"Fast Bank" CJSC

Financial Reports

for the period completed on June 30, 2023

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Financial Reports

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Statement of Financial State
for the period completed on June 30, 2023
(thousand Armenian dram)

	Note.	30/06/23	31/12/22
Assets			
Cash and cash equivalents	5	7,781,106	3,180,144
Claims against banks	6	538,506	110,319
Financial derivative assets	8	4,812,764	4,551,296
Investment securities pledged against repurchase agreements		1,075,143	0
Loans granted to customers	9	70,274,976	56,410,990
Fixed assets and right-of-use assets	10	3,666,310	2,690,071
Intangible assets	11	980,689	613,470
Other assets	14	461,932	815,423
Total assets		**89,591,425**	**68,371,711**
Obligations			
Derivative Financial Obligations	7	3,091	2,549
Liabilities to Customers	15	16,959,472	582,925
Liabilities to banks	16	9,351,559	7,765,422
Issued debt securities	17	1,433,116	1,451,539
Amounts payable under repurchase agreements		1,004,197	0
Other loans	18	3,993,468	3,333,190
Lease Obligations	19	1,915,412	1,787,052
Current profit tax liabilities		642,423	1,504,320
Deferred tax liabilities	12	2,228,753	2,260,054
Other obligations	20	979,063	950,983
Total liabilities		**38,510,555**	**19,638,033**
Own capital			
Share capital	21	30,100,000	30,100,000
Undistributed profit		21,458,838	19,437,014
Revaluation reserve for investment securities	21	(477,967)	(803,336)
Total Own capital		**51,080,870**	**48,733,678**
Total Liabilities and Own Capital		**89,591,425**	**68,371,711**

Signed and certified by the Bank's Management:

Garegin Darbinyan — Executive director/Head of the directorate

Tatul Tamrazyan — Chief accountant

July 15, 2023

Statement of financial results and other comprehensive financial results for the period completed on June 30, 2023
(thousand Armenian dram)

	Note:	01/04/2023-30/06/2023	01/01/2023-30/06/2023	01/04/2022-30/06/2022	01/01/2022-30/06/2022
Interest income calculated using the effective interest method	23	**3,877,390**	**7,088,939**	**4,108,888**	**7,249,273**
Interest expense	23	(578,025)	(943,270)	(869,845)	(1,594,563)
Net interest income		**3,299,365**	**6,145,669**	**3,239,042**	**5,654,710**
Credit loss (expense)/recovery	13	(1,098,260)	(646,114)	(1,920,224)	(1,148,245)
Net interest income after credit loss expenses		**2,201,105**	**5,499,555**	**1,318,819**	**4,506,465**
Income in the form of commissions	24	26,195	38,917	8,951	12,311
Commission Expenses	24	(5.642)	(18,843)	(8,417)	(13,898)
Net (loss)/profit from financial instruments measured at fair value through profit or loss		(9.950)	(35.400)	0	0
Net profit/(loss) from exchange rate differences		103.979	129,977	1,601,669	1,529,983
- From purchase and sale transactions		140.047	304,058	417,996	598,967
- From currency revaluation		(36.068)	(174.081)	1,183,673	931,016
Other operating income		13.392	27,948	11,740	20,349
Non-interest income		**127.974**	**142,599**	**1,613,944**	**1,548,745**
Staff expenses	25	(1,121.582)	(2,100,289)	(935,193)	(1,728,785)
Depreciation and amortization deductions	10,11	(193.710)	(347,215)	(90,080)	(179,874)
Other operating expenses	25	(341.643)	(534,129)	(192,846)	(298,684)
Non-interest expenses		**(1,656.934)**	**(2,981,633)**	**(1,218,119)**	**(2,207,344)**
Profit before income tax		**672.145**	**2,660,520**	**1,714,644**	**3,847,866**
Income tax expense	12	(261.580)	(638,697)	(34,645)	(463,033)
Net Profit for the period		**410.564**	**2,021,824**	**1,679,999**	**3,384,832**
Other comprehensive income					
Other comprehensive income reclassified to profit or loss in subsequent periods:					
Net change in the fair value of debt instruments measured through other comprehensive income at fair value		300.347	381,495	(107,488)	(392,252)
Changes in the reserve of expected credit losses on debt instruments measured through other comprehensive income results		15.296	15,296	(12,451)	(12,451)
Income tax on items of other comprehensive income	12	(56.816)	(71,422)	21,589	72,846
Other net comprehensive (loss)/profit reclassified as (loss)/profit in subsequent periods		**258.827**	**325.368**	**(98.350)**	**(331.856)**
Other comprehensive gain/(loss) after tax		**258,827**	**325,368**	**(98,350)**	**(331,856)**
Other comprehensive gain/(loss) after tax		**258,827**	**325,368**	**(98,350)**	**(331,856)**

(thousand Armenian dram)

Total comprehensive income for the reporting period	**669,391**	**2,347,192**	**1,581,649**	**3,052,976**

Notes from 1 to 30 form an integral part of the financial statements.

Statement of changes in the own capital for the trimester completed on June 30, 2023

	Share capital	Revaluation reserve of Investment securities	Undistributed profit	Total Capital
The balance as of January 1, 2022	**7.000.000**	**(351,536)**	**15,530,279**	**22,178,743**
Total comprehensive income				
Profit for the reporting period			3,384,832	**3,384,832**
Other net comprehensive (loss)/profit for the reporting period		(331,856)		**(331,856)**
Other net comprehensive (loss)/profit for the reporting period	**0**	**(331,856)**	**3,384,832**	**3,052,976**
The balance as of June 30, 2022	**7,000,000**	**(683,392)**	**18,915,111**	**25,231,719**
The balance as of January 1, 2023	**30,100,000**	**(803,336)**	**19,437,014**	**48,733,678**
Profit for the reporting period	-	-	2,021,824	**2,021,824**
Other net comprehensive (loss)/profit for the reporting period	-	325,368	-	**325,368**
Total comprehensive income for the reporting period	**0**	**325,368**	**2,021,824**	**2,347,192**
The balance by June 30, 2023	**30,100,000**	**(477,968)**	**21,458,838**	**51,080,870**

Summary Statement of Cash Flows
for the period completed on June 30, 2023
(thousand Armenian dram)

	01/01/2023-30/06/2023	*01/01/2022-30/06/2022*
Cash flows from operating activities		
Interest earned	6,737,339	6,285,552
Interest paid	(605,495)	(2,241,274)
Commission amounts received	15,102	11,641
Commission amounts paid	26,412	(13,201)
Profit/(Loss) from foreign exchange trading operations	167,973	674,636
Payments for the staff	(2,181,562)	(1,476,860)
Other operating income and other expenses paid	(797,004)	(615,727)
Net cash flows before the changes in operating assets and liabilities	**3,362,767**	**2,624,767**
(Increase)/decrease in operating assets		
Loans granted to customers	(14,589,399)	(6,804,747)
Other assets	(427,644)	0
(Increase)/decrease in operating liabilities		
Amounts payable under repurchase agreements	991,551	489,896
Customer Current Accounts and Deposits	16,580,983	0
Net cash used in operating activities before profit taxes	**5,918,259**	**(3,690,084)**
Profit tax paid	(1,642,307)	0
Net cash flow from operating activities	**4,275,951**	**(3,690,084)**
Cash flows from investing activities		
Investment securities (increase)/decrease	(916,477)	0
Acquisition of fixed assets and intangible assets	(902,348)	(723,889)
Disposal of fixed assets	701	2,798
Net cash flows from investing activities	**(1,818,125)**	**(721,091)**
Cash flows from financial activities		
(Increase)/Decrease in Borrowed Funds	2,350,215	6,621,043
Net cash flows from financial activities	**2,350,215**	**6,621,043**
Effect of changes in foreign exchange rates on cash and cash equivalents	(205,460)	(342,973)
Effect of changes in the expected debt losses on cash and cash equivalents	(1,620)	(880)
Net increase/(decrease) in cash and cash equivalents	**4,600,962**	**1,866,015**
Cash and cash equivalents at the beginning of the period	3,180,144	2,412,544
Cash and cash equivalents at the end of the period	**7,781,106**	**4,278,559**

Notes 1 to 30 form an integral part of financial statements.

(thousand Armenian dram)

1. Description of the main activities

"Fast Bank" CJSC ("Bank") is the former "Fast Credit" universal credit organization CJSC, which was founded in the Republic of Armenia as a closed joint-stock company in October, 2011. With more than 28 years of experience in the financial sector and aiming to become 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 RA Central Bank dated November 9, 2022, "Fast Credit Capital" UCO CJSC received a banking activity license and henceforth is called "Fast Bank" CJSC. The bank activities are controlled by the Central Bank of Armenia (CB). The bank is a member of the state deposit insurance system in the Republic of Armenia.

As of June 30, 2023, the Bank has 869 employees (as of December 31, 2022: 750 employees).

The bank accepts deposits from the population and provides loans, carries out transfers in Armenia and abroad, carries out foreign currency exchange transactions and other banking services to its corporate and individual clients. The bank's legal address is: 32/6, st. G. Hovsepyan, Nork-Marash, Yerevan 0047, Republic of Armenia.

As of June 30, the Bank's shareholders are:

Shareholder	***30/06/2023, %***	***31/12/2022,%***
Vahe Badalyan	50%	50%
Vahe Badalyan	50%	50%
Total	**100%**	**100%**

b) Business environment in Armenia

Armenia continues economic reforms and the development of its legal, tax and regulatory frameworks. The future stability of Armenia's economy largely depends on these reforms and developments, as well as the effectiveness of economic, financial and monetary measures taken by the government.

As a result of the war with Ukraine, many leading countries and economic unions have imposed severe economic sanctions on Russia and Belarus, including on Russian banks, other legal entities and individuals. Since the beginning of the war, there has been significant volatility in the Russian ruble against foreign currency, as well as significant loss of value of Russian companies listed in Russian securities markets and other markets. The situation is far from being resolved, but it has already brought to a humanitarian crisis and huge economic losses in Ukraine, Russia and around the world. Russia and Ukraine are key trade partners of Armenia. The war is expected to have a significant impact on the economy of Armenia.

As a result of the war, there was an influx of non-residents (especially from Russia) into Armenia, contributing to the inflow of funds from Russia, Ukraine and Belarus and the increase in plastic card transactions, which had a positive effect on the Armenian economy, leading to double-digit economic growth and high inflation. The Bank management monitors the economic situation under the current conditions. As the war is still ongoing, it is not possible to reliably assess the final impact on banking operations, since there is uncertainty concerning the extent of the impact on the overall economy.

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

1. Preparation basics

a) Statement of compliance

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

b) Fundamentals of measurement

The financial statements are prepared on a cost basis, except for investment securities measured at fair value through other comprehensive income and derivative financial instruments which are measured at fair value.

c) Functional and presentation currency

The operational currency of the Bank is the Armenian dram of the Republic of Armenia (hereinafter Armenian dram). Being the national currency of the Republic of Armenia, it best reflects the economic content of the events and circumstances underlying the financial statements.

The Armenian dram is also the currency of these financial statements. The official exchange rate of the Central Bank of Armenia for 1 USD is 386.06 AMD and for 1 Euro is 418.95 AMD and 420.06 AMD, respectively as of June 30, 2023 and December 31, 2022.

Financial statements are presented in Armenian drams.

(thousand Armenian dram)

2. Summary description of accounting policies

a) Changes in accounting policies

"References to Conceptual Basis" (Amendments to IFRS 3)

The changes replace the reference to the previous version of the Conceptual Framework of the IAAC, while referring to the current version issued in March 2018, without essentially changing its requirements.

The amendments add an exception to the recognition principle set out in IFRS 3 Business Combinations to avoid the problem of potential "second day" gains or losses arising from liabilities and contingent liabilities to be included in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* or IFRS 21 *Mandatory charges* within the standards if incurred separately. The exception requires entities to apply the criteria set out in IAS 37 or Interpretations of IFRS Interpretations Committee (IIFRSIC) 21, respectively, instead of the Conceptual Basis, to determine the existence of a current liability at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not meet the acquisition date recognition condition.

Under the transitional provisions, the Bank applies the amendments on a progressive basis, i.e. to business combinations that occur after the beginning of the annual accounting period in which the amendments are applied for the first time (date of initial application).

These changes did not have any impact on the Bank's financial statements, as no contingent assets or contingent liabilities arose within the framework of these changes during the period.

Basic assets – inputs prior to the intended use – IFRS 16 changes

This amendment does not allow entities to deduct from the cost of basic assets, revenues from the sale of units produced, while bringing the asset to the appropriate location and condition necessary for its operationt for the purpose intended by the management. Instead, the entity recognizes revenue from the sale of those units and the costs to produce those units in profit or loss.

Under the transitional provisions, the Bank applies these changes retroactively only to those units of property, available for use at or after the earliest period in which the entity first applies the change (date of initial application).

These changes did not have an impact on the Bank's financial statements as there were no sales of such units produced by fixed assets, available at or after the beginning of the earliest period presented.

3. Summary description of accounting policies (continuation)

a) Changes in accounting policies (continuation)

IFRS 9 Financial Instruments – Charges to be included in the "10 per cent" test for derecognition of financial liabilities

The amendment clarifies the charges that an entity includes when assessing whether the terms of a new or amended financial liability are materially different from the terms of the original financial liability. These fees include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on behalf of the other. A similar change is not proposed in IAS 39 financial instruments for the standard of "Recognition and measurement".

Under the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged for annual periods beginning on or after the date the entity first applies the amendment (date of initial application). These changes did not have an impact on the Bank's financial statements, as there were no significant changes in the Bank's financial instruments during the given period.

Unfavorable contracts – Costs of contract performance – Amendments to IAS 37

A contract is considered unfavorable if the unavoidable costs of performing the obligations under the contract (i.e. the costs that the Bank cannot avoid because the contract exists) exceed the economic benefits expected under it. The amendments clarify that when assessing whether a contract is unfavorable or harmful, an entity must include costs that are directly related to the contract for the provision of goods or services, including both additional costs (such as direct labor and material costs), as well as the allocation of costs directly related to contract activities (for example, amortisation of equipment used to perform the contract and costs of contract administration and supervision). General and administrative costs are not directly related to the contract and are not included in these costs, unless these costs are expressly charged by the other party to the contract.

These changes did not have any essential impact on the Bank.

b) Significant accounting policies

The accounting policies set forth below have been applied consistently for all the periods presented in these financial statements.

Foreign currency operations
Operations in foreign currency are recalculated at the AMD exchange rate on the date of the operation.

As of the reporting date, foreign currency AMD assets and liabilities are recalculated at the AMD exchange rate of that day. The gain or loss on foreign currency transactions related to monetary items is the difference between the amortized cost expressed in the functional currency at the beginning of the period, adjusted for interest and payments calculated at the effective interest rate for the period, and the amortized cost expressed in foreign currency recalculated at the exchange rate in effect at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currency measured at fair value are recalculated at the exchange rate at the date of determination of the fair value of the currency operation. Foreign currency non-monetary items measured at fair value are recalculated at the transaction date exchange rate.

Exchange rate differences arising from the recalculation are recognized in profit or loss as gain/(loss) on foreign currency revaluation differences.

3. Summary description of accounting policies (continuation)

b) Accounting Significant Policies (continuation)

Cash and cash equivalents

Cash and cash equivalents include cash and unrestricted balances held in other banks (nostro accounts) and amounts receivable from the Central Bank of the Republic of Armenia, including mandatory reserves in AMD for which there are no contractual obligations.

Interests

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected term of the financial the instrument to the:

- the gross book value of the financial asset or
- amortized value of the financial liability.

When calculating the effective interest rate of financial instruments, except the acquired or originated debt-impaired assets, the Bank estimates future cash flows by considering all the contractual terms of the financial instrument, but without taking into account the expected debt losses. For acquired or originated debt-impaired financial assets, a debt risk-adjusted effective interest rate is calculated by applying estimated future cash flows, including expected debt losses. The calculation of the effective interest rate includes transaction costs and all the commissions and the amounts paid or received as an integral part of the effective interest rate. Transaction costs include those additional costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Depreciated cost and gross book value

The depreciated cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, less principal payments, plus or minus the cumulative depreciation of the difference between the initial and maturity amounts calculated using the effective interest method and, for the financial assets adjusted by the allowance for the expected credit losses.

The gross book value of a financial asset measured at depreciated cost is the depreciated cost of the financial asset before the adjustment for the provision for the expected debt losses.

Calculation of the interest income and expense

The effective interest rate of a financial asset or financial liability is calculated at the time of the initial recognition of the financial asset or financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross book value of the asset (if the asset is not debt-impaired) or the amortized cost of the liability. The effective interest rate is also revised to reflect fair value hedge adjustments as of the date on which the amortization calculation for the relevant adjustment begins.

However, for financial assets that become debt-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer considered debt-impaired, the calculation of interest income is again carried out against the gross book value.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

The effective interest rate of a financial asset at the time of initial recognition is calculated by applying the effective interest rate adjusted for debt risk to the amortized cost of the asset. The calculation of interest income is not carried out against the gross book value, even if the debt risk of the asset is reduced.

Information on when the financial assets are considered to be debt-impaired is provided in the Notice 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 amortized cost,
- interest on debt instruments measured at fair value through other comprehensive income.

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

Fees and commissions

Income and expenses in the form of fees and commissions as an integral part of the effective interest rate of a financial asset or financial liability are included in the calculation of the effective interest rate.

A contract with a customer, as a result of which the Bank is recognized as a financial instrument in the financial statements, may be partially within the scope of IFRS 9 and partially within the scope of IFRS 15. First of all the bank applies IFRS 9 to separate and measure the part of the contract which is within the scope of IFRS 9, and then applies IFRS 15 to the remainder of the contract.

Other expenses in the form of fees and commissions mainly relate to transaction fees and service charges that are incurred when the service is received.

Financial assets and financial liabilities

Financial assets

Classification

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

A financial asset is measured at amortized cost if it meets the two conditions below and is not designated as at fair value measred through profit or loss:

- the asset is held as part of a business model the objective of which is to hold the asset to collect contractual cash flows and
- the contractual terms of the financial asset generate cash flows on specific dates that are payments of principal and interest only calculated on the outstanding principal amount.

Details of these terms are set out below:

The bank's financial assets measured at amortized cost include cash and cash equivalents, loans to customers and receivables from banks.

4. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

Business model evaluation

The bank assesses at the portfolio level the objective of the business model within which the asset is held, as this assessment best reflects the way in which operations are managed and information provided to management. In that case, the following information is considered:

- the policies and objectives set for the portfolio and the performance of those policies in practice. Particularly, is the management strategy objective to ensure the receipt of contractual interest income, to ensure a certain level of interest rate of return, to match the maturities of financial assets with the maturities of the liabilities financing those assets, or to realize cash flows through the sale of assets?
- how is the portfolio performance evaluated and the information communicated to the Bank management.
- the risks affecting the business model (and the financial assets held in that business model) and how those risks are managed.

- how business managers are remunerated (for example, whether remuneration is based on the fair value of financial assets under management or on the cash flows collected).
- the frequency, volume, and timing of sales in prior periods, the reasons for those sales, and expectations regarding future sales. However, sales information is not considered in isolation, it is considered as part of an overall analysis of how the Bank's objectives for financial asset management are met and how cash flows are realized.

Financial assets that are held for trading or managed and the outcome of which is measured on a fair value basis are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor both to collect contractual cash flows and to sell financial assets.

Assessing whether the contractual cash flows are payments of principal and interest only

For the purposes of this evaluation, "principal amount" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the compensation for the time value of money and the debt risk associated with the principal amount outstanding over a period of time and for other major risks and costs associated with lending (such as liquidity risk and administrative costs) and includes a profit margin.

To assess whether the contractual cash flows are payments of principal and interest only, the Bank considers the contractual terms of the instrument. This consideration includes assessing whether the financial asset contains a contractual condition that could change the timing or amount of the contractual cash flows in such a way that the financial asset would not satisfy the condition. Carrying out the assessment, the Bank considers the following:

- Contingencies that can change the amount and timing of cash flows,
- Leverage feature,
- Premature repayment and term extension conditions,
- Terms that limit the bank's claim to cash flows from certain assets (e.g. non-recourse asset arrangements), and
- Features that change the consideration for the time value of money, such as periodic resetting of interest rates.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

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

- The financial instrument is held within the framework of a business model the objective of which is realized both by collecting the contractual cash flows and by selling the financial assets and
- The contractual terms of a financial instrument generate cash flows on specific dates that are payments of principal and interest only calculated on the outstanding principal amount.

Gains and losses on debt financial instruments measured at fair value through other comprehensive income are recognized in other comprehensive income. Interest income and foreign currency transaction gains or losses are recognized in the same manner as gains and losses on financial assets measured at amortized cost. On derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss from other comprehensive income.

AMCs for debt instruments measured at fair value through other comprehensive income do not reduce the book value of those financial assets in the statement of financial position, which remain at fair value. Instead, an amount equal to the provision that would have arisen if the assets were measured at amortized cost is recognized in other comprehensive income as an accumulated impairment charge with a corresponding charge to profit or loss. The accumulated gain and loss recognized in other comprehensive income is transferred to profit and loss on derecognition of the asset.
On initial recognition of an investment in an equity instrument not held for trading, the Bank may irrevocably choose to present subsequent changes in fair value in other comprehensive income. This choice is made separately for each investment.

Gains and losses on these equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized within other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings upon disposal of the investment.

All other financial assets are classified as at fair value through profit or loss.

In addition, at the time of initial recognition, the Bank may irreversibly designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as measured at fair value through profit or loss if this eliminates or substantially reduces the accounting mismatch, which would otherwise occur.

Reclassification

Financial assets are not reclassified after initial recognition, unless the Bank changes its business model for managing financial assets.

Financial obligations

The Bank classifies its financial liabilities, with the exception of financial guarantees and loan commitments, in the class of financial liabilities measured at amortized cost or at fair value through profit or loss.

Reclassification
Financial liabilities are not reclassified after initial recognition.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

ii. Derecognition

Financial assets

A financial asset is derecognised (or part of a financial asset or part of a group of similar financial assets) when:
the right to claim cash flows from the financial asset has expired,
The bank transfers the right to claim cash flows from the asset, or retains this right, but undertakes to transfer the received amounts in full and without significant delay to a third party under the transfer agreement, also the bank has (a) transferred an essential part of all the risks and rewards of the asset, or (b) has not transferred and retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
Where the Bank has transferred the right to claim cash flows from the asset, has neither transferred nor retained substantially all of the risks and rewards of the asset, and has not transferred the right to control the asset, the asset is recognized to the extent that the Bank continues to have an interest in the given asset. When a continuous interest takes the form of a security over a transferred asset, such interest is measured at the lower quantity of the original book value of the asset and the maximum amount of compensation that may be claimed from the Bank.

When continuous participation is obtained in the form of an option issued/or purchased on the transferred asset (including cash-settled options or similar instruments), the amount of the Bank's participation is determined by the amount at which the Bank can repurchase the transferred asset, except for the asset valued at fair value. of an option sold over the line (including cash-settled options or similar instruments) when the amount of continuing participation is considered to be the lower of the following two quantities: the fair value of the transferred asset and the price of the execution of the option.

A financial liability is derecognised when it is settled, canceled or expires.
If a financial liability to the same creditor is replaced by another financial liability, the terms of which have changed significantly as compared to the previous one, such a replacement or a change is treated as derecognition of the original liability and recognition of the new liability, and the difference in the corresponding book values is reflected in profit or loss.

iii. Repurchase and Reverse Repurchase Agreements

Repurchase transactions ("repos") are treated as secured financing transactions. Securities sold under a repurchase agreement continue to be accounted for in the balance sheet, and in the event that the buyer has a contractual right or agreement to sell or pledge said securities, they are reclassified as "Securities pledged under repurchase agreements" and presented as a separate balance sheet item. The corresponding liability is reflected in the bank's or customer's funds.

Acquisition of securities under reverse repurchase agreement (reverse repo) is reflected in claims against banks or loans to customers, depending on the situation. The difference between the sale price and the acquisition price is treated as interest income and is accrued over the term of the repo agreement using the effective yield method.

If assets purchased under a reverse repo agreement are sold to a third party, the obligation to repurchase the securities is reflected in trading liabilities at fair value.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

iv. Offsetting

Financial assets are offset against liabilities and reflected in the statement of financial position as a net balance if there is a legal basis for offsetting the recognized amounts and there is an intention to settle them on a net basis or to simultaneously realize the assets and settle the liabilities. The right to set-off shall not be conditioned by future events and shall have legal effect in all of the following cases:

in the course of normal activity
in the event of non-fulfillment of obligations,
upon the insolvency or liquidation of the entity or any of its partners.

These conditions generally do not apply to master netting arrangements and the relevant assets and liabilities are reflected in the statement of financial position at gross value.

v. Changes in financial assets and financial liabilities

Financial assets

If the terms of a financial asset are changed, the Bank assesses whether the cash flows of the changed asset are significantly different. If the cash flows are significantly different (a "significant change"), then the contractual rights to the cash flows of the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognized at fair value plus qualifying transaction costs. Payments received as part of the change are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent eligible transaction costs are included in the original measurement of the asset, and
- other charges are included in profit or loss as part of the gain or loss on derecognition.

Changes in the cash flows of existing financial assets or financial liabilities are not considered as a change if they result from existing contractual conditions, for example, a change in interest rates by the Organization as a result of changes in the main interest rate of the Central Bank of Armenia, if the Bank has the right to make such a change under the loan agreement.

The bank carries out a quantitative and qualitative evaluation of the significance of the change, i.e., it evaluates whether the cash flows of the original financial asset differ significantly from the cash flows of the modified or replaced financial asset. The Bank assesses the significance of the change by considering quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are significantly different, the contractual rights to the cash flows of the original financial asset are considered void. In making this assessment, the Bank applies guidance similar to the guidance used for the derecognition of financial liabilities.

The Bank concludes that the change is significant based on the following qualitative factors:

- currency change of the financial asset,
- change of collateral or other means of improving debt quality,
- a change in the terms of a financial asset that results in non-compliance with the criterion of "payments of principal and accrued interest only".

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

If the change in cash flows is due to the financial difficulties of the borrower, then, as a rule, the purpose of the change is to recover/restore the asset as much as possible to the original terms of the contract, rather than to originate a new asset with significantly different terms. If the Bank intends to modify a financial asset in such a way as to release cash flows, it first considers whether a portion of the asset should be written off before making the modification (see write-off policy below). This approach affects the outcome of the quantitative assessment and means that the derecognition criteria are not always met in such cases. The Bank also conducts a qualitative assessment to assess the significance of the change.

If a change in a financial asset measured at amortized cost or fair value through another financial result does not result in derecognition of the financial asset, the Bank first recalculates the gross book value of the financial asset, applying the original effective interest rate of the asset, and recognizes the resulting adjustment as a gain or loss from the change in profit or damage. For floating rate financial assets, the original effective interest rate used to calculate the gain or loss on the change is adjusted to reflect current market conditions at the time of the change. Any expense or payment incurred or received as part of the modification adjusts the book value of the modified financial asset and is amortized over the remaining life of the modified financial asset.

If such a change is made due to financial difficulties of the borrower, the gain or loss is presented together with the impairment loss. In other cases, it is presented as interest income calculated at the effective rate.

For fixed-rate loans, in which the borrower has the option to repay the loan early at nominal value without a significant penalty, the Bank calculates the change in the interest rate to the current market interest rate, applying the current guideline for floating-rate financial instruments.

Financial obligations

The Bank derecognizes a financial liability when its terms change and when the cash flows of the changed liability are significantly different. In this case, based on the changed conditions, a new financial liability is recognized at fair value. The difference between the book value of the extinguished financial liability and the new financial liability with changed terms is recognized in profit or loss. The consideration paid includes the non-financial assets transferred (if any) and liabilities assumed, including the newly modified financial liability.

The Bank conducts a quantitative and qualitative assessment of the significance of a change, considering qualitative factors, quantitative factors, and the combined effect of qualitative and quantitative factors. The Bank concludes that the change is significant based on the following qualitative factors:

- change in the currency of the financial obligation,
- change of collateral or other means of improving debt quality,
- inclusion of the possibility of conversion,
- change in financial liability subordination.

The conditions for quantitative assessment are significantly different if the present value when discounting the cash flows (including the net amounts of other payments and receivables) under the new terms at the original effective interest rate differs by at least 10 percent from the discounted present value of the remaining cash flows of the original financial liability.

3.Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

If the change in the financial liability does not meet the conditions for derecognition, the amortized cost of the liability is recalculated by discounting the changed cash flows at the original effective interest rate, and the resulting gain or loss is recognized in profit or loss. For floating rate financial liabilities, the original effective interest rate used to calculate the gain or loss on the change is adjusted to reflect current market conditions at the time of the change. Any expense or charge incurred adjusts the book value of the modified financial asset and is amortized over the remaining life of the modified financial asset. Any expense or fee incurred is recognized as an adjustment to the book value of the liability and is amortized over the remaining period of the modified financial liability by recalculating the instrument's effective interest rate. Any expense or fee incurred is recognized as an adjustment to the gross value of the liability and is amortized over the remaining period of the modified financial liability by recalculating the instrument's effective interest rate.

Withdrawals

Loans and debt securities are written off (in whole or in part) when there is no reasonable expectation of recovering all or part of the borrowed financial asset. A write-off is usually carried out when the Bank determines that the borrower does not have assets or sources of income from which it can obtain sufficient cash flow to repay the amounts subject to write-off. This evaluation is carried out separately for each asset.

Reimbursement of previously written-off amounts is included in the article “Loan loss expense” in the statement of profit or loss and other comprehensive income.

Discharged financial assets may still be subject to enforcement/debt collection measures to ensure compliance with the Bank's procedures for recovering the due amounts.

Loans granted to customers

The article "loans to customers" in the statement of financial position includes loans measured at amortized cost, which are initially measured at fair value plus additional direct transaction costs and subsequently at amortized cost using the effective interest method.

Investment securities

In the statement of financial position of the article "investment securities" includes government debt securities of the Republic of Armenia measured at fair value through other comprehensive income.

Basic assets

Units of the basic assets are carried at the cost with the accumulated depreciation and impairment losses deducted.
The cost includes the purchase price, including import duties, non-refundable taxes and other directly attributable costs, as well as all costs incurred to bring the assets to their working condition and to their intended use. Operating and pre-production costs are not included in the cost of fixed assets.
When a unit of fixed asset consists of significant parts with different useful lives, those parts are accounted for as separate units of fixed assets.
Subsequent expenditure on fixed assets is capitalized when it is probable that the future economic benefits associated with the item of fixed asset will flow to the company in an amount greater than expected. Renovation and maintenance are recognized as an expense in the statement of profit or loss upon occurrence. The amount of depreciation of an asset should be allocated on a systematic basis over its useful life.

Depreciation (Wear and tear)

Depreciation is recognized in profit or loss based on a linear method over the useful lives of separate assets. The calculation of depreciation starts from the date of acquisition of the fixed asset, and in the case of self-built assets, from the moment of completion of the latter's construction and putting into operation. Depreciation is not calculated on the land area. Estimated useful life periods are as follows:

— buildings	20 years
— computers and communication equipment	1-8years
— vehicles	8 years
— economic property and other fixed assets	8years

Intangible Assets

Intangible assets acquired are calculated at cost with accumulated amortization and impairment losses excluded.

Acquisition and implementation costs of computer software and licenses are capitalized at cost of the corresponding intangible asset.

Depreciation is recognized in profit or loss based on a linear method over the useful lives of separate assets. The estimated useful lifetime of intangible assets is from 3 to 10 years.

Internally generated intangible assets, with the exception of capitalized **processing** costs, are not capitalized and related costs are recognized in profit or loss in the period during which the costs are incurred.

Research and processing costs

Research costs are expensed at the time of their execution. Individual project processing costs are recognized as an intangible asset when the Bank can demonstrate:

- The technical feasibility of bringing the intangible asset to such a state of completion that the asset is available for use or sale;
- Its ability and intention to complete the asset and use or sell it;
- How the asset will generate future economic benefits;
- Availability of resources to complete the asset
- Ability to reliably measure costs incurred during development

After initial recognition of processing costs as an asset, the asset is calculated at initial cost with accumulated amortization and accumulated impairment losses excluded. Depreciation of the asset begins when processing is complete and the asset is available for use. It is amortized over the period of the expected future benefit.

Confiscated assets

The bank recognizes foreclosed assets in the statement of financial position when it has full and final rights of realization over the collateral.

Foreclosed assets acquired are calculated at cost with accumulated amortization and impairment losses excluded.

Foreclosed assets are measured at the least of the following quantities, the book value and fair value with costs associated with sales expenses excluded. At initial recognition, foreclosed assets are measured at the book value of the defaulted loan, including foreclosure costs. Fair value with costs associated with sales expenses excluded is the estimated selling price of the collateral in the normal course of business, with corresponding selling costs deducted. After initial recognition, foreclosed assets are reviewed from the point of view of meeting classification criteria and are reclassified accordingly if the criteria are met. Gain and loss on disposal of foreclosed assets are recognized on a net basis in profit or loss in ”Other operating income”.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

Precious metals

Gold and other precious metals are traded at London Metal Exchange rates which approximately correspond to the fair value.

Depreciation of non-financial assets

At each reporting date, non-financial assets other than deferred taxes are assessed for any indication of impairment. In the presence of a statement or in the event of the need for annual asset depreciation testing, the Bank assesses the recoverable amount of the asset. The recoverable amount of non-financial assets is determined as the higher of their fair value less costs to sell and their value in use. The recoverable amount of non-financial assets is determined as the minimum of their fair value and value in use with selling costs deducted.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and asset-specific risks. The recoverable amount of non-cash-generating assets is determined for the cash-generating unit to which the asset belongs, largely independent of cash inflows from other assets. A depreciation loss is recognized when the book value of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses on non-financial assets are recognized in profit or loss and reversed only if there have been changes in the estimates used in determining the recoverable amount. An impairment loss is reversed only to the extent that the book value of the asset does not exceed the book value that would be determined (without related depreciation or amortization) if no impairment loss had been recognised.

Reserves

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

Derivative financial instruments

In the normal course of business, the Bank uses a variety of derivative financial instruments in the currency and capital markets, including forwards, futures, swaps and options. These financial instruments are intended for trading and are initially recognized at fair value. Fair value is determined based on market quotations or pricing models based on current market and contract values of the underlying instruments and other factors. Derivative financial instruments with a positive fair value are reflected in assets, and those with a negative fair value are reflected in liabilities. The results from these instruments are accounted for in the income statement as net gain/(loss) on assets held for trading or foreign currency operations, depending on the nature of the derivative instruments.

An embedded derivative is a component of a hybrid instrument which also includes a non-derivative “host” contract that causes a portion of the cash flows of the combined instrument to fluctuate in the same way as the individual derivative. An embedded derivative which causes changes in some or all of the cash flows that would otherwise be required by the contract depending on a specified interest rate, financial instrument price, commodity price, foreign exchange rate, price index or rate, credit rating or index, or other variable, provided that in the case of a non-financial variable, it is not different from the party to the contract. A contractually transferable derivative attached to a financial instrument, but independent of that instrument, or an instrument whose counterparty is different from the counterparty of that financial instrument, is not an embedded derivative, but a separate derivative.

Derivatives embedded in obligations and non-financial "host" contracts

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

are treated as separate derivatives and carried at fair value if they meet the above definition of a derivative, their economic characteristics and risks are not closely related to the "host" contract, and the "host" contract is not considered to be entered into for trading purposes or at fair value for profit or accounted for by loss. Embedded derivatives that are separated from the main one, are accounted for in the trading book at fair value through profit or loss.

Financial assets are classified based on business model and SPPI valuations.

Share capital

Ordinary shares

Ordinary shares are classified as own capital. Incremental costs, including taxes, directly attributable to the issuance of common stock and stock options are recognized as a reduction of equity.

Dividends

The ability of the Bank to declare and pay dividends is regulated by the regulations established by the legislation of the Republic of Armenia.

Dividends at the reporting date are deducted from own capital and recognized as a liability only if they have been declared up to the reporting date included. Dividends proposed or declared before the reporting date or after the reporting date before the publication date of the financial statements are disclosed in the financial statements.

Taxation

Income tax consists of current and deferred taxes. Income tax is recognized in profit or loss, except to the extent that it relates to other comprehensive income items or transactions with shareholders recognized directly in the own capital, in which case income tax is recognized in other comprehensive income or directly in the own capital.

Current tax

Current tax is the amount of tax expected to be paid on taxable income for the year, applying the rates in effect or substantially in effect as of the reporting date, and includes adjustments to the tax payable for the previous years.

Deferred tax

Deferred tax is recognized for the purpose of reflecting in the financial statements the temporary differences between the book value of assets and liabilities and the amounts used for tax purposes. Deferred tax is not recognized on temporary differences arising on initial recognition of assets or liabilities as a result of a non-business combination transaction that has no effect on either accounting or taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent probable that the Company will have future taxable profit against which they can be utilised. Future taxable profit is determined based on the amount arising from the settlement of taxable temporary differences. If the amount of taxable temporary differences is not sufficient to fully recognize the deferred tax asset, future taxable profit adjusted by the repayment of existing temporary differences is considered, which is determined based on on the Company business plans. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. These deductions are reversed if the probability of future taxable profits increases.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent probable that the Company will have future taxable profit against which they can be utilised.

Deferred tax is measured using the tax rates that are expected to apply to the temporary differences when they are reversed, based on the laws in effect or substantially in effect at the reporting date.

The deferred tax measure reflects the tax consequences that will arise depending on the manner in which the Company expects to recover or settle the book values of its assets and liabilities at the end of the reporting period.

Segment reports

An operating segment is a component of the Bank engaged in business activities from which it can earn revenues and incur expenses, the operating results of which are regularly reviewed by the chief operating decision maker in order to decide on the allocation of funds to the segment and to evaluate its performance and for which separate financial information is available. Management considers that the Bank consists of one operating segment based on IFRS reporting results. Most of the bank's income and assets are located in Armenia. As of December 31, of 2022 and 2021, no transaction with income exceeding 10% or more of the Bank's total income received from an external partner or client was registered.

Lease

At the beginning of the contract, the Bank determines whether the contract is a lease contract or contains a lease. A contract is a lease contract or contains a lease if the contract transfers as an exchange the right of control to use a specified asset for a specified period of time. The Bank uses the definition of a lease in IFRS 16 to assess whether a contract transfers the right to control the use of a specified asset.

The Bank as Lessee

At the commencement or amendment of an agreement containing a lease component, the Bank assigns the compensation specified in the agreement to each lease component based on the individual price of the lease component.

The Bank recognizes a right-of-use asset as of the lease commencement date and a lease liability on the lease commencement date. A right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for rent payments made on or before the lease commencement date, plus any direct initialization costs incurred and the decommissioning and demolition of the underlying asset, or the estimated costs of its restoration, or the restoration of the site it occupies, less any rental incentives received.or its rehabilitation, or the estimated costs of its restoration, or the restoration of the site it occupies, with any received rental incentives excluded.
Depreciation of the right-of-use asset is calculated on a straight-line basis from the lease commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank at the end of the lease term, or if the right-of-use value of the asset does not reflect that the Bank shall exercise a purchase option. In this case, the depreciation of the right-of-use asset is calculated over the useful life of the underlying asset, which is determined on the same basis as the one applied to basic assets. In addition, the right-of-use asset is periodically reduced by the amount of impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the unpaid rents at the commencement date, discounted at the assumed lease rate, or the Bank's additional borrowing rate if that rate cannot be easily determined. As a rule, the Bank applies the additional borrowing rate as a discount rate.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

The bank determines the additional borrowing rate based on interest rates received from various external financing sources and makes some adjustments to reflect the terms of the lease and the type of the leased asset.

The following rent payments are included in the measurement of the lease liability:

- fixed payments, including essentially fixed payments,
- variable lease payments that depend on an index or rate and which are initially measured using the index or rate in effect at the commencement date;
- the amounts expected to be paid under the residual value guarantee and
- the exercise price of the purchase option, if the Bank is reasonably certain that it will exercise that option, the rents for the renewal period provided for in the option, if the Bank is reasonably certain that it will exercise that extension option, and the penalties associated with the termination of the lease, if the Bank is reasonably certain that will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured if there is a change in future rents as a result of an index or rate change, there is a change in the Bank's estimate of the amounts payable under the residual value guarantee, if the Bank changes its estimate of exercising the option to purchase, extend or terminate, or if there is revised substantially fixed rent.

If the lease liability is remeasured in this way, a corresponding adjustment is made to the book value of the right-of-use asset, or recorded in profit or loss if the book value amount of the right-of-use asset is reduced to zero.

Assets in the form of right-of-use that do not meet the definition of investment property are presented as fixed assets, and lease liabilities are presented separately in the statement of financial position.

The Bank has decided not to recognize right-of-use assets and lease liabilities for low-value assets and short-term leases, including ATMs. The Bank recognizes rent payments on these leases as an expense on a straight-line basis over the term of the lease. The Bank recognizes rent payments on these leases as an expense on a straight-line basis over the term of the lease.

Standards published but not yet in force

New and amended standards and interpretations issued that were not yet effective at the time the Bank's financial statements were issued are described below. The Bank intends to adopt these new and amended standards and interpretations, as applicable, when they become effective.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 "Insurance Contracts", a new comprehensive accounting standard for insurance contracts, including recognition, measurement, presentation and disclosure. Upon entry into force, IFRS 17 will replace IFRS 4 Insurance Contracts, issued in 2005. IFRS 17 is applicable to all types of insurance contracts (including life insurance, non-life insurance, direct insurance and reinsurance), regardless of the type of insurance provider, and is applicable to financial instruments with certain guarantees and discretionary participation features. Some exclusions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features, and these requirements may affect the determination of which instruments or their components are included under IFRS 9 or IFRS 17.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

Credit cards and similar products that provide insurance coverage; Most issuers may continue to use the existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card agreements (and other similar agreements that provide credit or payment arrangements) that meet the definition of an insurance contract only if the entity does not reflect an insurance policy when assessing the insurance risk associated with an individual client.

When insurance coverage is provided as part of the credit card terms and conditions, the issuer shall:
Separate insurance coverage and apply IFRS 17 to it;
Apply other applicable standards to other components (e.g. IFRS 9, IFRS 15 – Revenue from Contracts with Purchasers or IAS 37 – Provisions, Contingent Liabilities and Contingent Assets).

Credit agreements that meet the definition of insurance but limit indemnification for insured events to the amount otherwise required to settle the policyholder's contractual obligation – issuers of such loans, such as mortuary loans, have the option of applying IFRS 9 or IFRS 17. The selection is made at the portfolio level and is considered immutable.

IFRS 17 comes into force starting January 1, 2023 or for reporting periods beginning thereafter, requiring comparative data. for accounting periods beginning on or after January 1, requiring comparative data. Early application is permitted provided that the entity also applies IFRS 9 and IFRS 15, IFRS 17 on or before the date of initial application.

The Bank is currently in the process of assessing the impact of the adoption of IFRS 17 on its financial statements.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8 that introduced the definition of "accounting estimates". The amendments clarify the difference between accounting estimates and changes in accounting policies and corrections of errors. They also clarify how entities use measurement bases and baseline data to develop accounting estimates.

The amendments are effective for annual accounting periods beginning on or after January 1, 2023, and apply to changes in accounting policies and accounting estimates that occur on or after the beginning of that period. Early application is permitted if this fact is disclosed.
The changes are not expected to have a material impact on the Bank.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practical instructions 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practical Instructions 2 (Application of Materiality Judgments), which provide guidance and examples to help entities apply materiality judgments about accounting policy disclosures. The purpose of the amendments is to help entities provide more useful accounting policy disclosures by replacing the requirement to disclose "significant" accounting policies with the requirement to disclose "material" accounting policies and by adding guidance on how entities should apply the concept of materiality in accounting when making policy disclosure decisions.

3. Summary description of accounting policies (continuation)

b) Significant Accounting Policies (continuation)

Amendments to IAS 1 shall enter into force starting January 1, 2023 for annual reporting periods beginning on or after January 1, allowing early application. As the amendments to Practice Guidance 2 provide non-binding guidance on the application of the definition of materiality of accounting policy information, there is no need to set an effective date for these amendments. As the amendments to Practice Guidance 2 provide non-binding guidance on the application of the definition of materiality of accounting policy information, there is no need to set an effective date for these amendments.

The Bank is currently evaluating the impact of the changes to determine what impact they will have on the Bank's accounting policy disclosures.
Deferred tax relating to assets and liabilities arising from a single transaction (Amendments to IAS 12)

In May 2021, the Board issued amendments to IAS 12 that narrow the scope of the initial recognition exception under IAS 12, which no longer applies to transactions that result in equal taxable and deductible temporary differences.

The amendments shall be applied to transactions occurring on or after the beginning of the earliest comparative period presented. Also, at the beginning of the earliest comparative period presented, a deferred tax asset (if sufficient taxable profit exists) and a deferred tax liability for all deductible and taxable temporary differences related to lease and decommissioning liabilities should also be recognized. The Bank is currently evaluating the impact of these changes.

4. Significant Accounting Judgments and Estimates

The preparation of financial statements in accordance with IFRS requires the Bank management to make significant accounting estimates, judgments and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements, as well as the income and expenses of the reporting period. Estimates and related assumptions, based on historical experience and other factors considered reasonable under the circumstances, are the basis for making judgments about the book values of assets and liabilities whose value cannot be determined from other reliable sources. In any case, although the estimates are based on management's best understanding of current events, actual results may ultimately differ from the estimates made.

Significant judgments and estimates with respect to these financial statements are presented below.

Fair value measurement

When the fair values of financial assets and financial liabilities reflected in the statement of financial position cannot be obtained from active markets, they are determined using various valuation methods, which include the use of valuation models. The background data of these models are taken from observable markets where possible, and where not possible, valuation is required to determine fair values. Judgments and valuations include considerations of liquidity and model inputs. For additional details on fair value determination, see Note. 27:

Impairment losses on loans to Customers

Estimating the impairment allowance for financial assets under IFRS 9 for all classes of financial assets requires judgement, particularly, the assessment of the amount and timing of future cash flows and the value of the collateral in determining impairment losses and assessing significant increases in credit risk. These estimates depend on a number of factors, changes in which may result in different reserve levels. In addition, major business disruptions can cause liquidity problems for some organizations and consumers. Elements of IAS models that are considered accounting judgments and estimates include:23

- Statistical models to estimate probability of default (PD), instrument value given default (EAD) and loss given default (LGD) on a group basis,
- Segmentation of financial assets, when their ECL (expected credit losses) is calculated on a group basis,
- Development of ECL models, including various formulas and selection of input data,
- Determining the relationship between macroeconomic scenarios and economic inputs, such as unemployment rates and collateral values, and the impact on probability of default (PD), instrument fair value at default (EAD) and loss given default (LGD);
- The selection of prospective macroeconomic scenarios and their probability weighting to reflect economic data in the ECL models.

As of June 30, 2023, the amount of impaired reserves for loans to customers recognized in the financial statement was 2,710,047 thousand AMD (as of December 31, 2022: 2,729,952 thousand AMD). The details are presented in Notice 9.

(thousand Armenian dram)

3. Cash and cash equivalents

Cash and cash equivalents include:

	30/06/23	31/12/22
Cash funds	3,953,546	2,266,322
Current accounts in other banks	212,432	665,675
Current accounts with the Central Bank of the Republic of Armenia, including mandatory reserves (unrestricted section, see Notice 6)	3,617,867	249,266
Depreciation	(2,739)	(1,119)
Cash and cash equivalents	**7,781,106**	**3,180,144**

As of June 30, 2023, the current accounts at the Central Bank of the Republic of Armenia, including mandatory reserves, amount to 419,924 thousand AMD (as of 2022: 85,268 thousand AMD).

The Banks shall have 4% (2022:4%) of cash deposits (compulsory reserve) of the amounts involved in AMD in the Central Bank of the Republic of Armenia and 18% (2022:18%) of the amounts involved in foreign currency.

The Banks shall keep 6% (2022: 6%) of the amounts involved in foreign currency as cash deposits in the Central Bank of Armenia in AMD, and 12% (2022: 12%) in foreign currency.

In addition, Banks' ability to withdraw foreign currency reserves is limited, so the Bank classifies mandatory reserves deposited in foreign currency as claims against banks (Notice 6).

Cash and cash equivalents are fully attributable to Phase 1. The change in ECL reserve during the year is as follows:

	01/01/2023-30/06/2023	01/01/2022-31/12/2022
ECL reserve as of the beginning of the period	**1,119**	**1,394**
ECL changes	1,620	(275)
As of the end of the period	**2,739**	**1,119**

Information on the credit quality of cash and cash equivalents is presented in Note. 26 "Risk Management".

4. Claims against banks

Claims against banks include:

	30/06/23	31/12/22
Mandatory reserve in the Central Bank of the Republic of Armenia (in foreign currency) (Notice 5)	110,377	110,377
Depreciation	(58	(58)
	110,319	**110,319**

As of June 30, 2023, the mandatory reserve in the Central Bank of the Republic of Armenia includes reserves in foreign currency in the amount of 540,897 thousand AMD (2022: 112,928) (Notice 5).

Claims against banks are fully assigned to Phase 1. The change in ECL reserve during the year is as follows:

	30/06/23	31/12/22
ԱՎԿ պահուստ ժամանակաշրջանի սկզբի դրությամբ	58	0
ECL changes	225	58
As of the end of the period	**283,267**	**58,000**

Information on the credit quality of claims against banks is presented in Notice 26 "Risk Management".

(thousand Armenian dram)

5. Derivative Financial Instruments

The bank uses derivative financial instruments for trading purposes. The table below presents the fair value of derivative financial instruments recognized as assets or liabilities together with their contingent amounts.

	30/06/2023		31/12/2022	
	Contingent amount	Actual value	Contingent amount	Actual value
Assets				
Derivative Financial Instruments				
Forward and Swapper-RA	-	-	-	-
	-	-	-	-
Obligations				
Derivative Financial Instruments				
Forward and Swapper-RA	1,930,300	3,091	1,967,850	2,549
	1,930,300	**3,091**	**1,967,850**	**2,549**

6. Investment Securities

As of June 30, 2023 and December 31, 2022, investment securities, including investment securities pledged against repurchase agreements, include:

	30/06/2023	31/12/2022
Debt securities measured at fair value through other comprehensive income		
State securities of the Republic of Armenia	4,812,764	4,551,296
	4,812,764	**4,551,296**
Investment securities pledged against repurchase agreements	1,075,143	0
	1,075,143	**0**

Information on the credit quality of debt instruments is presented in Notice 26 "Risk Management". The changes in the gross book value of debt securities measured at fair value through other comprehensive income and the corresponding Expected Credit Loss (ECL) risk are as follows:

Debt securities measured at fair value through other comprehensive financial income	**Phase 1**	**Total**
Fair value as of January 1, 2023	**4,551,296**	**4,551,296**
New Assets Created or Acquired	1,200,926	**1,200,926**
Liquidated assets	(245,810)	**(245,810)**
Net change in fair value	381,495	**381,495**
As of June 30, 2023	**5,887,906**	**5,887,906**

Debt securities measured at fair value through other comprehensive financial income	**Phase 1**	**Total**
ECL as of January 01,2023	**52,083**	**52,083**
ECL change	15,296	**15,296**
As of June 30, 2023	**67,379**	**67,379**

(thousand Armenian dram)

Debt securities measured at fair value through other comprehensive financial income	Phase 1	Total
Fair value as of January 1, 2022	**5,116,897**	**5,116,897**
New assets created or acquired	463,460	**463,460**
Liquidated assets	(491,613)	**(491,613)**
Net change in fair value	(537,448)	**(537,448)**
As of December 31, 2022	**4,551,296**	**4,551,296**

Debt securities measured at fair value through other comprehensive financial income	Phase 1	Total
ECL as of January, 01 2022	**65,610**	**65,610**
ECL change	(13,527)	(13,527)
2022թ. դեկտեմբերի 31-ի դրությամբ	**52,083**	**52,083**

7. Loans to Customers

	30/06/2023	31/12/2022
Loans secured by gold	53,498,990	48,608,346
Mortgage loans	11,335,330	7,426,959
Other loans granted to individuals	2,423,271	1,593,618
Corporate loans	5,727,433	1,512,019
Gross loans to customers	**72,985,023**	**59,140,942**
Depreciation reserve	(2,710,048)	(2,729,952)
Net loans to customers at amortized cost	**70,274,976**	**56,410,990**

9. Loans to customers (continuation)

Provision for loan impairment to customers at amortized cost

As of December 31, 2022, the changes in the gross book value of loans to customers and the corresponding ECLs during the year are as follows:

Loans to customers	Phase 1	Phase 2	Phase 3	Total
Gross book value as of January 1, 2022	**28,413,792**	**15,171,928**	**12,545,866**	**56,131,586**
New assets created or acquired	45,339,913	-	-	**45,339,913**
Liquidated assets	(19,686,226)	(10,962,536)	(8,984,429)	**(39,633,191)**
Transfer phase 1	604,731	(604,731)	-	-
Transfer phase 2	(15,211,044)	18,226,528	(3,015,484)	-
Transfer phase 3	(4,598,071)	(3,190,488)	7,788,559	-
Restorations	-	-	207,884	**207,884**
Written off amounts	-	-	(2,038,650)	**(2,038,650)**
Foreign exchange rate adjustments	(626,595)	(154,045)	(85,960)	**(866,600)**
As of December, 31, 2022	**34,236,500**	**18,486,656**	**6,417,786**	**59,140,942**

Loans to customers	Phase 1	Phase 2	Phase 3	Total
ECL as of January 1, 2022	**361,934**	**1,077,529**	**2,373,193**	**3,812,656**
New assets created or acquired	453,399	-	-	**453,399**
Liquidated assets	(251,526)	(745,093)	(831,767)	**(1,828,386)**
Transfer phase 1	42,949	(42,949)	-	-
Transfer phase 2	(193,758)	764,171	(570,413)	-
Transfer phase 3	(58,570)	(386,803)	445,373	-
Changing models, baselines and other movement	(123,503)	176,381	1,970,958	**2,023,836**

(thousand Armenian dram)

Amortization of the discount	-	-	66,569	**66,569**
Restorations	-	-	207,884	**207,884**
Written off amounts	-	-	(2,038,650)	**(2,038,650)**
Foreign exchange rate adjustments	18,870	7,544	6,230	**32,644**
As of December 31, 2022	**249,795**	**850,780**	**1,629,377**	**2,729,952**

As of December 31, 2021, the changes in the gross book value of loans to customers and the corresponding ECLs during the year are as follows:

Loans to customers	Phase 1	Phase 2	Phase 3	Total
Gross book value as of January 1, 2021	**27,578,055**	**9,519,440**	**12,612,794**	**49,710,289**
New assets created or acquired	49,125,297	-	-	**49,125,297**
Liquidated assets	(25,149,213)	(7,153,150)	(9,279,784)	**(41,582,147)**
Transfer phase 1	232,533	(231,861)	(672)	-
Transfer phase 2	(13,331,411)	14,138,392	(806,981)	-
Transfer phase 3	(9,710,256)	(1,052,854)	10,763,110	-
Restorations	-	-	340,072	**340,072**
Written off amounts	-	-	(1,045,226)	**(1,045,226)**
Foreign exchange rate adjustments	(331,213)	(48,039)	(37,447)	**(416,699)**
As of December 31, 2021	**28,413,792**	**15,171,928**	**12,545,866**	**56,131,586**

10. Loans to customers (continuation)

Provision for loan impairment to customers at amortized cost (continuation)

Loans to customers	Phase 1	Phase 2	Phase 3	Total
ECL as of January 1, 2021	**217,737**	**358,034**	**1,524,332**	2,100,103
New assets created or acquired	586,306	-	-	**586,306**
Liquidated assets	(198,561)	(269,036)	(1,121,518)	**(1,589,115)**
Transfer phase 1	23,937	(23,937)	-	-
Transfer phase 2	(171,895)	277,847	(105,952)	-
Transfer phase 3	(128,354)	(52,993)	181,347	-
Changing models, baselines and other movement	32,764	787,614	2,600,138	**3,420,516**
Written off amounts	-	-	340,072	**340,072**
Foreign exchange rate adjustments	-	-	(1,045,226)	**(1,045,226)**
As of December 31, 2021	**361,934**	**1,077,529**	**2,373,193**	**3,812,656**

Collateral and other credit risk hedging tools

The type and amount of collateral required depends on the borrower's credit risk assessment. The Bank has defined criteria for eligibility and assessment of collateral.
The basic types of collateral are:

- Gold and precious metals,
- Real estate

Management monitors the market value of the collateral and requires additional collateral in accordance with the underlying contract during the verification of the adequacy of the provision for loan impairment.
The table below presents an analysis of the current fair values of collateral and other credit risk hedging instruments for impaired assets (phase 3):

(thousand Armenian dram)

	Maximum credit risk exposure	Collateral real value held in the base scenario: Real estate	Gold	Other	Additional collateral	Total collateral	Net exposure	Corresponding ECL
December 31, 2022								
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 loans to individuals	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**

	Maximum credit risk exposure	Collateral real value held in the base scenario: Real estate	Gold	Other	Additional collateral	Total collateral	Net exposure	Corresponding ECL
December 31, 2021								
Gold secured loans	12,325,573	-	13,470,596	-	(1,821,593)	11,649,003	676,570	2,294,014
Mortgage loans	146,256	311,942	-	-	(176,092)	135,850	10,406	36,992
Other corporate loans	47,030	32,000	-	-	(1,573)	30,427	16,603	29,445
Other loans to individuals	27,007	14,469		15,993	(10,712)	19,750	7,257	12,742
	12,545,866	**358,411**	**13,470,596**	**15,993**	**(2,009,970)**	**11,835,030**	**710,836**	**2,373,193**

9. Loans to customers (continuation)

Pledged assets

As of June 30, 2023 and December 31, 2022, the Bank had no significant concentration of loans to third persons.

Loans were provided to the following customers:

	30/06/2023	31/12/2022
Individuals	67,230,498	57,618,831
Private companies	5,191,185	1,522,111
Financial institutions	371,565	-
Governmental organizations	191,775	-
Gross loans to customers	**72,985,023**	**59,140,942**
Reduction - Provision for impairment	(2,710,048)	(2,729,952)
Loans to customers	**70,274,976**	**56,410,990**

Loans are mainly provided in the following RA sectors:

	30/06/2023	31/12/2022
Individuals	67,230,498	57,618,831
Service sector	1,982,955	350,459
Trading companies	1,353,364	874,689

(thousand Armenian dram)

Construction	929,719	34,887
Agriculture and food processing	674,050	116,221
Financial sector	371,565	-
Industry	251,098	131,628
Other	-	14,227
Gross loans to customers	**72,985,023**	**59,140,942**
Reduction - Provision for impairment	(2,710,048)	(2,729,952)
Loans to customers	**70,274,976**	**56,410,990**

Fixed assets and right-of-use assets

The movement of fixed assets and right-of-use assets is as follows:

	Land and Buildings	Leasehold Improvements	Computers and communication equipment	Means of transportation	Economic property	Fixed assets	Right-of-use assets	Total
Initial value								
as of December 31, 2022	**130,130**	**197,709**	**592,299**	**168,167**	**803,424**	**1,891,729**	**2,237,667**	**4,129,396**
Additions	2,760	242,588	295,846	22,233	555,241	**1,118,668**	150,344	**1,269,012**
Alienation and write-off	-	-	-	(5,941)	(96)	**(6,037)**	-	**(6,037)**
Accumulated Depreciation and Impairment as of June 30, 2023	**132,890**	**440,297**	**888,145**	**184,459**	**1,358,569**	**3,004,360**	**2,388,011**	**5,392,371**
As of December 30, 2022	**45,664**	**33,897**	**393,056**	**154,322**	**235,767**	**862,706**	**576,619**	**1,439,325**
Depreciation cost	3,344	5,971	97,545	1,671	53,423	**161,954**	130,820	**292,775**
Alienation and write-off	-	-	-	(5,941)	(96)	**(6,037)**	-	**(6,037)**
As of June 30, 2023	**49,008**	**39,868**	**490,601**	**150,052**	**289,094**	**1,018,623**	**707,439**	**1,726,062**
Net book value								
As of June 30, 2022	**83,882**	**400,429**	**397,544**	**34,407**	**1,069,475**	**1,985,737**	**1,680,572**	**3,666,309**

	Land and Buildings	Leasehold Improvements	Computers and communication equipment	Means of transportation	Economic property	Fixed assets	Right-of-use assets	Total
Initial value								
as of December 31, 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	-	407,739	**746,325**	636,295	**1,382,620**
Alienation and write-off	-	-	(12,799)	-	(2,468)	**(15,267)**	-	**(15,267)**
As of December 31, 2022	**130,130**	**197,709**	**592,299**	**168,167**	**803,422**	**1,891,727**	**2,237,667**	**4,129,394**
Accumulated Depreciation and Impairment								
As of December 31, 2021	**39,108**	**27,162**	**324,310**	**150,966**	**179,243**	**720,789**	**354,071**	**1,074,860**
Depreciation cost	6,556	6,735	81,392	3,356	58,993	**157,032**	222,548	**379,580**
Alienation and	-	-	(12,646)	-	(2,469)	**(15,115)**	-	**(15,115)**

(thousand Armenian dram)

write-off								
As of December 31, 2022	45,664	33,897	393,056	154,322	235,767	862,706	576,619	1,439,325
Net book value								
As of December 31, 2022	84,466	163,812	199,243	13,845	567,655	1,029,021	1,661,048	2,690,069

Right-of-use assets include buildings and property.

As of June 30, 2023, fully depreciated assets included in fixed assets amount to AMD 603,151 thousand (2022: AMD 557,143 thousand).

As of June 30, 2023, assets under installation included in fixed assets amount to AMD 475,703 thousand (2022: AMD 148, 156 thousand).

10. Intangible Assets

The movement of intangible assets is as follows:

	Licenses	Computer programs	Processing costs	Total
Initial value				
as of December 31, 2022	116,334	365,843	205,436	687,613
Additions	95,625	189,828	123,628	409,081
As of June 30, 2023	211,959	555,671	329,064	1,096,694
Accumulated Depreciation and Impairment				
As of December 31, 2022	53,278	20,865	-	74,143
Depreciation expense	15,103	26,759	-	41,862
As of June 30, 2023	68,381	47,624	-	116,005
Net book value				
As of December 31, 2022	63,056	344,978	205,436	613,470
As of June 30, 2023	143,578	508,047	329,064	980,689

	Licenses	Computer programs	Computer programs	Total
Initial value **as of December 31, 2021**	55,679	12,230	-	67,909
Additions	60,655	353,613	205,436	619,704
As of June 31, 2022	116,334	365,843	205,436	687,613
Accumulated Depreciation and Impairment				
As of December 31, 2021	27,210	9,165	-	36,375
Depreciation expense	26,068	11,700	-	37,768
As of December 31, 2022	53,278	20,865	-	74,143
Net book value				
As of December 31, 2021	28,469	3,065	-	31,534
As of December 31, 2022	63,056	344,978	205,436	613,470

Processing costs include costs related to the mobile banking application and online banking system developed by the Bank, but not available for use, yet.

(thousand Armenian dram)

Taxation

Income tax expense consists of the following items:

	01/01/2023-30/06/2023	*01/01/2022-30/06/2022*
Current income tax expense	717,483	205,124
Deferred Tax Expense: Creation and Reversal of Temporary Differences	(78,786)	257,909
Total income tax expense	**638,697**	**263,033**

The corporate tax rate for the first half of 2023 is 18% (2022: 18%).

12. Taxation (continuation)

The effective income tax rate is different from the statutory income tax rates. Reconciliation of income tax expenses based on statutory rates with actual expenses is as follows:

	2022	*2021*
Profit before tax	**7,123,785**	**5,812,386**
Statutory tax rate	18%	18%
Notional income tax expense at statutory rate	**1,282,281**	**1,046,229**
Non-deductible expenses	19,557	-
Tax-exempt income	(109,438)	(45,347)
Prior Period Income Tax Adjustment	58,239	11,349
Used tax losses transferred to other periods that were not previously recognized	(33,590)	-
Income tax expense	**1,217,049**	**1,012,231**

Deferred tax assets and liabilities as of December 31, 2022 and 2021 and their movement for the respective years is presented below:

		Emergence and Reversal of Temporary Differences					
	The balance as of January 1, 2021	**In the statement of financial results**	**Compiling of other comprehensive income**	**The balance as of December 31, 2021**	**In the statement of financial results**	**Compiling of other comprehensive income**	**The balance as of December 31, 2022**
Deferred tax assets/(liabilities)							
Investment securities	17,696		59,470	77,166	4,824	99,176	181,166
Cash and cash equivalents	-	-	-	-	(37)	-	(37)
Loans to Customers	(1,800,938)	(1,038,600)	-	(2,839,538)	286,309	-	(2,553,229)
Right-of-use assets	(175,308)	(49,206)	-	(224,514)	(74,933)	-	(299,447)
Other assets	(922)	(4,068)	-	(4,990)	(5,504)	-	(10,494)
Other Borrowing Means measured at fair value through profit or loss	-	-	-	-	6,776	-	6,776
Financial obligations	-	-	-	-	203	-	203
Lease Obligations	185,641	56,422	-	242,063	79,645	-	321,708
Other Obligations	36,346	980	-	37,326	55,976	-	93,302

(thousand Armenian dram)

Tax loss transferred to other periods	-	33,590	-	33,590	(33,590)	-	-
Deferred tax liability profits, net (1,737,485)	**(1,737,485)**	**(1,000,882)**	**59,470**	**(2,678,897)**	**319,669**	**99,176**	**(2,260,052)**

13. Credit Loss Expense

The table below presents the ECL changes of financial instruments recorded in the statement of profit or loss as of June 30, 2023.

	Note.	Phase 1	Phase 2	Phase 3	Total
Cash and cash equivalents	5	(1,619)	-	-	**(1,619)**
Claims against banks	6	(225)	-	-	**(225)**
Loans to customers at amortized cost	9	(794,928)	(52,138)	243,611	**(603,455)**
Debt securities measured at fair value through other comprehensive income	8	(15,296)	-	-	**(15,296)**
Other financial assets	14	3,774	-	-	**3,774**
Financial guarantee	20	(29,293)	-	-	**(29,293)**
Total credit loss expense		**(837,587)**	**(52,138)**	**243,611**	**(646,114)**

The table below presents the ECL changes of financial instruments recorded in the statement of profit or loss as of December 31, 2022.

	Note.	Phase 1	Phase 2	Phase 3	Total
Cash and cash equivalents	5	275	-	-	**275**
Claims against banks	6	58			**58**
Loans to customers at amortized cost	9	(78,370)	568,712	(1,139,191)	**(648,849)**
Debt securities measured at fair value through other comprehensive income	8	13,527	-	-	**(13,527)**
Other financial assets	14	2,166	-	-	**2,166**
Financial guarantee	20	(30,184)	-	-	**(30,184)**
Total credit loss expense		**(92,528)**	**568,712**	**(1,139,191)**	**(663,007**

14. Other assets

Other assets consist of the following items:

	30/06/2023	31/12/2022
Other accounts receivable	112,080	185,446
Impairment: Provision for impairment of other financial assets	(4,757)	(8,531)
Only other financial assets	**107,322**	**176,915**
Advance payments	224,296	440,126
Confiscated assets	107,037	110,443
Advance payments of taxes, except for income tax	22,433	54,862
Other non-financial assets	843	33,077
Total other non-financial assets	**354,609**	**638,508**
Total other assets	**461,932**	**815,423**

ECL changes of other financial assets as of June, 30, 2023 is as follows:

	Phase 1	Total
ECL as of January, 1, 2023	**8,531**	**8,531**
ECL changes	(3,774)	(3,774)
As of June 30, 2023	**4,757**	**4,757**

Changes to the ECL financial assets as of December 31, 2022 is as follows:

	Phase 1	Total
ECL as of January 01, 2022	**10,697**	**10,697**

(thousand Armenian dram)

ECL changes	(2,166)	(2,166)
As of December 30, 2022	**8,531**	**8,531**

15. Obligations to Customers

Current accounts and deposits of Customers are as follows:

	30/06/2023	31/12/2022
Current accounts and deposits on demand		
Natural persons	987,046	176,428
Legal entities	4,724,620	87,806
Term deposits		
Natural persons	8,723,800	222,789
Legal entities	2,524,007	95,902
Total	**16,959,472**	**582,925**

Liabilities to Customers include accounts and deposits with the following Customers:

	30/06/2323	*31/12/2022*
Individuals	9,290,120	344,249
Financial institutions	4,457,508	95,902
Other organisations	2,764,740	83,799
Employees	420,726	54,968
State organizations	21,859	0
Private companies	4,520	4,007
Obligations to customers	**16,959,472**	**582,925**

As of June 30, 2023, current accounts and deposits in the amount of AMD 12,199,424 thousand (72.5%) are involved from the ten largest Customers of the Bank (2022: AMD 464,729 thousand).
As of June 30, 2023, the Bank has no clients whose balances exceed 10% of own capital (2022: zero).
According to RA legislation, the Bank shall pay deposits at the request of the depositor. In the event that the Bank pays the term deposit at the request of the depositor before the maturity date, the interest on it is paid based on the interest rate of demand deposits, unless a different interest rate is specified in the contract.

16. Liabilities to Banks

Liabilities to banks include:

	30/06/2023	31/12/2022
Bank loans	9,351,559	7,765,422
Reverse Repo Agreements	1,004,197	0
Total	**10,355,756**	**7,765,422**

As of June 30, 2023, the Bank has loans from 4 (four) banks of the Republic of Armenia (6 banks in 2022).

As of June 30, 2023, liabilities to banks include loans with a total value of 448,091 thousand AMD (2022: 762,009 thousand AMD) and an annual interest rate of 12.5% (2022: 12.5%) and loans in USD with a total value of 8,903,343 thousand AMD (2022: 7,003,413 thousand AMD) and with an annual interest rate of 6-8.0% (2022: 6.5-8.0%).
The repayment terms of loans in AMD and US dollars are 2023-2025.

Issued Debt Securities

Issued debt securities include:

	30/06/2023	31/12/2022
RA bonds in US dollars	920,053	938,276
RA bonds in AMD	513,062	513,263
Issued debt securities	**1,433,116**	**1,451,539**

(thousand Armenian dram)

During the third quarter of 2022, the Bank issued bonds in AMD and US dollars with a nominal value of AMD 500,000 thousand and USD 1,501 thousand, respectively.

17. Issued debt securities (continuation)

AMD bonds have an annual interest rate of 11.5%, and US dollar bonds have an annual interest rate of 6.25 and 6.5%. The maturity dates of these bonds are 2023-2024.

Bonds issued by the bank are listed on the RA Stock Exchange.

18. Other borrowings

Other borrowings include:

	30/06/2023	31/12/2022
Loans from refinancing credit organizations	3,290,161	2,660,114
Loans from RA Central Bank	571,118	535,696
Loans from commercial organizations	123,511	128,034
Borrowings from shareholders and other related parties	-	-
Loans from government non-profit organizations	8,675	9,346
Other borrowed funds	**3,993,466**	**3,333,190**

As of June 30, 2023, the Bank had other borrowings from one lender, the balance of which exceeded 10% of own capital. The total value of those balances in 2023 as of June 30, it was AMD 4,640,302 thousand. 2022 as of December 31, the Bank had no other borrowed funds from lenders, the balance of which exceeds 10% of the equity capital. The total value of those balances as of June 30, 2023, was AMD 4,640,302 thousand. As of December 31, 2022, the Bank had no other borrowed funds from lenders, the balance of which exceeds 10% of own capital.

Regarding other borrowed funds, there are no mandatory conditions that the Bank is obliged to comply with:

As of June 30, 2023, loans given to customers with a total value of 3,392,908 thousand AMD (2022: 3,290,742 thousand AMD) are collateral for loans from the refinancing credit organization, the balance sheet value of which as of June 30, 2023 is 3,856,431 thousand AMD (2022: 3,195,810 thousand AMD).

19. Lease Obligations

Below is the gross book value of the lease liabilities and the movement during the period:

	30/06/2023	31/12/2022
As of January 1	**1,787,052**	**1,344,542**
Additions	150,344	636,295
Accrual of interest	88,430	156,362
Payments	(110,414)	(350,147)
As of the reporting date	**1,915,412**	**1,787,052**

During the first half of 2023, the Bank had an outflow of AMD 117,625 thousand from leases (2022: AMD 381,471 thousand).

During the first half of 2023, the Bank also had non-cash replenishments of assets in the form of right-of-use in the amount of 150,344 thousand AMD and an increase in lease liabilities in the amount of 150,344 thousand AMD (in 2022: 636,295 thousand AMD for each item).

20. Other obligtions

	30/06/2023	31/12/2022
Accounts payable	323,877	316,021
Amounts payable to employees	488,345	498,440
Provision for Warranties Given	59,476	30,184
Other financial obligations only	**871,698**	**844,645**

(thousand Armenian dram)

Accounts payable for taxes other than income tax	107,365	106,338
Only other non-financial obligations	**107,365**	**106,338**
Only other obligations	**979,063**	**950,983**

21. Own capital

Issued capital

As of June 30, 2023 the Bank's share capital is AMD 30,100,000 thousand (as of December 31, 2022: AMD 30,100,000 thousand). The authorized, issued and outstanding share capital consists of 1,400,000 ordinary shares (2022: 1,400,000). The nominal value of each share is 21,500 AMD (21,500 AMD in 2022).

Holders of ordinary shares are entitled to receive dividends declared from time to time and to vote at annual general meetings of the Company's shareholders on a one-share-one-vote basis.
On July 4, 2022, the Bank approved the increase of the share capital by 23,100,000 thousand AMD in order to comply with the requirements of the minimum amount of capital set by the Central Bank of Armenia. On July 4, 2022, the Bank approved the increase of the share capital by 23,100,000 thousand AMD in order to comply with the requirements of the minimum amount of capital set by the Central Bank of Armenia. The replenishment of the share capital was carried out through the capitalization of dividends of 1,900,000 thousand AMD and the conversion of other borrowed funds from shareholders with the book value of 21,200,000 thousand AMD into equity capital. The increase of the share capital was carried out by increasing the nominal value of the existing shares from 5000 AMD to 21500 AMD.

Nature and purpose of the reserves

Revaluation reserve for investment securities

The revaluation reserve for investment securities consists of the net change in fair value before the assets are derecognized or impaired.

Dividends

Dividends to be paid are limited to the maximum amount of the Bank's undistributed profit defined by RA legislation.
At the shareholders' meeting held on April 5, 2022, the Bank announced dividends for the year ended on December 31, 2021, with a total value of AMD 2,000,000 thousand, for ordinary shares (AMD 1,429 per share). Dividends with a total value of 100,000 thousand AMD were paid during 2022, and 1,900,000 thousand AMD were capitalized to increase the share capital of the Bank.

22. Conventional and contractual obligations

Operating environment

Armenia continues economic reforms and the development of its legal, tax and regulatory frameworks. The future stability of Armenian economy largely depends on these reforms and developments, as well as the effectiveness of economic, financial and monetary measures taken by the government.

Court proceedings

In the normal course of business, the Bank may act as a party to legal proceedings and claims. Management believes that the ultimate amount of liabilities resulting from such proceedings or claims, if any, will not have a material adverse effect on financial condition or future results of operations.

Taxation

Armenia's tax system, being relatively new, is characterized by frequent changes in legislation, official clarifications and court decisions, which are sometimes unclear and contradictory and imply different interpretations. Taxes are subject to inspection and review by tax authorities having the authority to impose penalties and fines. In case of violation of tax legislation, the tax authorities are not authorized to impose additional tax obligations, penalties or fines if three years have passed since the date of the violation.

(thousand Armenian dram)

17. Conventional and contractual obligations (continuation)

These circumstances can create much greater risks in Armenia than in other countries. Management believes that it has recognized tax liabilities appropriately based on its interpretations of applicable Armenian tax legislation, official pronouncements and judicial decisions. However, the relevant competent authorities may have different interpretations, and the consequences could be essential to these financial statements if the competent authorities succeed in enforcing their interpretations.

Contingent liabilities

The contingent liabilities of the bank are as follows:

	30/06/2023	30/12/2022
Obligations related to loans		
Financial guarantees	1,486,910	754,600
Contingent obligations	**1,486,910**	**754,600**

The analysis of changes in the ECL during the semester ending June 30 is as follows:

Financial guarantee	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
ECL as of January, 01, 2023	**30,184**	**-**	**-**	**30,184**
New assets	30,100	-	-	30,100
Depleted Assets	(808)	-	-	(808)
Transition to Phase 1	-	-	-	-
Transition to Phase 2	-	-	-	-
Transition to Phase 3	-	-	-	-
The effect on ECL of risks transferred between phases during the period	-	-	-	-
Changing the models and baseline data used in ECL calculation	-	-	-	-
Foreign exchange rate adjustments	-	-	-	-
As of June 30, 2023	**59,476**	**-**	**-**	**59,476**

The analysis of changes in the ECL during the year ending December 31, 2022 is as follows:

Financial guarantee	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
ECL as of January 1, 2023	**-**	**-**	**-**	**-**
New assets	30,184	-	-	**30,184**
Depleted Assets	-	-	-	-
Transition to Phase 1	-	-	-	-
Transition to Phase 2	-	-	-	-
Transition to Phase 3	-	-	-	-
The effect on ECL of risks transferred between phases during the period	-	-	-	-
Changing the models and baseline data used in ECL calculation	-	-	-	-
Foreign exchange rate adjustments	-	-	-	-
As of June 30, 2023	**30,184**	**-**	**-**	**30,184**

(thousand Armenian dram)

23. Net Interest Income

Net interest income includes:

	01/04/2023-30/06/2023	01/01/2023-30/06/2023	01/04/2022-30/06/2022	01/01/2022-30/06/2022
Financial assets at amortized cost				
Loans to customers	3,736,094	6,820,290	3,993,589	7,018,443
Cash and cash equivalents	455	701	117	236
	3,736,549	**6,820,991**	**3,993,705**	**7,018,679**
Financial assets measured at fair value through other comprehensive income				
Investment securities	140,840	267,949	115,182	230,593
Interest income calculated at the effective rate	**3,877,390**	**7,088,939**	**4,108,888**	**7,249,273**
Interest expense				
Other borrowed funds	61,678	119,416	578,882	1,076,551
Obligations to banks	169,793	325,147	249,255	433,801
Obligations to customers	182,677	212,899	0	0
Lease Obligations	45,522	88,431	29,994	66,022
Amounts payable under repurchase agreements	64,751	85,390	5,583	5,583
Issued debt securities	28,673	57,169	6,132	12,606
Other	24,932	54,819	0	0
Interest expense	**578,025**	**943,270**	**869,845**	**1,594,563**
Net interest income	**3,299,364**	**6,145,669**	**3,239,042**	**5,654,710**

24. Net commission income

Net commission income includes:

	01/04/2023-30/06/2023	01/01/2023-30/06/2023	01/04/2022-30/06/2022	01/01/2022-30/06/2022
Warranties given	16,021	20,726	8,350	10,453
Monetary operations	8,357	13,793	0	0
Insurance:	615	2,333	553	1,119
Account maintenance fee	450	600	0	0
Money transfers	17	17	0	0
Other	735	1,448	48	739
Commission income	**26,195**	**38,917**	**8,951**	**12,311**
Commission income	1,925	6,038	21	21
Monetary operations	1,900	7,029	3,396	6,899
Currency exchange transactions	1,393	4,844	0	0
Money transfers	252	417	878	1,167
Account maintenance fee	151	375	3,216	4,285
Payment card service fee	0	12	3	27
Securities operations	0	0	0	3
Other	21	129	903	1,496
Cost of commissions	**5,642**	**18,843**	**8,417**	**13,898**
Net commission income/(expense)	**20,553**	**20,074**	**535**	**(1,587)**

(thousand Armenian dram)

Personnel and Other Operating Expenses

Personnel and other operating costs include:

	01/04/2023-30/06/2023	01/01/2023-30/06/2023	01/04/2022-30/06/2022	01/01/2022-30/06/2022
Salary and bonuses	1,053,219	1,958,440	886,777	1,641,935
Compulsory pension payments	51,592	109,450	42,210	70,353
Personnel insurance	16,770	32,399	6,206	16,497
Personnel expenses	**1,121,582**	**2,100,289**	**935,193**	**1,728,785**

Other operating expenses

	01/04/2023-30/06/2023	01/01/2023-30/06/2023	01/04/2022-30/06/2022	01/01/2022-30/06/2022
Repair and maintenance	55,986	82,348	25,511	46,398
Office expenses	36,342	70,891	34,021	49,172
Charity	56,000	66,097	800	800
Marketing and advertising	49,739	69,058	23,201	31,456
Safety	27,400	58,254	24,171	46,973
Professional services	28,519	41,570	11,355	13,280
Non-Reimbursable Taxes and Duties Except Income Tax	10,983	20,991	9,988	18,681
Communication	12,875	20,518	8,004	13,273
Loan origination and collection costs	10,252	16,226	7,500	12,185
Travel and similar expenses	4,280	8,715	10,749	12,856
Membership fees	3,468	8,218	1,050	1,978
Entertainment	3,143	7,913	8,820	13,345
Operating lease expenses	2,990	6,190	6,942	6,012
Representation expenses	3,190	5,398	3,895	5,898
Costs of financial mediator	1,370	2,736	2,388	10,511
Staff training	1,867	2,635	4,190	4,266
Deposit insurance costs	0	1,919	0	0
Other	33,238	44,451	10,261	11,601
Other operating expenses	**341,643**	**534,129**	**192,846**	**298,684**

The Bank recognizes AMD 1,488,000 short-term rental expense as of June, 30, 2023 and AMD 4,702,000 low-value asset rental expense (as of June 30, 2022, AMD 900,000 short-term rental expense and AMD 2,112 thousand low-value asset rental expense).

Risk Management

Introduction

The Bank's activities are characterized by various financial risks, for the management of which the Bank develops and implements risk management mechanisms and an internal control system. The main risks inherent to the bank's activities are credit, liquidity and market risks. Operational risk is also characteristic of the bank's activity. Risk management involves the 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 crucial importance for maintaining a constant level of profitability of the Bank, and each employee of the Bank is responsible for the risks arising within the scope of its duties.

The risk management function also includes business risks, such as changes in the environment, technology and economic sectors, with 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 separate departments are responsible for risk management and monitoring. The ultimate responsibility for risk identification and control rests with the Bank's Board, but separate departments are responsible for risk management and monitoring.

Bank Board

The Board is responsible for overall risk management oversight, strategy and risk management policy.

Bank Management/Chief Executive Officer

The bank's management/CEO is responsible for overseeing the risk management process.

Risk management department

The Risk Management Department is responsible for the development and implementation of risk management procedures under the strategic risk management policy approved by the Board, for the identification, assessment and continuous monitoring of risks in accordance with these procedures, including the control of compliance with the prescribed risk limits, as well as for the risk assessment of new processes and products.

The following section also provides for the submission of risk reports to the relevant governing bodies, the Bank board and management:

Asset and Liability Management Committee

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

26. Risk management (continuation)

Introduction (continuation)

Internal audit

The risk management process implemented by the Bank is annually audited by the internal audit department, which verifies both the completeness and effectiveness of the procedures, as well as the compliance of the Bank's activities with the procedures. The internal audit department discusses the results of the inspections with the management and presents its conclusions and proposals to the Bank board.

Risk measurement and reporting system

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 that are unlikely to actually occur. The Bank also applies worst-case scenarios that will occur when extreme events that are unlikely to actually occur.

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

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

Risk mitigation

As part of risk mitigation measures, the Bank uses derivatives and other instruments to manage risks arising from changes in foreign exchange rates.

The bank widely uses collateral to reduce credit risk.

Risk concentrations

Risk concentrations occur when a number of counterparties carry out similar activities, or the activities are carried out in the same geographical area, or they have similar economic characteristics, as a result of which changes in economic, political or other conditions affect their ability to fulfill contractual obligations in the same way. Risk concentrations reflect the relative sensitivity of the Bank's performance to changes in conditions affecting a specific industry or geographic region.

To avoid excessive concentrations of risk, the Bank's policies and processes include specific principles aimed at maintaining diversified asset types, credit and securities portfolios.

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 performs credit control and management 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.

26. Risk management (continuation)

Credit risk (continuation)

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

For financial instruments measured at fair value, the book value reflects the current credit risk, but not the maximum risk that may arise from a change in value in the future.

Depreciation assessment

The bank calculates the ECL under three probability-weighted scenarios to estimate expected cash shortfalls, using a discounted effective interest rate approximation. The cash shortfall is the difference between the contractually payable cash flows to the entity and the entity's expected cash flows. The mechanisms for ECL calculation are presented below, and their main elements are as follows:

PD	Default probability is an estimate of the likelihood of default over a given time horizon. Default can only occur at a certain point in the estimated period if the instrument has not previously been derecognized and is still in the portfolio.
EAD	The instrument's value at default is the estimated value of the instrument at the future default date, taking into account the effect of changes expected after the reporting date, including payments of principal and interest, contractual or otherwise, accrued interest on missed payments, etc.
LGD	Loss given default is an estimate of the monetary loss that occurs when a default occurs at a certain point of time. It is the difference between the contractual cash flows and the cash flows that the lender expects to receive, including proceeds from the sale of collateral. It is usually expressed as a percentage of the instrument's value at default (EAD).

ECL reserve is based on credit losses expected to occur over the life of the asset (expected credit loss or ECL over the life of the asset), unless there is a significant increase in credit risk after initial recognition, in which case the reserve is based on expected credit losses

over a 12-month period. on (12 - month period ECL). The 12-month ECL is the part of the ECL, which represents the ECLs resulting from the cases of non-fulfillment of obligations on a financial instrument, which are possible during the 12 months following the reporting month. Both ECL and 12-month ECL are calculated on an individual or group basis, depending on the nature of the respective portfolio of financial instruments.
The Bank has established a policy to assess at the end of each reporting period whether the credit risk of a financial instrument has increased significantly since the initial recognition, taking into consideration 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 by stages as described below:

Phase 1	At initial recognition, the Bank recognizes the reserve based on 12-month ECL. Phase 1 loans also include instruments where the credit risk has improved, and the loan has been reclassified from Phase 2.
Phase 2	When the credit risk of an instrument has increased significantly since initial recognition, the Bank recognizes a provision for lifetime expected credit losses (ECL). Phase 2 loans also include instruments where the credit risk has improved, and the loan has been reclassified from Phase 3.
Phase3	The asset is considered depreciated.
POCI:	Acquired or created (POCI) impaired assets are financial assets that are depreciated on initial recognition. These assets are initially recognized at fair value, and interest income is subsequently recognized based on the credit risk-adjusted effective interest rate. ECL is only recognized or derecognized to the extent that the estimate of expected credit losses over the life of the asset subsequently changes.

26. Risk management (continuation)

Credit risk (continuation)

Definition of the Default

The Bank considers the there is a default in respect of the financial instrument, therefore classifies it as a Phase 3 financial instrument (i.e. credit impaired) for the purpose of calculating ECL in all cases where the borrower is 91 days late in making contractual payments.

A financial instrument is also considered impaired based on other defined quantitative and qualitative factors, such as review status and financial monitoring results.

As part of the qualitative assessment of whether a customer is solvent, the Bank also considers various cases indicating an "unlikely to pay" status. In such cases, the Bank carefully considers whether the event may cause the customer to default, and therefore assesses whether the loan should be classified in Phase 3 for expected credit loss calculations, or whether classification in Phase 2 is satisfactory In such cases, the Bank carefully considers whether the event may cause the customer to default, and therefore assesses whether the loan should be classified in Stage 3 for expected credit loss calculations, or whether classification in Stage 2 satisfies..

According to the Bank's policy, a financial instrument is considered "recovered" and therefore reclassified from Phase 3, if none of the specified default criteria has been present for at least six consecutive months. The decision to classify an asset in Phase 2 or Phase 1 after recovery depends on the risk-adjusted level at the time of recovery and whether this means that there has been a significant increase in credit risk as compared to initial recognition.

The process of assessing the probability of the default

Loans to customers

Grouping

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

- Loans secured by gold collateral,
- Mortgage Loans,
- Consumer loans:

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

Tool value at default

The tool value at default (EAD) is the aggregate book value of financial instruments subject to impairment assessment, which takes into account both the customer's ability to increase its loan amount in the event of default and potential early repayments. For assets in Stage 1, the Bank assesses the probability of possible default within 12 months in order to calculate 12 ԱՄԱՎԿ/ AMAVC. For financial assets in the Stage2, Stage3 and Acquired or Created Impaired (POCI) class, the value of the instrument at default is considered for the events occurring over the lifetime of the tools.

26. Risk management (continuation)

Credit risk (continuation)

The amount of Loss at Default

The Bank uses historical data on recoveries after the date of default for all the defaulted loans to calculate the amount of loss at default. The probability of possible return for the last overdue loans over time is estimated by the factor of development of the population of previously overdue loans. The probability of possible return for the last overdue loans over time is estimated by the factor of development of the population of previously overdue loans. Any changes to the recruitment policy are taken into account within this framework. All 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 repayment of loans, funds received from the guarantor, funds received from the sale of collateral, etc.).

Significant increase in credit risk

The Bank has established a policy to assess at each reporting date indications of a significant increase in the credit risk of a financial instrument since initial recognition, taking into account the change in default risk over the remaining life of the financial instrument. The bank uses information on the number of days overdue loans as the main indicator. The Bank considers the credit risk to have increased significantly after the initial recognition if contractual payments are delayed by more than 30 days.

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

- Number of the days overdue of the given borrower in other RA financial institutions,
- Significant deterioration of the borrower's financial situation,
- Revision of loan conditions as a result of significant deterioration of the borrower's financial situation,
- Results of financial monitoring of the borrower's activities.

Information predicted and multiple economic scenarios

In ECL models, the Bank relies on a wide range of forecast information, particularly such economic baseline data as:

- Annual GDP growth, %,
- US Dollar/Armenian Dram exchange rate (as of the end of the period)
- Change in net state accounts in the RA Central Bank, billion drams,
- Unemployment rate, %.

(thousand Armenian dram)

26. Risk management (continuation)

Credit risk (continuation)

The Bank receives forecasted information from external sources (Economic Analytical Division, World Bank database, as well as forecasts made by the RA Government). This table presents the values of the main forecasted economic variables/assumptions for the ECL calculations for each economic scenario.

The main factors	ECL Scenario	%	Determined probability 2023	2024	2025
GDP annual growth, %					
	Optimistic	15%	7.50%	6.90%	7.10%
	Baseline	70%	4.40%	3.80%	4.00%
	Pessimistic	15%	0.50%	0.10%	0.10%
USD / Armenian dram Exchange rate					
	Optimistic	15%	418	445	460
	Baseline	70%	438	465	490
	Pessimistic	15%	458	485	520
Change in net state accounts in the RA Central Bank, billion drams,					
	Optimistic	15%	(448)	(429)	(447)
	Baseline	70%	(373)	(354)	(372)
	Pessimistic	15%	(298)	(279)	(297)
Unemployment Rate,					
	Optimistic	15%	14.0%	13.9%	13.8%
	Baseline	70%	16.0%	17.9%	19.8%
	Pessimistic	15%	19.0%	23.9%	28.8%

Credit Qualitative Analysis of Financial Asset Classes

The bank does not have an internal rating system to assess the credit quality of loans granted to customers and manages credit risk by the days overdue.

26. Risk management (continuation)

Credit risk (continuation)

The table below provides information on the credit quality of gross loans granted to legal entities and individuals as of June 30, 2023 and December 31, 2022:

	June 30, 2023			
	Phase 1 Thousand AMD	Phase 2 Thousand AMD	Phase 3 Thousand AMD	Total loans Thousand AMD
Loans secured by gold				
— not expired	30,578,066	8,820,160	841,789	40,240,015
— overdue for up to 30 days	53,953	4,402,548	397,693	4,854,193
— 30-89 days overdue	-	4,344,489	665,556	5,010,044
— 90-179 days overdue	-	28,731	1,889,601	1,918,332
— 180-270 days overdue	-	-	592,326	592,326
— more than 270 days overdue	-	-	884,080	884,080
Total Gross Loans Secured by Gold	**30,632,019**	**17,595,926**	**5,271,044**	**53,498,990**
Credit loss reserve	(244,412)	(676,796)	(1,423,271)	(2,344,479)
Total Gross Loans Secured by Gold	**30,387,607**	**16,919,130**	**3,847,774**	**51,154,511**

(thousand Armenian dram)

Mortgage and other real estate secured loans				
— not expired	10,607,744	484,086	78,138	11,169,968
— overdue for up to 30 days	-	109,097	-	109,097
— 30-89 days overdue	-	54,186	2,079	56,265
Total gross mortgage and other loans secured by real estate	10,607,744	647,369	80,217	11,335,330
Credit loss reserve	(14,294)	(41,087)	(41,211)	(96,592)
Total net mortgages and other loans secured by real estate	10,593,450	606,282	39,006	11,238,738
Other corporate loans				
— not expired	5,585,694	11,381	-	5,597,075
— overdue for up to 30 days	-	34,219	-	34,219
— 30-89 days overdue	-	12,349	-	12,349
— 90-179 days overdue	-	-	83,791	83,791
Total Gross Commercial Loans	5,585,694	57,948	83,791	5,727,433
Credit loss reserve	(36,147)	(14,232)	(36,285)	(86,664)
Total Net Commercial Loans	5,549,547	43,716	47,506	5,640,769
Other loans granted to individuals				
— not expired	2,307,074	55,420	13,333	2,375,827
— overdue for up to 30 days	320	8,281	17,244	25,845
— 30-89 days overdue	-	16,740	986	17,726
— 90-179 days overdue	-	-	3,873	3,873
Total gross other loans granted to individuals	2,307,394	80,441	35,436	2,423,271
Credit loss reserve	(123,178)	(30,849)	(28,286)	(182,313)
Total net other loans granted to individuals	2,184,216	49,592	7,149	2,240,958
Total Gross Loans granted to Customers	49,132,851	18,381,685	5,470,488	72,985,023
Credit loss reserve	(418,030)	(762,964)	(1,529,053)	(2,710,048)
Total net loans granted to Customers	48,714,820	17,618,720	3,941,435	70,274,976

26. Risk management (continuation)

Credit risk (continuation)

	December 31, 2022			
	Phase 1 Thousand AMD	Phase 2 Thousand AMD	Phase 3 Thousand AMD	Total loans Thousand AMD
Total Gross Loans Secured by Gold				
— not expired	24,562,625	9,085,242	817,639	34,465,506
— overdue for up to 30 days	32,069	3,753,155	298,088	4,083,312
— 30-89 days overdue	-	5,015,624	667,123	5,682,747
— 90-179 days overdue	-	-	3,169,621	3,169,621
— 180-270 days overdue	-	-	767,681	767,681
— more than 270 days overdue	-	-	439,479	439,479
Total Gross Loans Secured by Gold	24,594,694	17,854,021	6,159,631	48,608,346
Credit loss reserve	(189,177)	(764,427)	(1,510,010)	(2,463,614)
Total Net Loans Secured by Gold	24,405,517	17,089,594	4,649,621	46,144,732
Mortgages and other loans secured by real estate				
— not expired	6,742,699	430,628	136,532	7,309,859
— overdue for up to 30 days	-	32,219	58,377	90,596
— 30-89 days overdue	-	-	-	-
— 90-179 days overdue	-	-	19,761	19,761

(thousand Armenian dram)

— 180-270 days overdue	-	-	6,743	6,743
Total gross mortgage and other loans secured by real estate	6,742,699	462,847	221,413	7,426,959
Loan loss reserve	(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
Other corporate loans				
— Not expired	1,393,449	15,819	4,482	1,413,750
— overdue for up to 30 days	-	12,444	-	12,444
— 30-89 days overdue	-	85,825	-	85,825
— 90-179 days overdue	-	-	-	-
— 180-270 days overdue	-	-	-	-
Total Gross Commercial Loans	1,393,449	114,088	4,482	1,512,019
Loan loss reserve	(21,739)	(36,828)	(2,088)	(60,655)
Total Net Commercial Loans	1,371,710	77,260	2,394	1,451,364
Other loans granted to individuals				
— Not expired	1,505,368	42,895	10,106	1,558,369
— overdue for up to 30 days	290	5,718	3,173	9,181
— 30-89 days overdue	-	7,087	10,195	17,282
— 90-179 days overdue	-	-	2,484	2,484
— 180-270 days overdue	-	-	6,302	6,302
Total gross loans granted to individuals	1,505,658	55,700	32,260	1,593,618
Loan loss reserve	(25,730)	(16,204)	(22,679)	(64,613)
Total net other loans granted to individuals	1,479,928	39,496	9,581	1,529,005
Total Gross Loans granted to Customers	34,236,500	18,486,656	6,417,786	59,140,942
Loan loss reserve	(249,795)	(850,780)	(1,629,377)	(2,729,952)
Total Gross Loans granted to Customers	33,986,705	17,635,876	4,788,409	56,410,990

26. Risk management (continuation)

Credit risk (continuation)

Credit qualitative analysis of financial asset classes

June 30, 2023

	Notice		High class	Standard class	Total
Cash and cash equivalents (excluding cash)	5	Phase 1	-	3,830,299	**3,830,299**
Claims against banks	6	Phase 1	-	538,506	**538,506**
Investment securities	8	Phase 1	-	4,812,764	**4,812,764**
Total			-	**9,181,569**	**9,181,569**

December 31, 2022

	Notice		High class	Standard class	Total
Cash and cash equivalents (excluding cash)	5	Phase 1	-	914,941	**914,941**

(thousand Armenian dram)

Claims against banks	6	Phase 1	-	110,377	**110,377**
Investment securities	8	Phase 1	-	4,551,296	**4,551,296**
Total			-	**5,576,614**	**5,576,614**

The table below presents the annual analysis of the Bank's rating system and external ratings of counterparties by cash and cash equivalents, claims on banks and investment securities as of December 31, 2022.

International rating agency (Moody's) rating	Description	PD
Aaa - A3	**High class**	0-0.09%
Baa1- B3	Standard class	0.1-4.3%
Caa1- Ca	A class below the standard	16.3%
C	Depreciated	100%

Liquidity risk and funding management

Liquidity risk is the risk that the Bank shall not be able to fulfill its obligations during their repayment in a normal or unforeseen situation. To mitigate that risk, management has secured various sources of funding in addition to the already existing core base of bank deposits. Management also performs asset management taking into consideration the liquidity, and day-to-day monitoring of future cash flows and liquidity. That process includes an estimate of expected cash flows and the availability of senior collateral that can be used to obtain additional financing if needed.

26. Risk management (continuation)

Liquidity risk and funding management (continuation)

The bank calculates liquidity indicators in accordance with the requirements of the RA Central Bank. As of June 30, 2023 and December 31, 2022, the ratios were:

	Limit value	As of June 30, 2023, %	As of December 31, 2022, %
N2.1-Total liquidity (highly liquid assets/Total assets)	Min. 15%	18.02%	15.18%
N2.2-Current liquidity (highly liquid assets/demand liabilities)	Min. 60%	242.54%	1,418.14%

Analysis of financial liabilities according to the terms existing till maturity

Below is the distribution of the Bank's financial obligations as of June 30, 2023 and December, 31, 2022 according to the terms existing till maturity, based on undiscounted contractual obligations. Liabilities subject to demand repayment are classified as if the demand for repayment had been made at the earliest possible date. However, the Bank believes that many customers will not request payment at the earliest possible date by which the Bank would be obligated to make payment, and the table does not reflect the expected cash flows calculated by the Bank based on investment demand information from the past periods.

June 30, 2023	Commercial derivatives	Up to 3 months	From 3-12 months	From 1-5 years	More than 5 years	Total
Financial obligations						
Derivative financial liabilities	3,091	0	0	0	0	**3,091**
Liabilities to banks	0	1,494,378	7,698,571	669,705	0	**9,862,654**
Obligations to customers	0	5,912,879	11,334,774	563,772	0	**17,811,424**
Issued debt securities						

	0	356,327	70,675	1,103,816	0	**1,530,818**
Reverse Repo Agreements	0	1,004,197	0	0	0	**1,004,197**
Other borrowed funds	0	93,145	449,578	2,194,306	2,812,931	**5,549,960**
Lease Obligations	0	55,778	376,627	1,398,012	832,929	**2,663,346**
Other financial obligations	0	871,698	0	0	0	**871,698**
Financial guarantee	0	1,486,910	0	0	0	**1,486,910**
Total undiscounted financial liabilities	**3,091**	**11,275,312**	**19,930,225**	**5,929,612**	**3,645,860**	**40,784,100**

26. Risk management (continuation)

Liquidity risk and funding management (continuation)

December 31, 2023	**Commercial derivatives**	**Up to 3 months**	**From 3-12 months**	**From 1-5 years**	**More than 5 years**	**Total**
Financial obligations						
Derivative financial liabilities	2,549	-	-	-	-	**2,549**
Liabilities to banks	0	1,475,591	3,446,707	3,368,717	-	**8,291,015**
Obligations to customers	0	264,474	339,375	806	-	**604,655**
Issued debt securities	0	34,808	409,970	1,162,657	-	**1,607,435**
Reverse Repo Agreements	0	69,109	338,101	1,854,614	2,392,231	**4,654,055**
Other borrowed funds	0	59,554	325,986	1,312,358	876,665	**2,574,563**
Lease Obligations	0	844,645	-	-	-	**844,645**
Other financial obligations	0	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**

Funds drawn from Customers include term deposits made by individuals./natural persons. According to RA legislation, natural persons can claim back their term deposits at any time. These deposits are classified according to their maturity dates in the table above.:

Maturity analysis of assets and liabilities

The table below provides an analysis of assets and liabilities according to their expected recoveries or repayments.

	30/06/2023			**31/12/2022**		
	Within a year	**More than a year**	**Total**	**Within a year**	**More than a year**	**Total**
Cash and cash equivalents	7,781,106	0	**7,781,106**	3,180,144	0	**3,180,144**
Claims against banks	538,506	0	**538,506**	110,319	0	**110,319**
Loans to customers	21,032,928	49,242,048	**70,274,976**	17,069,826	39,341,164	**56,410,990**
Investment securities	1,545,242	4,342,664	**5,887,906**	0	4,551,296	**4,551,296**
Fixed assets and right-of-use assets	0	3,666,310	**3,666,310**	0	2,690,069	**2,690,069**
Intangible Assets	0	980,689	**980,689**	0	613,470	**613,470**
Current tax assets	0	0	**0**	0	0	**0**
Other assets	107,322	354,609	**461,932**	170,212	645,211	**815,423**
Total	**31,005,105**	**58,586,320**	**89,591,425**	**20,530,501**	**47,841,210**	**68,371,711**

(thousand Armenian dram)

Liabilities to banks	8,704,418	647,141	**9,351,559**	4,502,769	3,262,653	**7,765,422**
Derivative financial liabilities	3,091	0	**3,091**	2,549	0	**2,549**
Obligations to customers	16,440,547	518,925	**16,959,472**	582,125	800	**582,925**
Issued debt securities	352,686	1,080,429	**1,433,116**	359,829	1,091,710	**1,451,539**
Reverse Repo Agreements	1,004,197	0	**1,004,197**	0	0	**0**
Other borrowed funds	301,079	3,692,390	**3,993,469**	210,596	3,122,594	**3,333,190**
Lease Obligations	310,975	1,604,437	**1,915,412**	267,611	1,519,441	**1,787,052**
Current income tax liabilities	642,423	0	**642,423**	1,504,320	0	**1,504,320**
Deferred tax liabilities	0	2,228,753	**2,228,753**	0	2,260,052	**2,260,052**
Other obligations	979,063	0	**979,063**	950,983	0	**950,983**
Total	**28,738,480**	**9,772,076**	**38,510,556**	**8,380,782**	**11,257,250**	**19,638,032**
Net	**2,266,625**	**48,814,244**	**51,080,869**	**12,149,719**	**36,583,960**	**48,733,679**

26. Risk Management (continuation)

Market Risk

Market risk is the risk of changes in future cash flows or their fair value of the Bank's financial instruments as a result of changes in market conditions, including foreign exchange rates and interest rates, and the value of equity capital.

Interest rate risk

Interest rate risk is the risk of a possible change in the future cash flows of the Bank's financial instruments or their real value as a result of changes in interest rates. The following table shows the sensitivity of the Bank's income statement to potential changes in interest rates, by maintaining other variables constant.

Income statement sensitivity is the effect of assumed changes in interest rates on the period's net interest income based on the floating interest rate financial assets and liabilities on the balance sheet, and on net trading income based on trading instruments on the balance sheet. The sensitivity of capital to the permitted changes in interest rates is calculated by revaluing debt financial assets measured through other comprehensive income at fair value, based on the assumption that there are parallel shifts in the yield curve.

Currency	Addition of base points in 2023 II trimester	Sensitivity of net interest income in II quarter 2023	Capital sensitivity II quarter 2023
AMD	3.18%	-	(798,700)

Currency	Addition of base points in 2023 II trimester	Sensitivity of net interest income in II quarter 2023	Capital sensitivity II quarter 2023
AMD	3.18%	-	1,163,430

Currency	Addition of base points in 2023 II trimester	Sensitivity of net interest income in II quarter 2023	Capital sensitivity II quarter 2023
AMD	3.18%	-	(702,300)

Currency	Addition of base points in 2023 II trimester	Sensitivity of net interest income in II quarter 2023	Capital sensitivity II quarter 2023
AMD	3.18%	-	1,006,300

Currency risk

Foreign exchange risk is the risk of fluctuations in the value of financial instruments due to changes in the exchange rate. Management has set limits for foreign currency positions. Positions are monitored on a daily basis. Currency risk is the risk of fluctuations in the value of financial instruments due to changes in the exchange rate Management has set limits for foreign currency positions. Positions are monitored on a daily basis.

In the following tables see the currencies in which the Bank has significant currency positions as of June 30, 2023, in terms of monetary assets and liabilities.

26. Risk Management (continuation)

Market risk (continuation)

	Us dollars Thousand Armenian dram	Euro Thousand Armenian dram	Other currency Thousand Armenian dram	Total Thousand Armenian dram
Assets				
Cash and cash equivalents	3,128,515	486,629	402,866	4,018,010
Claims against banks	497,047	40,974	0	538,021
Loans to customers	8,503,991	97,583	0	8,601,574
Total assets	**12,129,553**	**625,187**	**402,866**	**13,157,606**
Obligations				
Liabilities to banks	8,903,469	0	0	8,903,469
Derivative financial liabilities	0	0	0	0
Obligations to customers	3,724,755	324,025	118,551	4,167,331
Issued debt securities	920,053	0	0	920,053
Other obligations	339	13,047	16	13,403
Total obligations	**13,548,616**	**337,073**	**118,567**	**14,004,256**
Net position	**(1,419,063)**	**288,114**	**284,299**	**(846,650)**
Effect of derivatives	1,931,500	**0**	**0**	**1,931,500**
Net position with derivatives included	**512,437**	**288,114**	**284,299**	**1,084,850**

In the following tables see the currencies in which the Bank has significant currency positions as of December 31, 2022, in terms of monetary assets and liabilities.

	Us dollars Thousand Armenian dram	Euro Thousand Armenian dram	Other currency Thousand Armenian dram	Total Thousand Armenian dram
Assets				
Cash and cash equivalents	263,875	253,260	1,372,107	1,889,242
Claims against banks	110,319	-	-	110,319
Loans to customers	5,270,308	-	-	5,270,308
Net assets	**5,644,502**	**253,260**	**1,372,107**	**7,269,869**
Obligations to banks	7,003,413	-	-	7,003,413
Obligations to customers				

(thousand Armenian dram)

	92,727	3,329	9,187	105,243
Issued debt securities	938,277	-	-	938,277
Other obligations	266	24	1	291
Total obligations	**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 with derivatives included	**(422,331)**	**249,907**	**1,362,919**	**1,190,495**

26. Risk Management (continuation)

Market risk (continuation)

In the following tables see the currencies in which the Bank has significant currency positions as of June 30 and December 31, 2022 in terms of monetary assets and liabilities.

The performed analysis expresses the impact of possible fluctuations in the exchange rate of the Armenian dram on the financial results (depending on the change in the fair value of non-trading monetary assets and liabilities sensitive to changes in the exchange rate), when all other variables remain constant. Negative amounts reflect a potential net decrease in income statement or equity, positive amounts a potential net increase. Management has established risk limits for foreign exchange and interest rate risks.

Currency	**Change of foreign currency exchange rate % 30/06/2023**	**Effect on profit before taxation 30/06/2023**	**Change of foreign currency exchange rate % 31/12/2022**	**Effect on profit before taxation 31/12/2022**
US dollar	12.62%	(253.357)	12.62%	(53.298)
US dollar	(12.62%)	253.357	(12.62%)	53.298
Euro	21.31%	61.538	21.31%	53.255
Euro	(21.31%)	(61.538)	(21.31%)	(53.255)

Operational risk

Operational risk is the risk of potential loss due to system failure, staff errors, fraud, or external factors. When an internal control system fails, operational risks can result in reputational damage, legal consequences, or financial losses. When an internal control system fails, operational risks can result in reputational damage, legal consequences, or financial losses. The Bank does not assume that all operational risks are eliminated, but with the help of the internal control system and through the determination of potential risks and appropriate response, the Bank can manage such risks.

Within operational risk management, the Bank has adopted three lines of defense: the first line of defense is provided by the staff servicing the customer and operational management, the second line of defense is provided by the risk management and compliance functions, and the third line of defense is provided by the internal audit function.

An operational risk management system includes the following key elements: risk mapping, incident analysis and a continuous monitoring function. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and evaluation processes. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and evaluation processes.

(thousand Armenian dram)

Fair value measurement

Fair value measurement process

Fair value estimates are intended to approximate the price that would be received to sell the asset or would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgments, fair value should not be interpreted as readily available for sale of assets or transfers of liabilities.

The Bank management defines the policies and procedures for measuring the fair value of the Bank's assets (including derivatives). The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow methods, which are based on estimated future cash flows and discount rates for similar instruments at the reporting date.

27. Fair value measurement (continuation)

Fair value measurement process (continuation)

The Bank has financial instruments, such as loans to customers, claims against banks, other financial assets, liabilities to banks, other borrowings, lease liabilities and other financial liabilities, the fair value of which is based on valuation methods using significant non-market observable baseline data.

Real value hierarchy

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments according to valuation methods:

Level 1 – quoted prices in active markets for the same assets and liabilities (unadjusted).
Level 2 – baseline data other than quoted prices included in level 1 that are observable for the asset and liability directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 – – baseline data to an asset or liability not based on observable market data (non-observable inputs).

For the purposes of fair value disclosure, the Bank has defined classes of assets and liabilities based on the nature, characteristics, risks and level of the fair value hierarchy of the asset or liability as described above.

	Fair value measurement			
December 31, 2022	**Quoted prices in active markets (Level 1)**	**Significant observable baseline data (Level 2)**	**Significant observable baseline data (Level 3)**	**Total**
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Derivative financial instruments	-	2,549	-	**2,549**
Financial assets measured at fair value through other comprehensive income				
- Debt tools	-	4,551,296	-	**4,551,296**
Assets for which fair value is disclosed				
- Cash and cash equivalents	3,180,144	-	-	**3,180,144**
- Claims against 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 value is disclosed				
- Obligations to customers	-	582,925	-	**582,925**
- Issued debt securities	-	1,477,310	-	**1,477,310**
- Obligations to banks	-	-	7,822,723	**7,822,723**

(thousand Armenian dram)

- Other borrowed funds	-	-	3,243,878	**3,243,878**
- Lease Obligations	-	-	1,787,052	**1,787,052**
- Other financial obligations	-	-	844,645	**844,645**

28. Fair value measurement (continuation)

Fair Value Hierarchy (continuation)

	Fair value measurement			
December 31, 2021	**Quoted prices in active markets (Level 1)**	**Significant observable baseline data (Level 2)**	**Significant observable baseline data (Level 3)**	**Total**
Financial assets measured at fair value through other comprehensive income				
- Debt tools	-	5,116,897	-	**5,116,897**
Assets for which fair value is disclosed				
- Cash and their equivalents	2,412,544	-	-	**2,412,544**
- Claims against banks	-	-	-	**-**
- Other financial assets	-	-	132,341	**132,341**
- Loans to customers	-	-	49,745,502	**49,745,502**
Liabilities for which fair value is disclosed				
- Obligations to customers	-	-	-	**-**
- Issued debt securities	-	419,884	-	**419,884**
- Obligations to banks	-	-	7,376,162	**7,376,162**
- Other borrowed funds	-	-	30,743,440	**30,743,440**
- Lease Obligations	-	-	1,344,542	**1,344,542**
- Other financial obligations	-	-	474,098	**474,098**

(thousand Armenian dram)

7. Fair value measurement (continuation)

Fair Value Hierarchy (continuation)

Below is a comparison of the book values and fair values of the Bank's financial instruments by classes, which are not accounted for 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.

	Book value as of December 31, 2022	Actual value as of December 31, 2022	Unrecognized benefit/(loss) as of December 31, 2022	Book value as of December 31, 2021	Book value as of December 31, 2021	Unrecognized profit/(loss) 2021 As of December 31
Financial assets						
Cash and cash equivalents	3,180,144	3,180,144	-	2,412,544	2,412,544	-
Claims against banks	110,319	110,319	-	-	-	-
Investment securities	4,551,296	4,551,296	-	5,116,897	5,116,897	-
Loans to customers	56,410,990	52,987,417	3,423,573	52,318,930	49,745,502	2,573,428
Other financial assets	176,915	176,915	-	132,341	132,341	-
Financial obligations						
Derivative financial liabilities	2,549	2,549	-	-	-	-
Obligations to customers	582,925	582,925	-	-	-	-
Obligations to banks	7,765,422	7,822,723	(57,301)	7,301,491	7,376,162	(74,671)
Issued debt securities	1,451,539	1,477,310	(25,771)	413,487	419,884	(6,397)
Other borrowed funds	3,333,190	3,243,878	89,312	27,623,994	30,743,440	(3,119,446)
Lease Obligations	1,787,052	1,787,052	-	1,344,542	1,344,542	-
Other financial obligations	844,645	844,645	-	474,098	474,098	-
Total unrecognized change in fair value	80,196,986	76,767,173	3,429,813	97,138,324	97,765,410	(627,086)

Valuation methods and assumptions

The following describes the methods and assumptions used to determine the fair values of assets and liabilities measured at fair value in the financial statements and those not measured at fair value in the statement of financial situation but for which fair value is disclosed.

Financial assets and liabilities that are liquid or have a short maturity (less than three months); it is assumed that their book values are assumed to approximate fair value. This assumption also applies to demand deposits and savings accounts with no fixed maturity date.

27. Fair value measurement (continuation)

Valuation Methods and Assumptions (continued)

Assets whose fair value approximates book value

Financial assets and liabilities that are liquid or have a short maturity (less than three months); it is assumed that their book values are assumed to approximate fair value. This assumption also applies to demand deposits and savings accounts with no fixed maturity date.

(thousand Armenian dram)

Financial assets and liabilities accounted for at amortized cost

The fair value of loans to customers, other borrowings, liabilities to banks and lease liabilities is estimated by discounting future cash flows based on prevailing interest rates for the applicable debt with similar terms, credit risk and maturity term.

Derivative instruments

Derivative instruments that are valued using the valuation method using observable market inputs are primarily interest rate, foreign exchange swap and forward contracts. The most commonly used valuation methods include forward pricing and swap models using present value calculations. The models incorporate various inputs, including counterparty credit quality, foreign exchange spot rates, forward rates and interest rate curves.

Financial assets measured at fair value through other comprehensive income

Investment securities are measured using valuation methods or pricing models and consist mainly of RA government debt securities. These securities are valued using yield curves that include data observable in the market and published by the Central Bank.

Related Party Disclosures

According to IAS 24 Related Party Disclosures, parties are considered related if one party has the ability to control or significantly influence the operational and financial decisions of the other party. With respect to each related party, attention is paid to the substance of the relationship and not merely to the legal form.

Related parties may enter into transactions that may not occur between unrelated parties, and the prices and terms of transactions between related parties may differ from the prices and terms of transactions with unrelated parties.

26. Related Party Disclosures (continuation)

The balances of related party transactions are as follows:

	2022			2021		
	Shareholders	Key management personnel and their family members	Other related parties	Shareholders	Key management personnel and their family members	Other related parties
Loans and borrowings to customers						
Loan balance as of January 1, gross	**-**	**81**	**459,671**	**-**	**-**	**441,978**
Loans granted during the year	-	42,165	-	-	136	56,300
Loans repaid during the year	-	(18,444)	(432,695)	-	(55)	(38,607)
Another move	-	-	(26,976)	-	-	-
Loan balance as of December 31, gross	**-**	**23.802**	**-**	**-**	**81**	**459,671**
Decrease: Provision for impairment as of December 31	-	(1,195)	-	-	(2)	(9,219)
Loan balance as of December 31, net	**-**	**22,607**	**-**	**-**	**79**	**450,452**
Current accounts as of January 1	-	-	-	-	-	-
Current accounts opened during the year	121,082	5,337	-	-	-	-
As of December 31	**121,082**	**5,337**	**-**	**-**	**-**	**-**
Other borrowed funds as of January 1	**9,468,427**	**-**	**16,329,564**	**13,682,602**	**-**	**12,367,959**

(thousand Armenian dram)

Loans granted during the year	27,211,757	-	-	31,822,190	-	11,080,938
Loans repaid during the year	(15,481,250)		(16,278,719)	(36,038,984)	-	(6,983,778)
Conversion of liability into equity (Note 21)	(21,200,000)		-	-	-	-
Another move	1,066	-	(50,845)	2,619	-	(135,555)
As of December 31	**-**	**-**	**-**	**9,468,427**	**-**	**16,329,564**
Lease liabilities as of January 1	**506,786**	**77,338**	**691,087**	**454,119**	**40,521**	**112,096**
Additions during the year	13,690	454,041	168,185	109,961	48,690	607,123
Interest accrual	51,244	26,296	75,415	51,304	5,236	30,007
Payments during the year	(116,652)	(53,573)	(126,096)	(108,598)	(17,109)	(58,139)
As of December 31	**455,068**	**504,102**	**808,591**	**506,786**	**77,338**	**691,087**
Other assets	-	-	128,234	-	-	3,744
Financial guarantee	-	-	734,400	-	-	1,142,735
Statement of profit or loss						
Interest income calculated at the effective rate	-	2,943	16,400	-	3	38,539
Credit loss expense for loans	-	(1,822)	9,219	-	(4)	815
Interest expense on deposits and current accounts	(100)	(4)	-	-	-	-
Interest expense on other borrowed funds	-	-	(358,758)	-	-	(998,732)
Interest expense on lease liabilities	(51,244)	(26,296)	(75,415)	(51,304)	(5,236)	(30,007)

28. Related Party Disclosures (continuation)

Other related parties include entities whose controlling shares belong to the Bank's shareholders and their family members.

The remuneration paid to the management staff is as follows:

	2022	2021
Salary and other short-term payments	369,257	209,619
Compensation of key management personnel only	**369,257**	**209,619**

27. Change of liabilities emerging from financing activities

	Notice	Issued debt securities	Other borrowed funds	Lease Obligations	Total obligations from financing activities
Book value as of December 31, 2021	**17,18,19**	**413,487**	**27,623,994**	**1,344,542**	**29,382,023**
Entries from the release		1,119,158	28,315,722	-	**29,434,880**
Repayments		-	(30,772,415)	(193,785)	**(30,966,200)**
Foreign currency conversions		(101,444)	(405,773)	-	**(507,217)**
Cashless transactions		-	(21,200,000)	636,295	**(20,563,705)**
Other		20,338	(228,338)	-	**(208,000)**
Book value as of December 31, 2022	**17,18,19**	**1,451,539**	**3,333,190**	**1,787,052**	**6,571,781**
Entries from the release		-	826,125	-	**826,125**
Repayments		-	(285,263)	(21,984)	**(307,247)**
Foreign currency conversions		(17,637)	-	-	**(17,637)**
Cashless transactions		-	119,416	150,344	**269,760**
Other		(787)	-	-	**(787)**
Book value as of June 30, 2023	**17,18,19**	**1,433,116**	**3,993,468**	**1,915,412**	**7,341,996**

The "Other" line includes the net effect of interest paid and accrued on debt securities issued during the year, other borrowed funds and lease obligations. The Bank classifies interest paid as cash flow from operating activities.

Non-cash instruments consist of increases in lease liabilities and borrowings from the Bank's share capital conversion transaction (Notes 18, 19 and 21).

28. Capital Adequacy

The primary objectives of the Bank's capital management are to ensure that the Bank's capital meets the requirements set by the supervisor and that the Bank maintains a strong credit rating and strong capital ratios to strengthen its operations and maximize shareholder returns.

The Bank manages its capital structure and makes appropriate adjustments in accordance with changes in economic conditions and the risks of its operations. To maintain or change the capital structure, the Bank can change the amount of dividends paid to shareholders, return capital to shareholders or issue shares. There have been no changes in goals, policies and processes compared to previous years.

29. Capital adequacy (continuation)

The bank recognizes as a capital the articles defined for the capital of banks by RA legislation. According to the current capital requirements established by the RA Central Bank of Armenia, which are based on the principles of Basel Agreement of 1988, the banks shall ensure that the ratio of capital to risk-weighted assets, as well as the ratio of core capital to risk-weighted assets, is above the specified minimum level. As of June 30, 2023, the minimum level was 11%. As of June 30, 2023, the Bank's capital adequacy ratio corresponds to the established level.