Loans to customers

Grouping

For loans granted to customers belonging to Stage 1 and Stage 2, as well as individually insignificant loans belonging to Stage 3, the Bank calculates at the ECL portfolio level. The bank distinguishes the following portfolio types:

- ► Gold-secured loans
- ► Mortgage and other loans secured by real estate,
- ► Corporate loans,
- ► Other retail loans.

The probability of default on loans to customers is based on information from past periods and is calculated using probability change matrices based on available information on the maturity of loan portfolios. Probabilities are calculated as the share of loans moving between the default categories during a 12-month period in relation to the total loans at the beginning of the period. When calculating the default probability, the Bank considers forecasted macroeconomic indicators that have a significant impact on the probability of default, calculated according to time series regression analysis.

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

To calculate the amount of loss at default, the Bank uses historical data on recoveries after the date of default for all the defaulted loans. The initial grouping used to estimate the PD PIT is further sub-grouped by collateral type to calculate the amount of loss at default. All cash flow information is collected after the default date by LGD groups.

Any changes to the collection policy are taken into account within this framework.

All the cash flow information after the default date is collected and discounted to the default date using the average effective interest rate method for each LGD group. Information on cash flows includes all types of cash inflows for overdue loans (funds received from loan repayment, funds received from the guarantor, funds received from the collateral sale, etc.).

27. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

The Bank has established a policy to assess indicators of a significant increase in the credit risk of a financial instrument at each reporting date since initial recognition. The Bank has established a policy to assess indicators of a significant increase in the credit risk of a financial instrument at each reporting date since initial recognition. The Bank uses information on the number of days of overdue loans as the main indicator. If the contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since the initial recognition by the Bank.

When assessing the increase in credit risk, the Bank's management is also guided by the following factors:

- The number of overdue days of the given borrower in other RA financial institutions;
- Significant difficulties in the borrower's financial conditions;
- Revision of the loan conditions as a result of the deterioration of the borrower's financial conditions;
- The results of the financial monitoring of the borrower's activity.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Inflation, %
- Monthly economic activity, %
- Average salary, AMD
- Remittances, mln USD
- Real estate, AMD

The Bank obtains the forward-looking information from third party sources (Economic Intelligence Unit and World Bank Database, as well as Government of the RA Forecasts).The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

Key drivers	*ECL scenario*	*Assigned probabilities,%*	*2024*
Inflation, %	Base case	100%	3.1%
Monthly economic activity, %	Base case	100%	10.0%
Average salary, AMD	Base case	100%	285,810
Remittances, mln USD	Base case	100%	723
Real estate, AMD	Base case	100%	323,096

27. Risk management (continued)

Credit risk (continued)

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.

The following table provides information on the credit quality of gross loans to legal entities and individuals as at 31 December 2023 and 31 December 2022:

	31-Dec-23			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total loans AMD'000***
Gold-secured loans				
not overdue	35,190,690	9,267,006	574,800	45,032,496
overdue of less than 30 days	1,160,499	1,905,125	317,621	3,383,245
overdue of 30-89 days	–	1,890,539	1,355,317	3,245,856
overdue of 90-179 days	–	–	1,214,706	1,214,706
overdue of 180-270 days	–	–	580,342	580,342
overdue more than 270 days	–	–	689,846	689,846
Total gross gold- secured loans	**36,351,189**	**13,062,670**	**4,732,632**	**54,146,491**
Credit loss allowance	(302,239)	(431,912)	(1,014,419)	(1,748,570)
Total net gold- secured loans	**36,048,950**	**12,630,758**	**3,718,213**	**52,397,921**
Mortgage and other loans secured by real estate				
not overdue	17,717,177	908,626	387,876	19,013,679
overdue of less than 30 days	12,848	29,090	–	41,938
overdue of 30-89 days	–	25,346	56,106	81,452
overdue of 90-179 days	–	–	12,376	12,376
overdue of 180-270 days	–	–	125,355	125,355
Total gross mortgage and other loans secured by real estate	**17,730,025**	**963,062**	**581,713**	**19,274,800**
Credit loss allowance	(18,180)	(49,364)	(254,217)	(321,761)
Total net mortgage and other loans secured by real estate	**17,711,845**	**913,698**	**327,496**	**18,953,039**
Corporate loans				
not overdue	13,290,332	173,985	–	13,464,317
overdue of less than 30 days	751	27,260	–	28,011
overdue of 30-89 days	–	12,288	–	12,288
overdue of 90-179 days	–	–	83,903	83,903
overdue of 180-270 days	–	–	4,246	4,246
Total gross corporate loans	**13,291,083**	**213,533**	**88,149**	**13,592,765**
Credit loss allowance	(15,477)	(26,331)	(58,786)	(100,594)
Total net corporate loans	**13,275,606**	**187,202**	**29,363**	**13,492,171**
Other retail loans				
not overdue	3,722,882	187,407	6,022	3,916,311
overdue of less than 30 days	12,480	7,491	–	19,971
overdue of 30-89 days	–	5,197	6,596	11,793
overdue of 90-179 days	–	–	28,629	28,629
overdue of 180-270 days	–	–	13,423	13,423
Total gross other retail loans to customers	**3,735,362**	**200,095**	**54,670**	**3,990,127**
Credit loss allowance	(5,541)	(14,225)	(41,400)	(61,166)
Total net other retail loans to customers	**3,729,821**	**185,870**	**13,270**	**3,928,961**
Total gross loans to customers	**71,107,659**	**14,439,360**	**5,457,164**	**91,004,183**
Credit loss allowance	(341,437)	(521,832)	(1,368,822)	(2,232,091)
Total net loans to customers	**70,766,222**	**13,917,528**	**4,088,342**	**88,772,092**

27. Risk management (continued)

Credit risk (continued)

	31 December 2022			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Gold-secured loans				
− not overdue	24,562,625	9,085,242	817,639	34,465,506
− overdue of less than 30 days	32,069	3,753,155	298,088	4,083,312
− overdue of 30-89 days	−	5,015,624	667,123	5,682,747
− overdue of 90-179 days	−	−	3,169,621	3,169,621
− overdue of 180-270 days	−	−	767,681	767,681
− overdue more than 270 days	−	−	439,479	439,479
Total gross gold-secured loans	**24,594,694**	**17,854,021**	**6,159,631**	**48,608,346**
Credit loss allowance	(189,177)	(764,427)	(1,510,010)	(2,463,614)
Total net gold-secured loans	**24,405,517**	**17,089,594**	**4,649,621**	**46,144,732**
Mortgage and other loans secured by real estate				
− not overdue	6,742,699	430,628	136,532	7,309,859
− overdue of less than 30 days	−	32,219	58,377	90,596
− overdue of 30-89 days	−	−	−	−
− overdue of 90-179 days	−	−	19,761	19,761
− overdue of 180-270 days	−	−	6,743	6,743
Total gross mortgage and other loans secured by real estate	**6,742,699**	**462,847**	**221,413**	**7,426,959**
Credit loss allowance	(13,149)	(33,321)	(94,600)	(141,070)
Total net mortgage and other loans secured by real estate	**6,729,550**	**429,526**	**126,813**	**7,285,889**
Corporate loans				
− not overdue	1,393,449	15,819	4,482	1,413,750
− overdue of less than 30 days	−	12,444	−	12,444
− overdue of 30-89 days	−	85,825	−	85,825
− overdue of 90-179 days	−	−	−	−
− overdue of 180-270 days	−	−	−	−
Total gross corporate loans	**1,393,449**	**114,088**	**4,482**	**1,512,019**
Credit loss allowance	(21,739)	(36,828)	(2,088)	(60,655)
Total net corporate loans	**1,371,710**	**77,260**	**2,394**	**1,451,364**
Other retail loans				
− not overdue	1,505,368	42,895	10,106	1,558,369
− overdue of less than 30 days	290	5,718	3,173	9,181
− overdue of 30-89 days	−	7,087	10,195	17,282
− overdue of 90-179 days	−	−	2,484	2,484
− overdue of 180-270 days	−	−	6,302	6,302
Total gross other retail loans to customers	**1,505,658**	**55,700**	**32,260**	**1,593,618**
Credit loss allowance	(25,730)	(16,204)	(22,679)	(64,613)
Total net other retail loans to customers	**1,479,928**	**39,496**	**9,581**	**1,529,005**
Total gross loans to customers	**34,236,500**	**18,486,656**	**6,417,786**	**59,140,942**
Credit loss allowance	(249,795)	(850,780)	(1,629,377)	(2,729,952)
Total net loans to customers	**33,986,705**	**17,635,876**	**4,788,409**	**56,410,990**

27. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

As at 31 December 2023:

	Note		*High grade*	*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage1	13,966	3,219,616	**3,233,582**
Amounts due from banks	6	Stage1	–	964,802	**964,802**
Investment securities	8	Stage1	–	5,258,863	**5,258,863**
Investment securities pledged under repurchase agreements	8	Stage 1	–	3,126,410	**3,126,410**
Total			**13,966**	**12,569,691**	**12,583,657**

As at 31 December 2022:

	Note		*High grade*	*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage1	–	914,941	**914,941**
Amounts due from banks	6	Stage1	–	110,377	**110,377**
Investment securities	8	Stage1	–	4,551,296	**4,551,296**
Total			**–**	**5,576,614**	**5,576,614**

The table below shows the mapping of the Bank's grading system and external ratings of the counterparties under cash and cash equivalents, amounts due from banks, investment securities, and investment securities pledged under repurchase agreements as at 31 December 2023 and 31 December 2022.

2023:

International external rating agency (Moody's) rating	*Internal rating description*	*PD*
Aaa to A3	High grade	0-0.09%
Baa1 to B3	Standard	0.1-4.3%
Caa1 to Ca	Sub-standard grade	16.3%
C	Impaired	100%

2022:

International external rating agency (Moody's) rating	*Internal rating description*	*PD*
Aaa to A3	High grade	0-0.09%
Baa1 to B3	Standard	0.1-4.3%
Caa1 to Ca	Sub-standard grade	16.3%
C	Impaired	100%

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.

27. Risk management (continued)

Liquidity risk and funding management (continued)

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

	Threshold	*2023 %*	*2022 %*
N2.1 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	20.0%	15.2%
N2.2 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	211.6%	1418.1%

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2023	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to banks	3,175,828	2,847,964	2,389,918	–	**8,413,710**
Amounts due to customers	15,052,608	18,416,847	2,193,713	–	**35,663,168**
Debt securities issued	124,076	1,454,840	5,295,516	–	**6,874,432**
Other borrowed funds	172,644	1,153,463	5,259,221	4,119,874	**10,705,202**
Lease liability	59,845	361,920	1,349,624	676,038	**2,447,427**
Other financial liabilities	1,430,497	–	–	–	**1,430,497**
Financial guarantees	3,299,031	–	–	–	**3,299,031**
Total undiscounted financial liabilities	**23,314,529**	**24,235,034**	**16,487,992**	**4,795,912**	**68,833,467**

As at 31 December 2022	*Trading derivatives*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Derivative financial liabilities	2,549	–	–	–	–	**2,549**
Amounts due to banks	–	1,475,591	3,446,707	3,368,717	–	**8,291,015**
Amounts due to customers	–	264,474	339,375	806	–	**604,655**
Debt securities issued		34,808	409,970	1,162,657	–	**1,607,435**
Other borrowed funds	–	69,109	338,101	1,854,614	2,392,231	**4,654,055**
Lease liability	–	59,554	325,986	1,312,358	876,665	**2,574,563**
Other financial liabilities	–	844,645	–	–	–	**844,645**
Financial guarantees	–	815,800	–	–	–	**815,800**
Total undiscounted financial liabilities	**2,549**	**3,563,981**	**4,860,139**	**7,699,152**	**3,268,896**	**19,394,717**

Included in due to customers in the table above are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. These deposits are classified in the table above in accordance with their stated maturity dates.

27. Risk management (continued)

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.

	2023			2022		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	10,984,112	–	**10,984,112**	3,180,144	–	**3,180,144**
Amounts due from banks	964,295	–	**964,295**	110,319	–	**110,319**
Investment securities	2,596,863	2,662,000	**5,258,863**	–	4,551,296	**4,551,296**
Investment securities pledged under repurchase agreements	256,910	2,869,500	**3,126,410**	–	–	**–**
Loans to customers	19,670,285	69,101,807	**88,772,092**	17,069,826	39,341,164	**56,410,990**
Finance lease receivables	40,194	214,434	**254,628**	–	–	**–**
Property, equipment and right-of-use assets	–	3,829,455	**3,829,455**	–	2,690,069	**2,690,069**
Intangible assets	–	1,402,503	**1,402,503**	–	613,470	**613,470**
Other assets	216,645	2,196,850	**2,413,495**	170,212	645,211	**815,423**
Total	**34,729,304**	**82,276,549**	**117,005,853**	**20,530,501**	**47,841,210**	**68,371,711**
Derivative financial liabilities	–	–	**–**	2,549	–	**2,549**
Amounts due to customers	32,016,895	2,308,255	**34,325,150**	582,125	800	**582,925**
Amounts due to banks	5,710,720	2,300,482	**8,011,202**	4,502,769	3,262,653	**7,765,422**
Debt securities issued	1,160,367	4,804,502	**5,964,869**	359,829	1,091,710	**1,451,539**
Other borrowed funds	825,361	7,108,698	**7,934,059**	210,596	3,122,594	**3,333,190**
Lease liability	6,222	1,748,771	**1,754,993**	267,611	1,519,441	**1,787,052**
Current income tax liabilities	1,620,547	–	**1,620,547**	1,504,320	–	**1,504,320**
Deferred tax liabilities	–	1,636,032	**1,636,032**	–	2,260,052	**2,260,052**
Other liabilities	1,774,439	–	**1,774,439**	950,983	–	**950,983**
Total	**43,114,551**	**19,906,740**	**63,021,291**	**8,380,782**	**11,257,250**	**19,638,032**
Net	**(8,385,247)**	**62,369,809**	**53,984,562**	**12,149,719**	**36,583,960**	**48,733,679**

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. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets measured at FVOCI at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

27. Risk management (continued)

Market risk (continued)

Currency	*Increase in basis points 2023*	*Sensitivity of net interest income 2023*	*Sensitivity of equity 2023*
AMD	4.17%	–	(1,174,905)

Currency	*Decrease in basis points 2023*	*Sensitivity of net interest income 2023*	*Sensitivity of equity 2023*
AMD	4.17%	–	1,822,309

Currency	*Increase in basis points 2022*	*Sensitivity of net interest income 2022*	*Sensitivity of equity 2022*
AMD	3.18%	–	(702,300)

Currency	*Decrease in basis points 2022*	*Sensitivity of net interest income 2022*	*Sensitivity of equity 2022*
AMD	3.18%	–	1,006,300

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 Board has set limits on positions by currency based on the CBA regulations. Positions are monitored on a daily basis.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023:

	USD AMD'000	**EUR AMD'000**	**Other currencies AMD'000**	**Total AMD'000**
Assets				
Cash and cash equivalents	4,372,160	881,622	1,711,644	6,965,426
Amounts due from banks	913,523	50,772	–	964,295
Derivative financial assets	–	–	–	–
Loans to customers	12,434,440	103,406	–	12,537,846
Finance lease receivables	1,017	148,900	–	149,917
Investment securities	–	–	–	–
Other financial assets	–	–	–	–
Total assets	**17,721,140**	**1,184,700**	**1,711,644**	**20,617,484**
Liabilities				
Amounts due to banks	4,944,252	–	–	4,944,252
Derivative financial liabilities	–	–	–	–
Amounts due to customers	8,662,747	439,188	149,963	9,251,898
Debt securities issued	3,496,985	–	–	3,496,985
Other borrowed funds	–	–	–	–
Lease liability	–	–	–	–
Other financial liabilities	15,575	126,800	56,294	198,669
Total liabilities	**17,119,559**	**565,988**	**206,257**	**17,891,804**
Net position	**601,581**	**618,712**	**1,505,387**	**2,725,680**

27. Risk management (continued)

Market risk (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
Assets				
Cash and cash equivalents	263,875	253,260	1,372,107	1,889,242
Amounts due from banks	110,319	–	–	110,319
Loans to customers	5,270,308	–	–	5,270,308
Total assets	**5,644,502**	**253,260**	**1,372,107**	**7,269,869**
Liabilities				
Amounts due to banks	7,003,413	–	–	7,003,413
Amounts due to customers	92,727	3,329	9,187	105,243
Debt securities issued	938,277	–	–	938,277
Other liabilities	266	24	1	291
Total liabilities	**8,034,683**	**3,353**	**9,188**	**8,047,224**
Net position	**(2,390,181)**	**249,907**	**1,362,919**	**(777,355)**
Effect of derivatives	1,967,850	–	–	**1,967,850**
Net position including derivatives	**(422,331)**	**249,907**	**1,362,919**	**1,190,495**

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2023 and 31 December 2022 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against AMD, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase. The Management Board has set risk appetite limits on the currency and interest rate risk.

Currency	Change in currency rate in % 2023	Effect on profit before tax 2023	Change in currency rate in % 2022	Effect on profit before tax 2022
USD	22.47%	135,175	12.62%	(53,298)
USD	(22.47%)	(135,175)	(12.62%)	53,298
EUR	32.97%	203,989	21.31%	53,255
EUR	(32.97%)	(203,989)	(21.31%)	(53,255)

Operational risk

Operational risk is the risk of loss arising from systems failure, inadequate or failed internal processes, 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.

The Bank has adopted the three lines of defense in the scope of the operational risk management; the first line of defense provided by the front line staff and operational management, the second line of defense provided by the risk management and compliance functions and the third line of defense provided by the internal audit function.

The operational risk management system includes the following key aspects: risk mapping, incident analysis and permanent controlling function. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

28. Fair value measurements

Fair value measurement

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Bank's management determines the policies and procedures for fair value measurement for Bank's assets including derivatives. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

As at 31 December 2023 and 2022, the Bank has financial instruments, such as loans to customers, amounts due from banks, finance lease receivables, other financial assets, amounts due to customers, amounts due to banks, other borrowed funds, lease liability and other financial liabilities for which fair value is based on valuation techniques involving the use of significant non-market observable inputs.

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.

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets and liabilities measured at fair value				
Financial assets at fair value through other comprehensive income				
- Debt instruments	−	5,242,363	−	**5,242,363**
- Debt instruments pledged under repurchase agreements	−	3,126,410	−	**3,126,410**
- Unquoted equity shares – local companies	−	−	16,500	**16,500**
Assets for which fair values are disclosed				
- Cash and cash equivalents	10,984,112	−	−	**10,984,112**
- Amounts due from banks	−	−	964,295	**964,295**
- Other financial assets	−	−	216,645	**216,645**
- Loans to customers	−	−	85,583,559	**85,583,559**
- Finance lease receivables	−	−	254,628	**254,628**
Liabilities for which fair values are disclosed				
- Amounts due to customers	−	−	34,410,355	**34,410,355**
- Debt securities issued	−	6,020,172	−	**6,020,172**
- Amounts due to banks	−	−	7,995,633	**7,995,633**
- Other borrowed funds	−	−	7,699,446	**7,699,446**
- Lease liability	−	−	1,754,993	**1,754,993**
- Other financial liabilities	−	−	1,430,497	**1,430,497**

28. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2022	*Fair value measurement using* – *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Derivative financial liabilities	–	2,549	–	**2,549**
Financial assets at fair value through other comprehensive income				
- Debt instruments	–	4,551,296	–	**4,551,296**
Assets for which fair values are disclosed				
- Cash and cash equivalents	3,180,144	–	–	**3,180,144**
- Amounts due from banks	–	–	110,319	**110,319**
- Other financial assets	–	–	176,915	**176,915**
- Loans to customers	–	–	52,987,417	**52,987,417**
Liabilities for which fair values are disclosed				
- Amounts due to customers	–	582,925	–	**582,925**
- Debt securities issued	–	1,477,310	–	**1,477,310**
- Amounts due to banks	–	–	7,822,723	**7,822,723**
- Other borrowed funds	–	–	3,243,878	**3,243,878**
- Lease liability	–	–	1,787,052	**1,787,052**
- Other financial liabilities	–	–	844,645	**844,645**

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 2023	*Fair value 2023*	*Unrecognised gain/(loss) 2023*	*Carrying value 2022*	*Fair value 2022*	*Unrecognised gain/(loss) 2022*
Financial assets						
Cash and cash equivalents	10,984,112	10,984,112	–	3,180,144	3,180,144	–
Amounts due from banks	964,295	964,295	–	110,319	110,319	–
Loans to customers	88,772,092	85,583,559	(3,188,533)	56,410,990	52,987,417	(3,423,573)
Finance lease receivables	254,628	254,628	–	–	–	–
Other financial assets	216,645	216,645	–	176,915	176,915	–
Financial liabilities						
Derivative financial liabilities	–	–	–	2,549	2,549	–
Amounts due to customers	34,325,150	34,410,355	(85,205)	582,925	582,925	–
Amounts due to banks	8,011,202	7,995,633	15,569	7,765,422	7,822,723	(57,301)
Debt securities issued	5,964,869	6,020,172	(55,303)	1,451,539	1,477,310	(25,771)
Other borrowed funds	7,934,059	7,699,446	234,613	3,333,190	3,243,878	89,312
Lease liability	1,754,993	1,754,993	–	1,787,052	1,787,052	–
Other financial liabilities	1,430,497	1,430,497	–	844,645	844,645	–
Total unrecognised change in fair value	**160,612,542**	**157,314,335**	**(3,078,859)**	**75,645,690**	**72,215,877**	**(3,417,333)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

28. Fair value measurements (continued)

Valuation techniques and assumptions (continued)

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.

Financial assets and financial liabilities carried at amortized cost

The fair value of loans to customers, other borrowed funds, amounts due to banks, amounts due to customers and lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through other comprehensive income

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

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

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

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

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

As at December 31 December 2023 the Bank has securities sold under repurchase agreements amounted to AMD 3,126,410 thousand which were classified as measured at FVOCI (2022: nil).

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2023 as amounts payable under repurchase agreements with carrying amount of AMD 2,952,186 thousand (2022: nil) presented within amounts due to banks.

30. 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 that do not result in an offset in the statement of financial position:

				Related amounts not set off in the statement of financial position		
31 December 2023	***Gross amount of recognised financial liabilities***	***Gross amount of recognised financial liabilities set off in the statement of financial position***	***Net amount of financial liabilities presented in the statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
Financial liabilities						
Amounts due to banks – repo	(2,952,186)	–	(2,952,186)	3,126,410	–	174,224
Total	**(2,952,186)**	**–**	**(2,952,186)**	**3,126,410**	**–**	**174,224**

31. 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2023			*2022*		
	Shareholders	*Key management personnel and their close family members*	*Other related parties*	*Shareholders*	*Key management personnel and their close family members*	*Other related parties*
Loans to customers						
At 1 January	**–**	**23,802**	**–**	**–**	**81**	**459,671**
Loans issued during the year	–	46,700	–	–	42,165	–
Loan repayments during the year	–	(55,737)	–	–	(18,444)	(432,695)
Other movements	–	–	–	–	–	(26,976)
Loans outstanding at 31 December, gross	**–**	**14,765**	**–**	**–**	**23,802**	**–**
Less: allowance for impairment	–	(889)	–	–	(1,195)	–
Loans outstanding at 31 December, net	**–**	**13,876**	**–**	**–**	**22,607**	**–**
Finance lease receivables						
At 1 January	**–**	**–**	–	**–**	**–**	**–**
Leases issued during the year	–	–	171,291	–	–	–
Lease repayments during the year	–	–	(33,142)	–	–	–
Other movements	–	–	11,021	–	–	–
Finance lease receivables outstanding at 31 December, gross	**–**	**–**	**149,170**	**–**	**–**	**–**
Less: allowance for impairment	–	–	(274)	–	–	–
Finance lease receivables outstanding at 31 December, net	**–**	**–**	**148,896**	**–**	**–**	**–**
Current accounts						
At 1 January	**121,082**	**5,337**	–	–	–	**–**
Net flow during the period	(63,319)	16,423	671,891	121,082	5,337	–
At 31 December	**57,763**	**21,760**	**671,891**	**121,082**	**5,337**	**–**
Term Deposits						
Deposit balances at 1 January	**–**	**–**	**–**	**–**	**–**	**–**
Deposits received	7,896,626	99,254	5,076,063	–	–	–
Deposits repaid	(7,896,626)	(39,526)	(1,990,326)	–	–	–
Other	–	250	86,957	–	–	–
Deposit balances at 31 December	**–**	**59,978**	**3,172,694**	**–**	**–**	**–**
Other borrowed funds						
At 1 January	**–**	**–**	**–**	**9,468,427**	**–**	**16,329,564**
Loans issued during the year	–	–	–	27,211,757	–	–
Loan repayments during the year	–	–	–	(15,481,250)	–	(16,278,719)
Debt to equity swap (Note 22)	–	–	–	(21,200,000)	–	–
Other movements	–	–	–	1,066	–	(50,845)
At 31 December	**–**	**–**	**–**	**–**	**–**	**–**
Lease Liabilities						
At 1 January	**455,068**	**–**	**1,312,693**	**506,786**	**–**	**768,425**
Additions during the period	15,065	–	92,891	13,690	–	622,226
Accretion of interest	46,057	–	127,500	51,244	–	101,711
Payments during the period	(120,256)	–	(252,456)	(116,652)	–	(179,669)
Lease liabilities at 31 December	**395,934**	**–**	**1,280,628**	**455,068**	**–**	**1,312,693**
Other assets	–	**–**	540,306	–	–	128,234
Financial guarantees	–	–	734,400	–	–	734,400
Statement of profit or loss						
Interest revenue calculated using effective rate	–	3,345	–	–	2,943	16,400
Other interest revenue	–	–	3,104	–	–	–
Credit loss expense charge	–	(157)	(274)	–	(1,822)	9,219
Interest expense on deposits and current accounts	(290,913)	(1,687)	(78,066)	(100)	(4)	–
Interest expense on other borrowed funds	–	–	–	–	–	(358,758)
Interest expense on lease liabilities	(46,057)	–	(127,500)	(51,244)	–	(101,711)

31. Related party disclosures (continued)

Other related parties include entities in which controlling stakes are held by the shareholders of the Bank and their family members.

Compensation of key management personnel was comprised of the following:

	2023	*2022*
Salaries and other short-term benefits	560,648	369,257

32. Changes in liabilities arising from financing activities

	Note	*Loans from banks*	*Debt securities issued*	*Other borrowed funds*	*Lease liabilities*	*Total liabilities from financing activities*
Carrying amount at 31 December 2021	**17,18, 19,20**	**7,301,491**	**413,487**	**27,623,994**	**1,344,542**	**36,683,514**
Proceeds from issue		42,008,865	1,119,158	28,315,722	−	**71,443,745**
Redemption		(39,424,030)	−	(30,772,415)	(193,785)	**(70,390,230)**
Foreign currency translation		(2,127,837)	(101,444)	(405,773)	−	**(2,635,054)**
Non-cash transactions		−	−	(21,200,000)	636,295	**(20,563,705)**
Other		6,933	20,338	(228,338)	−	**(201,067)**
Carrying amount at 31 December 2022	**17,18, 19,20**	**7,765,422**	**1,451,539**	**3,333,190**	**1,787,052**	**14,337,203**
Proceeds from issue		26,119,172	4,758,175	5,363,220	−	**36,240,567**
Redemption		(29,061,929)	(323,220)	(827,028)	(257,266)	**(30,469,443)**
Foreign currency translation		248,197	58,250	−	−	**306,447**
Non-cash transactions		−	−	−	225,207	**225,207**
Other		(11,846)	20,125	64,677	−	**72,956**
Carrying amount at 31 December 2023	**17,18, 19,20**	**5,059,016**	**5,964,869**	**7,934,059**	**1,754,993**	**20,712,937**

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

Non-cash transactions comprise of additions of lease liabilities and include conversion of borrowed funds into Bank's share capital (see Notes 19, 20 and 22).

33. Capital adequacy

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize 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 adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. Corresponding changes were made in the objectives, policies and processes from the previous years to comply with requirements set by the Central Bank of Armenia.

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

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 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2023 this minimum level was 11% (2022: 12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2023 and 31 December 2022.

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