Fast Bank CJSC

Financial statements

For the second quarter period ended 30 June 2023

Contents

Financial statements

Notes to the financial statements

Statement of financial position
As of 30 June 2023
(thousands of Armenian Drams)

	Ծան.	Notes	30/06/23	31/12/22
Assets				
Cash and cash equivalents	5	5	7,781,106	3,180,144
Amounts due from banks	6	6	538,506	110,319
Investment securities	8	8	4,812,764	4,551,296
Investment securities pledged under repurchase agreements			1,075,143	0
Loans to customers	9	9	70,274,976	56,410,990
Property, equipment and right-of-use assets	10	10	3,666,310	2,690,070
Intangible assets	11	11	980,689	613,470
Other assets	14	14	461,932	815,423
Total assets			**89,591,425**	**68,371,710**
Liabilities				
Derivative financial liabilities	7	7	3,091	2,549
Amounts due to customers	15	15	16,959,472	582,925
Amounts due to banks	16	16	9,351,559	7,765,422
Debt securities issued	17	17	1,433,116	1,451,539
Liabilities directly associated with assets held for sale			1,004,197	0
Other borrowed funds	18	18	3,993,468	3,333,190
Lease liability	19	19	1,915,412	1,787,052
Current income tax liabilities			642,423	1,504,320
Deferred income tax liabilities	12	12	2,228,753	2,260,053
Other liabilities	20	20	979,063	950,983
Total liabilities			**38,510,555**	**19,638,032**
Equity				
Share capital	21	21	30,100,000	30,100,000
Retained earnings			21,458,838	19,437,014
Revaluation reserve for investment securities	21	21	(477,967)	(803,336)
Total equity			**51,080,870**	**48,733,678**
Total equity and liabilities			**89,591,425**	**68,371,710**

Signed and authorised for release on behalf of the Management Board of the Bank.
15-Jul-23

Garegin Darbinyan — Chairman of the Management Board

Tatul Tamrazyan — Chief Accountant

Statement of profit or loss and other comprehensive income

As of period ended 30 June 2023

(thousands of Armenian Drams)

	Notes	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 revenue calculated using effective interest rate	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	13	(1,098,260)	(646,114)	(1,920,224)	(1,148,245)
Net interest income after credit loss expense		**2,201,105**	**5,499,555**	**1,318,819**	**4,506,465**
Fee and commission income	24	26,195	38,917	8,951	12,311
Fee and commission expense	24	(5,642)	(18,843)	(8,417)	(13,898)
Net (loss)/gain from financial instruments at fair value through profit or loss		(9,950)	(35,400)	0	0
Net gain/(loss) from foreign currencies		103,979	129,977	1,601,669	1,529,983
-dealing		140,047	304,058	417,996	598,967
-translation difference		(36,068)	(174,081)	1,183,673	931,016
Other income		13,392	27,948	11,740	20,349
Non-interest income		**127,974**	**142,599**	**1,613,944**	**1,548,745**
Personnel expenses	25	(1,121,582)	(2,100,289)	(935,193)	(1,728,785)
Depreciation and amortisation	10,11	(193,710)	(347,215)	(90,080)	(179,874)
Other operating expense	25	(341,643)	(534,129)	(192,846)	(298,684)
Non-interest expense		**(1,656,934)**	**(2,981,633)**	**(1,218,119)**	**(2,207,344)**
Profit before income tax expense		**672,145**	**2,660,520**	**1,714,644**	**3,847,866**
Income tax expense	12	(261,580)	(638,697)	(34,645)	(463,033)
Profit for the period		**410,564**	**2,021,824**	**1,679,999**	**3,384,832**
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Net change in fair value of debt instruments at fair value through other comprehensive income		300,347	381,495	(107,488)	(392,252)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		15,296	15,296	(12,451)	(12,451)
Income tax relating to components of other comprehensive income	12	(56,816)	(71,422)	21,589	72,846
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**258,827**	**325,368**	**(98,350)**	**(331,856)**
Other comprehensive (loss)/income for the year, net of tax		**258,827**	**325,368**	**(98,350)**	**(331,856)**
Other comprehensive income for the year, net of tax		**258,827**	**325,368**	**(98,350)**	**(331,856)**
Total comprehensive income for the year		**669,391**	**2,347,192**	**1,581,649**	**3,052,976**

The accompanying notes from 5 to 51 are an integral part of these financial statements.

Statement of changes in equity

As of period ended 30 June 2023

(thousands of Armenian Drams)

	Share capital	*Revaluation reserve for investment securities*	*Retained earnings*	*Total equity*
Balance as at 1 January 2022	**7,000,000**	**(351,536)**	**15,530,279**	**22,178,743**
Total comprehensive income				
Profit for the year	–	–	3,384,832	**3,384,832**
Other comprehensive (loss)/gain for the period	–	(331,856)	–	**(331,856)**
Total comprehensive income for the period	**–**	**(331,856)**	**3,384,832**	**3,052,976**
Balance as at 30 June 2022	**7,000,000**	**(683,392)**	**18,915,111**	**25,231,719**
Balance as at 1 January 2023	**30,100,000**	**(803,336)**	**19,437,014**	**48,733,678**
Total comprehensive income				
Profit for the year	–	–	2,021,824	**3,384,832**
Other comprehensive (loss)/gain for the period	–	325,368	–	**(325,368)**
Total comprehensive income for the period	**–**	**325,368**	**2,021,824**	**2,347,194**
Balance as at 30 June 2023	**30,100,000**	**(477,968)**	**21,458,838**	**51,080,870**

The accompanying notes from 5 to 51 are an integral part of these financial statements.

Statement of cash flows

As of period ended 30 June 2023

(thousands of Armenian Drams)

	01/01/2023-30/06/2023	*01/01/2022-30/06/2022*
Cash flows from operating activities		
Interest received	6,737,339	6,285,552
Interest paid	(605,495)	(2,241,274)
Commission fees received	15,102	11,641
Commission fees paid	26,412	(13,201)
Benefits from foreign exchange trading operations/(loss)	167,973	674,636
Salary paid-other equivalent payments	(2,181,562)	(1,476,860)
Other operating income, other expenses paid	(797,004)	(615,727)
Cash flow from changes in operating assets and liabilities	**3,362,767**	**2,624,767**
(Increase)/decrease in operating assets		
Loans to customers	(14,589,399)	(6,804,747)
Other assets	(427,644)	–
Net increase/(decrease) in operating liabilities		
Amounts payable under repurchase agreements	911,551	489,896
Amounts due to customers	16,580,983	–
Net cash used in operating activities before income taxes and interest	**5,918,259**	**(3,690,084)**
Income tax paid	(1,642,307)	–
Net cash flow from operating activities before income taxes are paid	**4,275,951**	**(3,690,084)**
Cash flows from investing activities		
Investment stocks (increase)/decrease	(916,477)	–
Purchase of property and equipment, intangible assets	(902,348)	(723,889)
Alienation of property	701	2,798
Net cash (used in) investing activities	**(1,818,125)**	**(721,091)**
Cash flows from financing activities		
Increase/Decrease in loans involved	2,350,215	6,621,043
Net cash from financing activities	**2,350,215**	**6,621,043**
Effect of exchange rates changes on cash and cash equivalents	(205,460)	(342,973)
Effect of expected credit losses on cash and cash equivalents	(1,620)	(880)
Net increase in cash and cash equivalents	**4,600,962**	**1,866,015**
Cash and cash equivalents, beginning	3,180,144	2,412,544
Cash and cash equivalents, ending	**7,781,106**	**4,278,559**

The accompanying notes from 5 to 51 are an integral part of these financial statements.

(thousands of Armenian Drams)

1. Principal activities

a) Organisation and operations

Fast Bank CJSC (the "Bank") former Fast Credit UCO CJSC, was established in the Republic of Armenia as a closed joint stock company in October 2011. The organization received a credit organization license in 14 October 2011. Having more than 28 years of experience in the financial sector, with the goal of becoming a bank, the organization has actively implemented large-scale transformational measures in recent years in the direction of financial, human resource integration, as well as risk management. According to the decision of the Central Bank of RA on 9 November 2022, Fast Credit Capital UCO CJSC received a banking activity license and henceforth is known as Fast Bank CJSC. The activity of the Bank is regulated by the Central Bank of Armenia (the CBA). The Bank is a member of the state deposit insurance system in the Republic of Armenia.

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

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

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

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

b) Armenian business environment

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

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia. It is expected that the war will have a significant impact on the Armenian economy.

As a result of the war there was an influx of non-residents (especially from Russia) to Armenia contributing to significant increase in the volume of money inflows from Russia, Ukraine and Belarus and activation of plastic cards transactions, which has had positive impact on the Armenian economy with the resulting double-digit growth and increased inflation rate. The Bank's management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Bank as there is uncertainty over the magnitude of the impact on the economy in general.

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(thousands of Armenian Drams)

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

The AMD is also the presentation currency for the purposes of these financial statements. The official CBA exchange rates as at 30 June 2023 and 31 December 2022, were AMD 386.06 and AMD 393.57 to 1 USD and AMD 418.95 and AMD 420.06 to EUR 1, respectively.

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

3. Summary of accounting policies

a) Changes in accounting policies

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately.
The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

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

In accordance with the transitional provisions, the Bank applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement.*

(thousands of Armenian Drams)

3.Summary of accounting policies (continued)

(a) Changes in accounting policies (continued)

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Bank as there were no significant modifications of the Bank's financial instruments during the period.

The amendments did not have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Bank cannot avoid because it has the contract) exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments did not have a material impact on the Bank.

b) Significant accounting policies

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

Foreign currency transactions

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

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

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

Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences.

Cash and cash equivalents

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

Interest

Effective interest rate

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

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.
The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.
However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

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

Presentation

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

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

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

Fees and commission

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

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

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

Financial assets and financial liabilities

Financial assets

i. Classification

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

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

Business model assessment

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

The information considered includes:

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

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

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

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

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

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

Financial liabilities

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

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

iii. Repurchase and reverse repurchase agreements

Repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks or customers.

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

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

iv. ***Offsetting***

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

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

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

v. Modification of financial assets and financial liabilities

Financial assets

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

Write-off

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

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

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

Loans to customers

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

Investment securities

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

Property and equipment

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

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

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

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

Depreciation

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer and software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 to 10 years.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Bank can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit.

Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.
Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.
Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

Precious metals

Gold and other precious metals are recorded at London Bullion Market rates, which approximate fair values.

Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the 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 the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

Provisions

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

Derivative financial instruments

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

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

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

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

Share capital

Ordinary shares

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

Dividends

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

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

Taxation

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

Current tax

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

Deferred tax

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

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

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

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

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

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

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Chief operating decision maker evaluates the Bank as a single operating segment, based on its reported IFRS results. Majority of the Bank’s income and assets are located in Armenia. There was no single external counterparty amounting to more than 10% of Bank’s revenue for 2022 or 2021.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by 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 lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank’s incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities separately in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

(b) Significant accounting policies (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

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

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

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Bank is currently assessing the impact of the amendments.

(thousands of Armenian Drams)

4. Significant accounting judgments and estimates

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

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

Measurement of fair values

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 27.

Impairment losses on loans to customers

The measurement of impairment losses on loans to customers under IFRS 9 requires judgement, in particular the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies (see Note 26). Elements of the ECL models that are considered accounting judgements and estimates include:

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

The amount of allowance for loans to customers impairment recognized in statement of financial position at 31 December 2022 was AMD 2,729,952 thousand (2021: AMD 3,812,656 thousand). More details are provided in Note 9.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30/06/23	***31/12/22***
Cash on hand	3,953,546	2,266,322
Current accounts with other banks	212,432	665,675
Current accounts with the Central Bank, including obligatory reserves (not restricted part, see Note 6)	3,617,867	249,266
Impairment	(2,739)	(1,119)
Cash and cash equivalents	**7,781,106**	**3,180,144**

As of 30 June 2023, current accounts with Central Bank of Armenia include obligatory reserves in amount of AMD 419,924 thousand (2021: 85,268 thousand AMD).

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

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

(thousands of Armenian Drams)

5. Cash and cash equivalents (continued)

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

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

	01/01/2023-30/06/2023	***01/01/2022-31/12/2022***
ECL allowance as at 1 January	**1,119**	**1,394**
Changes in ECL	1,620	(275)
At 31 December	**2,739**	**1,119**

Information about credit quality of cash and cash equivalents is presented in Note 26 "Risk management".

6. Amounts due from banks

Amounts due from banks comprise:

	30/06/23	***31/12/22***
Mandatory reserves in CBA (in foreign currencies) (Note 5)	110,377	110,377
Impairment	(58)	(58)
	110,319	**110,319**

As of 30 June 2023, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 540,897 thousand (2022: 112,928) (See Note 5).

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

	30/06/23	***31/12/22***
ECL allowance as at 1 January	58	–
Changes in ECL	225	58
At 31 December	**283**	**58**

Information about credit quality of amounts due from banks is presented in Note 26 "Risk management".

(thousands of Armenian Drams)

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	30/06/2023		*31/12/2022*	
	Notional amount	***Fair value***	***Notional amount***	***Fair value***
Assets				
Derivative financial instruments				
Forwards and swaps domestic	–	–	–	–
	–	**–**	**–**	**–**
Liabilities				
Derivative financial instruments				
Forwards and swaps domestic	1,930,300	3,091	1,967,850	2,549
	1,930,300	**3,091**	**1,967,850**	**2,549**

8. Investment securities

Investment securities as at 30 June 2023 and 31 December 2022 comprise:

	30/06/2023	*31/12/2022*
Debt securities at FVOCI		
Government securities of the Republic of Armenia	4,812,764	4,551,296
	4,812,764	**4,551,296**
	1,075,143	0
	1,075,143	**0**

Information about credit quality of debt instruments is presented in Note 26 “Risk management”.
An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Fair value as at 1 January 2023	**4,551,296**	**4,551,296**
New assets originated or purchased	1,200,926	**1,200,926**
Assets repaid	(245,810)	**(245,810)**
Net change in fair value	381,495	**381,495**
At 30 June 2023	**5,887,906**	**5,887,906**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2023	**58,083**	**52,083**
Changes in ECL	15,296	**15,296**
At 30 July 2023	**67,379**	**67,379**

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

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

(thousands of Armenian Drams)

9. Loans to customers

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

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

Allowance for impairment of loans to customers at amortised cost

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

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

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

(thousands of Armenian Drams)

9. Loans to customers (continued)

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

In 2022, the Bank amended presentation of gross carrying value and ECL movements for the year ended 31 December 2021 to conform with current period presentation.

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to customers during the year ended 31 December 2021 is as follows:

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2021	**27,578,055**	**9,519,440**	**12,612,794**	**49,710,289**
New assets originated or purchased	49,125,297	–	–	**49,125,297**
Assets repaid	(25,149,213)	(7,153,150)	(9,279,784)	**(41,582,147)**
Transfers to Stage 1	232,533	(231,861)	(672)	**–**
Transfers to Stage 2	(13,331,411)	14,138,392	(806,981)	**–**
Transfers to Stage 3	(9,710,256)	(1,052,854)	10,763,110	**–**
Recoveries	–	–	340,072	**340,072**
Amounts written off	–	–	(1,045,226)	**(1,045,226)**
Foreign exchange adjustments	(331,213)	(48,039)	(37,447)	**(416,699)**
At 31 December 2021	**28,413,792**	**15,171,928**	**12,545,866**	**56,131,586**

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**217,737**	**358,034**	**1,524,332**	**2,100,103**
New assets originated or purchased	586,306	**–**	**–**	**586,306**
Assets repaid	(198,561)	(269,036)	(1,121,518)	**(1,589,115)**
Transfers to Stage 1	23,937	(23,937)	**–**	**–**
Transfers to Stage 2	(171,895)	277,847	(105,952)	**–**
Transfers to Stage 3	(128,354)	(52,993)	181,347	**–**
Changes to models and inputs and other movements	32,764	787,614	2,600,138	**3,420,516**
Recoveries	–	–	340,072	**340,072**
Amounts written off	–	–	(1,045,226)	**(1,045,226)**
At 31 December 2021	**361,934**	**1,077,529**	**2,373,193**	**3,812,656**

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Gold and precious metals;
- Real estate

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

(thousands of Armenian Drams)

9. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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

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

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*					*Net Exposure*	*Associa-ted ECL*
		Property	*Gold*	*Other*	*Surplus*	*Total collateral*		
31-Dec-21								
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 retail loans	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**

Assets under lien

As at 30 June 2023, loans to customers with a gross value of AMD 3,392,908 thousand (2022: AMD 3,290,742 thousand) serve as collateral for other borrowed funds (see Note 18).

Concentration of loans to customers

As of 30 June 2023 and 31 December 2021 the Bank does not have material concentration of loans represented by third-party entities.

Loans have been extended to the following types of 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	−
Government organizations	191,775	−
Gross loans to customers	**72,985,023**	**59,140,942**
Less: allowance for impairment	(2,710,048)	(2,729,952)
Loans to customers	**70,274,976**	**56,410,990**

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

	2022	*2021*
Individuals	67,230,498	57,618,831
Services	1,982,955	350,459
Trading enterprises	1,353,364	874,689
Construction	929,719	34,887
Agriculture and food processing	674,050	116,221
Financial sector	371,565	−
Manufacturing	251,098	131,628
Other	−	14,227
Gross loans to customers	**72,985,023**	**59,140,942**
Less: allowance for impairment	(2,710,048)	(2,729,952)
Loans to customers	**70,274,976**	**56,410,990**

(thousands of Armenian Drams)

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

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

	Land and buildings	*Leasehold improve-ments*	*Compu-ters and communi-cation equipment*	*Motor vehicles*	*Fixtures and Fittings*	*Property, equipment*	*Right-of-use assets*	*Total*
Cost								
31 December 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**
Disposals and write-offs	-	-	-	(5,941)	(96)	**(6,037)**	-	**(6,037)**
30 June 2023	**132,890**	**440,297**	**888,145**	**184,459**	**1,358,569**	**3,004,360**	**2,388,011**	**5,392,371**
Accumulated depreciation and impairment								
31 December 2022	**45,664**	**33,897**	**393,056**	**154,322**	**235,767**	**862,706**	**576,619**	**1,439,325**
Depreciation charge	3,344	5,971	97,545	1,671	53,423	**161,954**	130,820	**292,775**
Disposals and write-offs	-	-	-	(5,941)	(96)	**(6,037)**	-	**(6,037)**
31 December 2023	**49,008**	**39,868**	**490,601**	**150,052**	**289,094**	**1,018,623**	**707,439**	**1,726,062**
Net book value								
30 June 2023	**83,882**	**400,429**	**397,544**	**34,407**	**1,069,475**	**1,985,737**	**1,680,572**	**3,666,309**

	Land and buildings	*Leasehold improve-ments*	*Compu-ters and communi-cation equipment*	*Motor vehicles*	*Fixtures and Fittings*	*Property, equipment*	*Right-of-use assets*	*Total*
Cost								
31 December 2021	**130,130**	**93,671**	**370,550**	**168,167**	**398,151**	**1,160,669**	**1,601,372**	**2,762,041**
Additions	–	104,038	234,548	–	407,739	**746,325**	636,295	**1,382,620**
Disposals and write-offs	–	–	(12,799)	–	(2,468)	**(15,267)**	–	**(15,267)**
31 December 2022	**130,130**	**197,709**	**592,299**	**168,167**	**803,422**	**1,891,727**	**2,237,667**	**4,129,394**
Accumulated depreciation and impairment								
31 December 2021	**39,108**	**27,162**	**324,310**	**150,966**	**179,243**	**720,789**	**354,071**	**1,074,860**
Depreciation charge	6,556	6,735	81,392	3,356	58,993	**157,032**	222,548	**379,580**
Disposals and write-offs	–	–	(12,646)	–	(2,469)	**(15,115)**	–	**(15,115)**
31 December 2022	**45,664**	**33,897**	**393,056**	**154,322**	**235,767**	**862,706**	**576,619**	**1,439,325**
Net book value								
31 December 2022	**84,466**	**163,812**	**199,243**	**13,845**	**567,655**	**1,029,021**	**1,661,048**	**2,690,069**

(thousands of Armenian Drams)

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

Right-of-use assets include only buildings.

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

As of 30 June 2023 property and equipment included assets in the phase of installation in amount of AMD 475,703 thousand (2022: AMD 148,156 thousand).

11. Intangible assets

The movements in other intangible assets were as follows:

	Licenses	*Computer Software*	*Development cost*	*Total*
Cost				
31 December 2022	**116,334**	**365,843**	**205,436**	**687,613**
Additions	95,625	189,828	123,628	409,081
30 June 2023	**211,959**	**555,671**	**329,064**	**1,096,694**
Accumulated amortisation and impairment				
31 December 2022	**53,278**	**20,865**	**-**	**74,143**
Amortization charge	15,103	26,759	-	41,862
30 June 2022	**68,381**	**47,624**	**-**	**116,005**
Net book value				
31 December 2022				
30 June 2023	**63,056**	**344,978**	**205,436**	**613,470**

	Licenses	*Computer Software*	*Development cost*	*Total*
Cost				
31 December 2021	**55,679**	**12,230**	**–**	**67,909**
Additions	60,655	353,613	205,436	619,704
31 December 2022	**116,334**	**365,843**	**205,436**	**687,613**
Accumulated amortisation and impairment				
31 December 2020	**27,210**	**9,165**	**–**	**36,375**
Amortization charge	26,068	11,700	–	37,768
31 December 2021	**53,278**	**20,865**	**–**	**74,143**
Net book value				
31 December 2020	**28,469**	**3,065**	**–**	**31,534**
31 December 2021	**63,056**	**344,978**	**205,436**	**613,470**

Development costs include internally developed Mobile Banking and online banking systems' related costs, which are not available for use yet.

(thousands of Armenian Drams)

12. Taxation

The corporate income tax expense comprises:

	01/01/2023-30/06/2023	*01/01/2022-30/06/2022*
Current tax charge	717,483	205,124
Deferred tax credit − origination and reversal of temporary differences	(78,786)	257,909
Income tax expense	**638,697**	**263,033**

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

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

	2022	*2021*
Profit before income tax	**7,123,785**	**5,812,386**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**1,282,281**	**1,046,229**
Non-deductible expenses	19,557	−
Tax exempt income	(109,438)	(45,347)
Under provided in prior period	58,239	11,349
Utilised tax losses carried forward, not recognized previously	(33,590)	−
Income tax expense	**1,217,049**	**1,012,231**

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

		Origination and reversal of temporary differences					
	Balance 1 January 2021	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2021*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 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 asset	(175,308)	(49,206)	−	(224,514)	(74,933)	−	(299,447)
Other assets	(922)	(4,068)	−	(4,990)	(5,504)	−	(10,494)
Other borrowed funds	−	−	−	−	6,776	−	6,776
Financial liabilities measured at FVTPL	−	−	−	−	203	−	203
Lease liability	185,641	56,422	−	242,063	79,645	−	321,708
Other liabilities	36,346	980	−	37,326	55,976	−	93,302
Tax loss carry forwards	−	33,590	−	33,590	(33,590)	−	−
Deferred tax liabilities, net	**(1,737,485)**	**(1,000,882)**	**59,470**	**(2,678,897)**	**319,669**	**99,176**	**(2,260,052)**

(thousands of Armenian Drams)

13. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 30 June 2023:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(1,619)	–	–	**(1,619)**
Amounts due from banks	6	(225)	–	–	**(225)**
Loans to customers at amortised cost	9	(794,928)	(52,138)	243,611	**(603,455)**
Debt securities measured at FVOCI	8	(15,296)	–	–	**(15,296)**
Other financial assets	14	3,774	–	–	**3,774**
Financial guarantees	20	(29,293)	–	–	**(29,293)**
Total credit loss expense		**(837,587)**	**(52,138)**	**243,611**	**(646,114)**

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	275	–	–	**275**
Amounts due from banks	6	58	–	–	**58**
Loans to customers at amortised cost	9	(78,370)	568,712	(1,139,191)	**(648,849)**
Debt securities measured at FVOCI	8	13,527	–	–	**13,527**
Other financial assets	14	2,166	–	–	**2,166**
Financial guarantees	20	(30,184)	–	–	**(30,184)**
Total credit loss expense		**(92,528)**	**568,712**	**(1,139,191)**	**(663,007)**

14. Other assets

Other assets comprise:

	30/06/2023	*31/12/2022*
Other receivables	112,080	185,446
Less: allowance for impairment of other financial assets	(4,757)	(8,531)
Total other financial assets	**107,322**	**176,915**
Prepayments	224,296	440,126
Repossessed assets	107,037	110,443
Prepaid taxes other than 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**

An analysis of changes in the ECLs for other financial assets for the year ended 30 June 2023 is as follows:

	Stage1	*Total*
ECL at 1 January 2023	**8,531**	**8,531**
Changes in ECL	(3,774)	**(3,774)**
At 30 December 2023	**4,757**	**4,757**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2021 is as follows:

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

(thousands of Armenian Drams)

15. Amounts due to customers

Current accounts and deposits from customers include the following:

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

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

	30/06/2023	*31/12/2022*
Individuals	9,290,120	344,249
Financial institutions	4,457,508	95,902
Other entities	2,764,740	83,799
Employees	420,726	54,968
Government organizations	21,859	0
Private enterprises	4,520	4,007
Amounts due to customers	**16,959,472**	**582,925**

At 30 June 2023, current accounts and deposits from customers of AMD 12,199,424 thousand (72.5%) were due to the ten largest customers (2021: 464.729 thousand AMD).
As at 30 June 2023, the Bank has no customers (2022: none) whose balances exceed 10% of equity.
In accordance with the Armenian legislation, Bank is obliged to repay deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

16. Amounts due to banks

Amounts due to banks include the following:

	30/06/2023	*31/12/2022*
Loans from banks	9,351,559	7,765,422
Reverse Repo agreements	1,004,197	0
Total	**10,355,756**	**7,765,422**

As of 30 June 2023, the Bank had loans from 4 Armenian commercial banks (2022: 6 banks).
As of 30 June 2023, amounts due to banks include AMD denominated loans with the total amount of 448,091 thousand (2022: 762,009 thousand) and annual interest rate of 12.5% (2022: 12.5%) and USD denominated loans with the total amount of 8,903,343 thousand (2021: 7,003,413 thousand) and annual interest rate of 6-8.0% (2022: 6.5-8.0%).
The contractual maturity of AMD and USD denominated loans ranges from 2023-2025.

17. Debt securities issued

Debt securities issued consisted of the following:

	30/06/2023	*31/12/2022*
Domestic bonds in USD	920,053	938,276
Domestic bonds in AMD	513,062	513,263
Debt securities issued	**1,433,116**	**1,451,539**

During the third quarter of 2022, the Bank issued AMD and USD bonds with nominal amount of AMD 500,000 thousand and USD 1,501 thousand accordingly.
Bonds, denominated in AMD, bear annual interest rate of 11.5% and USD denominated bonds, bear annual interest rate of 6.25 and 6.5%. The contractual maturity of AMD and USD bonds ranges from 2023-2024.

(thousands of Armenian Drams)

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

18. Other borrowed funds

Other borrowed funds consisted of the following:

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

In 2023. As of June 30, the bank had other borrowed funds from one lender, the balance of which exceeded 10% of equity. The gross value of these balances in 2023.As of June 30, it amounted to 4,640,302 thousand drams of the Republic of Armenia. In 2022. As of December 31, the bank had no other borrowed funds from creditors whose balance exceeds 10% of equity.

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

As at 31 June 2023, loans to customers with a gross value of AMD 3,392,908 thousand (2022: AMD 3,290,742 thousand) serve as collateral for secured borrowings from refinancing financial organizations with a carrying value of AMD 3,856,431 thousand (2022: AMD 3,195,810 thousand) (see Note 9).

19. Lease liability

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

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

The Bank had total cash outflows for leases of AMD 117,625 thousand before 30 June 2023 (2022: AMD 381,471 thousand).

In second quarter of 2023 the Bank also had non-cash additions to right-of-use assets in amount of AMD 150,344 thousand and additions to lease liabilities in amount of AMD 150,344 thousand (2022: AMD 636,295 thousand each of them).

20. Other liabilities

	30/06/2023	***31/12/2022***
Accounts payable	323,877	316,021
Payables to employees	488,345	498,440
Provision for guarantees	59,476	30,184
Total other financial liabilities	**871,698**	**844,645**
Non-income tax payable	107,365	106,338
Total other non-financial liabilities	**107,365**	**106,338**
Total other liabilities	**979,063**	**950,983**

(thousands of Armenian Drams)

21. Equity

Issued capital

As of 31 June 2022 the Bank's share capital was AMD 30,100,000 thousand (2021: 30,100,000 thousand).
The authorized, issued and outstanding share capital comprises 1,400,000 ordinary shares (2022: 1,400,000 ordinary shares) with a par value of AMD 21,500 (2022: AMD 5,000) each.

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

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

Nature and purpose of reserves

Revaluation reserve for investment securities

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

Dividends

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

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

22. Commitments and contingencies

Operating environment

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

Legal

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

Taxation

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

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

(thousands of Armenian Drams)

22. Commitments and contingencies (continued)

Commitments and contingencies

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

	30/06/2023	*30/12/2022*
Credit related commitments		
Financial guarantees	1,486,910	754,600
Commitments and contingencies	**1,486,910**	**754,600**

23. Net interest income

Net interest income comprises:

	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 measured 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 revenue calculated using 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
Amounts due to banks	169,793	325,147	249,255	433,801
Amounts due to customers	182,677	212,899	0	0
Lease liabilities	45,522	88,431	29,994	66,022
Debt securities issued	64,751	85,390	5,583	5,583
Amounts payable under repurchase agreements	28,673	57,169	6,132	12,606
Amounts due to customers	24,932	54,819	0	0
Other	**578,025**	**943,270**	**869,845**	**1,594,563**
Interest expense	**3,299,364**	**6,145,669**	**3,239,042**	**5,654,710**
Net interest income	61,678	119,416	578,882	1,076,551

(thousands of Armenian Drams)

24. Net fee and commission income

Net fee and commission income comprise:

	01/04/2023-30/06/2023	*01/01/2023-30/06/2023*	*01/04/2022-30/06/2022*	*01/01/2022-30/06/2022*
Guarantees	16,021	20,726	8,350	10,453
Cash operations	8,357	13,793	0	0
Insurances	615	2,333	553	1,119
Service fee for account maintenance	450	600	0	0
Money transfers	17	17	0	0
Other	735	1,448	48	739
Fee and commission income	**26,195**	**38,917**	**8,951**	**12,311**
Settlements operations	1,925	6,038	21	21
Cash operations	1,900	7,029	3,396	6,899
Foreign exchange deals	1,393	4,844	0	0
Money transfers	252	417	878	1,167
Service fee for account maintenance	151	375	3,216	4,285
Plastic card maintenance services	0	12	3	27
Securities operations	0	0	0	3
Other	21	129	903	1,496
Fee and commission expense	**5,642**	**18,843**	**8,417**	**13,898**
Net fee and commission expense	**20,553**	**20,074**	**535**	**(1,587)**

25. Personnel and Other operating expenses

Personnel and other operating expenses comprise:

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

(thousands of Armenian Drams)

25. Personnel and Other operating expenses (continued)

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***
Repairs and maintenance	55,986	82,348	25,511	46,398
Office supplies	36,342	70,891	34,021	49,172
Marketing and advertising	56,000	66,097	800	800
Security	49,739	69,058	23,201	31,456
Charity	27,400	58,254	24,171	46,973
Professional services	28,519	41,570	11,355	13,280
Non-refundable taxes and duties other than on income	10,983	20,991	9,988	18,681
Membership fees	12,875	20,518	8,004	13,273
Communications	10,252	16,226	7,500	12,185
Entertainment	4,280	8,715	10,749	12,856
Expenses of disbursement and collection of loans	3,468	8,218	1,050	1,978
Operating lease expenses	3,143	7,913	8,820	13,345
Representation expenses	2,990	6,190	6,942	6,012
Financial system mediator expenses	3,190	5,398	3,895	5,898
Business travel and related expenses	1,370	2,736	2,388	10,511
Deposit insurance expenses	1,867	2,635	4,190	4,266
Personnel training	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 recognised rent expense from short-term leases of AMD 1,488 thousand and leases of low-value assets of AMD 4,702 thousand for the year ended 30 June 2023 (At 30 June 2022 − rent expense from short-term leases of AMD 900 thousand and leases of low-value assets of AMD 2.112 thousand).

26. Risk management

Introduction

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

Risk management system

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

The Bank’s Board

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

The Bank Management/Chief Executive Officer

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

Risk management department
The risk management department is responsible for the development and implementation of risk management

(thousands of Armenian Drams)

26.Risk management (continued)

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

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

Asset and Liability Management Committee

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

Internal audit

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

Risk assessment and reporting systems

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

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

Introduction (continued)

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

Risk mitigation

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

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

Overconcentration of risks

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

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

(thousands of Armenian Drams)

26.Risk management (continued)

Credit risk

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

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

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

Impairment assessment

The Bank calculates ECL under a number of probability-weighted scenarios to estimate expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

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

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

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

Definition of Default

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

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

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

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

PD estimation process

Loans to customers

Grouping

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

- Gold-secured loans
- Mortgage loans,
- Consumer loans,
- Corporate loans.

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

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

Exposure at default

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

Loss given default

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

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

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

Significant increase in credit risk

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

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

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

Forward-looking information and multiple economic scenarios

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

- GDP annual growth, %;
- USD/AMD exchange rates US dollar/Dram exchange rate (at the end of period);
- Change of net government accounts with the CBA, billion AMD;
- Unemployment rate, %.

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

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

Key drivers	*ECL scenario*	*Assigned probabilities,%*	*2023*	*2024*	*2025*
GDP annual growth, %					
	Upside	15%	7.50%	6.90%	7.10%
	Base case	70%	4.40%	3.80%	4.00%
	Downside	15%	0.50%	0.10%	0.10%
USD/AMD exchange rate					
	Upside	15%	418	445	460
	Base case	70%	438	465	490
	Downside	15%	458	485	520
Change of net government accounts with the CBA, billion AMD					
	Upside	15%	(448)	(429)	(447)
	Base case	70%	(373)	(354)	(372)
	Downside	15%	(298)	(279)	(297)
Unemployment rate, %					
	Upside	15%	14.0%	13.9%	13.8%
	Base case	70%	16.0%	17.9%	19.8%
	Downside	15%	19.0%	23.9%	28.8%

Credit quality per class of financial assets

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

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

The following table provides information on the credit quality of gross loans to legal entities and individuals as at 31 December 2022 and 31 December 2021:

	30 June 2023			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Gold secured loans				
− not overdue	30,578,066	8,820,160	841,789	40,240,015
− overdue of less than 30 days	53,953	4,402,548	397,693	4,854,193
− overdue of 30-89 days	−	4,344,489	665,556	5,010,044
− overdue of 90-179 days	−	28,731	1,889,601	1,918,332
− overdue of 180-270 days	−	−	592,326	592,326
− overdue more than 270 days	−	−	884,080	884,080
Total gross gold secured loans	**30,632,019**	**17,595,926**	**5,271,044**	**53,498,990**
Credit loss allowance	(244,412)	(676,796)	(1,423,271)	(2,344,479)
Total net gold secured loans	**30,387,607**	**16,919,130**	**3,847,774**	**51,154,511**
Mortgage and other loans secured by real estate				
− not overdue	10,607,744	484,086	78,138	11,169,968
− overdue of less than 30 days	−	109,097	−	109,097
− overdue of 30-89 days	−	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 allowance	(14,294)	(41,087)	(41,211)	(96,592)
Total net mortgage and other loans secured by real estate	**10,593,450**	**606,282**	**39,006**	**11,238,738**
Other corporate loans				
− not overdue	5,585,694	11,381	−	5,597,075
− overdue of less than 30 days	−	34,219	−	34,219
− overdue of 30-89 days	−	12,349	−	12,349
− overdue of 90-179 days	−	−	83,791	83,791
Total gross commercial loans	**5,585,694**	**57,948**	**83,791**	**5,727,433**
Credit loss allowance	(36,147)	(14,232)	(36,285)	(86,664)
Total net commercial loans	**5,549,547**	**43,716**	**47,506**	**5,640,769**
Other retail loans				
− not overdue	2,307,074	55,420	13,333	2,375,827
− overdue of less than 30 days	320	8,281	17,244	25,845
− overdue of 30-89 days	−	16,740	986	17,726
− overdue of 90-179 days	−	−	3,873	3,873
Total gross other retail loans to customers	**2,307,394**	**80,441**	**35,436**	**2,423,271**
Credit loss allowance	(123,178)	(30,849)	(28,286)	(182,313)
Total net other retail loans to customers	**2,184,216**	**49,592**	**7,149**	**2,240,958**
Total gross loans to customers	**49,132,851**	**18,381,685**	**5,470,488**	**72,985,023**
Credit loss allowance	(418,030)	(762,964)	(1,529,053)	(2,710,048)
Total net loans to customers	**48,714,820**	**17,618,720**	**3,941,435**	**70,274,976**

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	31 December 2021			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Gold secured loans				
− not overdue	24,562,625	9,085,242	817,639	34,465,506
− overdue of less than 30 days	32,069	3,753,155	298,088	4,083,312
− overdue of 30-89 days	−	5,015,624	667,123	5,682,747
− overdue of 90-179 days	−	−	3,169,621	3,169,621
− overdue of 180-270 days	−	−	767,681	767,681
− overdue more than 270 days	−	−	439,479	439,479
Total gross gold secured loans	**24,594,694**	**17,854,021**	**6,159,631**	**48,608,346**
Credit loss allowance	(189,177)	(764,427)	(1,510,010)	(2,463,614)
Total net gold secured loans	**24,405,517**	**17,089,594**	**4,649,621**	**46,144,732**
Mortgage and other loans secured by real estate				
− not overdue	6,742,699	430,628	136,532	7,309,859
− overdue of less than 30 days	−	32,219	58,377	90,596
− overdue of 30-89 days	−	−	−	−
− overdue of 90-179 days	−	−	19,761	19,761
− overdue of 180-270 days	−	−	6,743	6,743
Total gross mortgage and other loans secured by real estate	**6,742,699**	**462,847**	**221,413**	**7,426,959**
Credit loss allowance	(13,149)	(33,321)	(94,600)	(141,070)
Total net mortgage and other loans secured by real estate	**6,729,550**	**429,526**	**126,813**	**7,285,889**
Commercial loans				
− not overdue	1,393,449	15,819	4,482	1,413,750
− overdue of less than 30 days	−	12,444	−	12,444
− overdue of 30-89 days	−	85,825	−	85,825
− overdue of 90-179 days	−	−	−	−
− overdue of 180-270 days	−	−	−	−
Total gross commercial loans	**1,393,449**	**114,088**	**4,482**	**1,512,019**
Credit loss allowance	(21,739)	(36,828)	(2,088)	(60,655)
Total net commercial loans	**1,371,710**	**77,260**	**2,394**	**1,451,364**
Other retail loans				
− not overdue	1,505,368	42,895	10,106	1,558,369
− overdue of less than 30 days	290	5,718	3,173	9,181
− overdue of 30-89 days	−	7,087	10,195	17,282
− overdue of 90-179 days	−	−	2,484	2,484
− overdue of 180-270 days	−	−	6,302	6,302
Total gross other retail loans to customers	**1,505,658**	**55,700**	**32,260**	**1,593,618**
Credit loss allowance	(25,730)	(16,204)	(22,679)	(64,613)
Total net other retail loans to customers	**1,479,928**	**39,496**	**9,581**	**1,529,005**
Total gross loans to customers	**34,236,500**	**18,486,656**	**6,417,786**	**59,140,942**
Credit loss allowance	(249,795)	(850,780)	(1,629,377)	(2,729,952)
Total net loans to customers	**33,986,705**	**17,635,876**	**4,788,409**	**56,410,990**

(thousands of Armenian Drams)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

As at 30 June 2023:

	Note		*High grade*	*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage1	–	3,830,299	**3,830,299**
Amounts due from banks	6	Stage1	–	538,506	**538,506**
Investment securities	8	Stage1	–	4,812,764	**4,812,764**
Total			**–**	**9,181,569**	**9,181,569**

As at 31 December 2022:

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

The table below shows the mapping of the Bank's grading system and external ratings of the counterparties under cash and cash equivalents, amounts due from banks and investment securities as at 31 December 2022 and 31 December 2021.

2022:

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

Liquidity risk and funding management

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

(thousands of Armenian Drams)

26. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the CBA. As at 30 June 2023, these ratios were as follows:

	Threshold	*At 30 June 2023,%*	*At 31 December 2022,%*
N2.1 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	18.02%	15.18%
N2.2 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	242.54%	1,418.14%

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 30 June 2023 and at 31 December 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

As at 30 June 2023	*Trading derivatives*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Derivative financial liabilities	3,091	0	0	0	0	**3,091**
Amounts due to banks	0	1,494,378	7,698,571	669,705	0	**9,862,654**
Amounts due to customers	0	5,912,879	11,334,774	563,772	0	**17,811,424**
Debt securities issued	0	356,327	70,675	1,103,816	0	**1,530,818**
Reverse Repo agreement	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 liability	0	55,778	376,627	1,398,012	832,929	**2,663,346**
Other financial liabilities	0	871,698	0	0	0	**871,698**
Financial guarantees	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**

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

(thousands of Armenian Drams)

26. Risk management (continued)

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	30/06/2023			31/12/2022		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	7,781,106	0	**7,781,106**	3,180,144	0	**3,180,144**
Amounts due from 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**
Property, equipment 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 income 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**
Amounts due 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**
Amounts due to customers	16,440,547	518,925	**16,959,472**	582,125	800	**582,925**
Debt securities issued	352,686	1,080,429	**1,433,116**	359,829	1,091,710	**1,451,539**
Reverse Repo agreement	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 liability	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 liabilities	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**

(thousands of Armenian Drams)

26.Risk management (continued)

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.
The sensitivity of the income statement is the effect of expected changes in interest rates on net interest income for the period based on financial assets and liabilities with a floating interest rate reflected in the balance sheet, and on net trading income based on trading instruments reflected in the balance sheet, that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2022*	*Sensitivity of net interest income 2022*	*Sensitivity of equity 2022*
AMD	3.18%	–	(798,700)

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

Currency	*Increase in basis points 2022*	*Sensitivity of net interest income 2021*	*Sensitivity of equity 2021*
AMD	3.18%	–	1,163,430

Currency	*Decrease in basis points 2022*	*Sensitivity of net interest income 2021*	*Sensitivity of equity 2021*
AMD	3.18%	–	1,006,300

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBA regulations. Positions are monitored on a daily basis.
The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2023:

	USD AMD'000	**EUR AMD'000**	**Other currencies AMD'000**	**Total AMD'000**
Assets				
Cash and cash equivalents	3,128,515	486,629	402,866	4,018,010
Amounts due from 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**
Liabilities				
Amounts due to banks	8,903,469	–	–	8,903,469
Amounts due to customers	3,724,755	324,025	118,551	4,167,331
Debt securities issued	920,053	0	0	920,053
Other liabilities	339	13,047	16	13,403
Total liabilities	**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 including derivatives	**512,437**	**288,114**	**284,299**	**1,084,850**

(thousands of Armenian Drams)

26. Risk management (continued)

Market risk (continued)

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 30 June 2023 and 31 December 2022 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against AMD, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase. The Management Board has set risk appetite limits on the currency and interest rate risk.

Currency	**Change in currency rate in % 30/06/2023**	**Effect on profit before tax 30/06/2023**	**Change in currency rate in % 31/12/2022**	**Effect on profit before tax 31/12/2022**
USD	12.62%	(253.357)	5.00%	(53,298)
USD	(12.62%)	253.357	(5.00%)	53,298
EUR	21.31%	61.538	8.50%	53,255
EUR	(21.31%)	(61.538)	(8.50%)	(53,255)

Operational risk

Operational risk is the risk of loss arising from systems failure, inadequate or failed internal processes, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

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

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

(thousands of Armenian Drams)

27. Fair value measurements

Fair value measurement

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

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

As at 31 December 2022 and 2021, the Bank has financial instruments, such as loans to customers, amounts due from banks, other financial assets, amounts due to banks, other borrowed funds, lease liability and other financial liabilities for which fair value is based on valuation techniques involving the use of significant non-market observable inputs.

Fair value hierarchy

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

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

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

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

(thousands of Armenian Drams)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2021	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
		Fair value measurement using		
Financial assets at fair value through other comprehensive income				
- Debt instruments	–	5,116,897	–	**5,116,897**
Assets for which fair values are disclosed				
- Cash and cash equivalents	2,412,544	–	–	**2,412,544**
- Amounts due from banks	–	–	–	**–**
- Other financial assets	–	–	132,341	**132,341**
- Loans to customers	–	–	49,745,502	**49,745,502**
Liabilities for which fair values are disclosed				
- Amounts due to customers	–	–	–	**–**
- Debt securities issued	–	419,884	-	**419,884**
- Amounts due to banks	–	–	7,376,162	**7,376,162**
- Other borrowed funds	–	–	30,743,440	**30,743,440**
- Lease liability	–	–	1,344,542	**1,344,542**
- Other financial liabilities	–	–	474,098	**474,098**

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

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

	Carrying value 2022	*Fair value 2022*	*Unrecognised gain/(loss) 2022*	*Carrying value 2021*	*Fair value 2021*	*Unrecog-nised gain/(loss) 2021*
Financial assets						
Cash and cash equivalents	3,180,144	3,180,144	–	2,412,544	2,412,544	–
Amounts due from 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 liabilities						
Derivative financial liabilities	2,549	2,549	–	–	–	–
Amounts due to customers	582,925	582,925	–	–	–	–
Amounts due to banks	7,765,422	7,822,723	(57,301)	7,301,491	7,376,162	(74,671)
Debt securities issued	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 liability	1,787,052	1,787,052	–	1,344,542	1,344,542	–
Other financial liabilities	844,645	844,645	–	474,098	474,098	–
Total unrecognised change in fair value	**80,196,986**	**76,767,173**	**3,429,813**	**97,138,324**	**97,765,410**	**(627,086)**

Valuation techniques and assumptions

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

(thousands of Armenian Drams)

27. Fair value measurements (continued)

Valuation techniques and assumptions (continued)

Assets for which fair value approximates carrying value

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

Financial assets and financial liabilities carried at amortized cost

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

Derivatives

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

Financial assets at fair value through other comprehensive income

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

28. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

(thousands of Armenian Drams)

28. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2022			*2021*		
	Sharehol-ders	***Key manage-ment personnel and their close family members***	***Other related parties***	***Sharehol-ders***	***Key manage-ment personnel and their close family members***	***Other related parties***
Loans and advances to customers						
Loans outstanding at 1 January, gross	**–**	**81**	**459,671**	**–**	**–**	**441,978**
Loans issued during the year	–	42,165	–	–	136	56,300
Loan repayments during the year		(18,444)	(432,695)		(55)	(38,607)
Other movements	–	–	(26,976)	–	–	–
Loans outstanding at 31 December, gross	**–**	**23,802**	**–**	**–**	**81**	**459,671**
Less: allowance for impairment at 31 December	–	(1,195)	–	–	(2)	(9,219)
Loans outstanding at 31 December, net	**–**	**22,607**	**–**	**–**	**79**	**450,452**
Current accounts						
At 1 January	**–**	**–**	**–**	**–**	**–**	**–**
Current accounts opened during the year	121,082	5,337	–	–	–	–
At 31 December	**121,082**	**5,337**	**–**	**–**	**–**	**–**
Other borrowed funds						
at 1 January	**9,468,427**	**–**	**16,329,564**	**13,682,602**	**–**	**12,367,959**
Loans issued during the year	27,211,757	–	–	31,822,190	–	11,080,938
Loan repayments during the year	(15,481,250)		(16,278,719)	(36,038,984)	–	(6,983,778)
Debt to equity swap (Note 21)	(21,200,000)		–	–	–	–
Other movements	1,066	–	(50,845)	2,619	–	(135,555)
at 31 December	**–**	**–**	**–**	**9,468,427**	**–**	**16,329,564**
Lease liabilities						
At 1 January	**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
Accretion of interest	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)
At 31 December	**455,068**	**504,102**	**808,591**	**506,786**	**77,338**	**691,087**
Other assets	–	–	128,234	–	–	3,744
Financial guarantees	–	–	734,400	–	–	1,142,735
Statement of profit or loss						
Interest revenue calculated using effective rate	–	2,943	16,400	–	3	38,539
Credit loss expense charge 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)

(thousands of Armenian Drams)

28. Related party disclosures (continued)

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

Compensation of key management personnel was comprised of the following:

	2022	*2021*
Salaries and other short-term benefits	369,257	209,619
Total key management personnel compensation	**369,257**	**209,619**

29. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Lease liabilities*	*Total liabilities from financing activities*
Carrying amount at 31 December 2020	**17,18,19**	**413,487**	**27,623,994**	**1,344,542**	**29,382,023**
Proceeds from issue		1,119,158	28,315,722	–	**29,434,880**
Redemption		–	(30,772,415)	(193,785)	**(30,966,200)**
Foreign currency translation		(101,444)	(405,773)	–	**(507,217)**
Non-cash transactions		–	(21,200,000)	636,295	**(20,563,705)**
Other		20,338	(228,338)	–	**(208,000)**
Carrying amount at 31 December 2021	**17,18,19**	**1,451,539**	**3,333,190**	**1,787,052**	**6,571,781**
Proceeds from issue		–	*826,125*	–	**826,125**
Redemption		–	*(285,263)*	*(21,984)*	**(307,247)**
Foreign currency translation		(17,637)	–	–	**(17,637)**
Non-cash transactions		–	*119,416*	*150,344*	**269,760**
Other		(787)	–	–	**(787)**
Carrying amount at 31 December 2022	**17,18,19**	**1,433,116**	**3,993,468**	**1,915,412**	**7,341,996**

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

Non-cash transactions comprise of additions of lease liabilities and include conversion of borrowed funds into Bank's share capital (see Notes 18, 19 and 21).

30. Capital adequacy

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. Corresponding changes were made in the objectives, policies and processes from the previous years to comply with requirements set by the Central Bank of Armenia.

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

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 June 2023 this minimum level was 11%. The Bank is in compliance with the statutory capital ratio as at 30 June 2023.