

Fast Bank CJSC

Financial statements

For the fourth quarter period ended 31 December 2023

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Statement of financial position**As of 31 December 2023***(thousands of Armenian Drams)*

	Notes	30/12/23	31/12/22
Assets			
Cash and cash equivalents	5	10,988,713	3,180,144
Amounts due from bank	6	970,266	110,319
Derivative financial assets	8	3,126,409	0
Investment securities	8	5,258,863	4,551,296
Loans to customers	9	89,181,788	56,410,990
Property, equipment, and right-of-use assets	10	3,656,299	2,690,071
Intangible assets	11	1,399,673	613,470
Other assets	14	2,410,371	815,423
Total Assets		116,992,381	68,371,710
Liabilities			
Derivative financial liabilities	7	0	2,549
Amounts due to customers	15	34,316,341	582,925
Amounts due to banks	16	5,059,015	7,765,422
Debt securities issued	17	5,964,869	1,451,539
Other borrowed funds	18	2,952,186	3,333,190
Payments due to derivatives	8	7,934,062	0
Lease liability	19	1,754,993	1,787,052
Current income tax liabilities		1,625,016	1,504,320
Deferred tax liabilities	12	2,007,562	2,260,054
Other liabilities	20	1,902,497	950,983
Total Liabilities		63,516,542	19,638,032
Equity			
Share capital	21	30,100,000	30,100,000
Retained earnings		23,813,069	19,437,014
Revaluation reserve for investment securities	21	(437,230)	(803,336)
Total Equity		53,475,839	48,733,678
Total Equity and Liabilities		116,992,381	68,371,710

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


 Garegin Darbinyan
 Tatul Tamrazyan
 13 October 2023

Executive Director
 Chief Accountant

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

Statement of profit or loss and other comprehensive income**As of period ended 31 December 2023***(thousands of Armenian Drams)*

	Notes	01/10/2023- 31/12/2023	01/01/2023- 31/12/2023	01/10/2022- 31/12/2022	01/01/2022- 31/12/2022
Interest revenue calculated using effective interest rate	23	4,079,372	14,885,241	2,662,431	13,458,719
Interest expense	23	(747,820)	(2,458,264)	(338,998)	(2,421,795)
Net interest income		3,331,552	12,426,977	2,323,433	11,036,924
Credit loss expense	13	295,941	(368,279)	(601,768)	(663,007)
Net interest income after credit loss expense		3,627,492	12,058,698	1,721,665	10,373,917
Fee and commission income	24	70,910	206,644	7,058	26,155
Fee and commission expense	24	(33,744)	(85,232)	(75,582)	(156,641)
Net (loss)/gain from financial instruments at fair value through profit or loss		75,360	61,480	(1,200)	(1,200)
<i>Net gain/(loss) from foreign currencies</i>		338,171	547,695	(37,224)	1,657,826
-dealing		225,165	716,850	185,928	986,780
-translation difference		113,006	(169,155)	(223,152)	671,046
Other income		40,585	87,280	17,711	45,855
Non-interest income		491,281	817,867	(89,237)	1,571,995
Personnel expenses	25	(1,378,025)	(4,537,367)	(750,839)	(3,393,873)
Depreciation and amortization	10,11	(241,353)	(832,777)	(125,342)	(417,348)
Other operating expense	25	(576,995)	(1,598,848)	(399,024)	(1,010,906)
Non-interest expense		(2,196,373)	(6,968,993)	(1,275,204)	(4,822,127)
Profit before income tax expense		1,922,401	5,907,573	357,224	7,123,785
Income tax expense	12	(605,634)	(1,531,518)	(393,810)	(1,217,049)
Profit for the period		1,316,767	4,376,055	(36,586)	5,906,736
Other comprehensive income					
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>					
Net change in fair value of debt instruments at fair value through other comprehensive income		(158,857)	402,596	(15,818)	(537,448)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		22,695	43,874	(517)	(13,527)
Income tax relating to components of other comprehensive income	12	24,509	(80,365)	2,940	99,175
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(111,653)	366,106	(13,395)	(451,800)
Other comprehensive (loss)/income for the year, net of tax		(111,653)	366,106	(13,395)	(451,800)
Other comprehensive income for the year, net of tax		(111,653)	366,106	(13,395)	(451,800)
Total comprehensive income for the year		1,205,115	4,742,161	(49,981)	5,454,936

Statement of changes in equity**As of period ended 31 December 2023***(thousands of Armenian Drams)*

	<i>Notes</i>	<i>Share capital</i>	<i>Revaluation reserve for investment securities</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance as at 1 January 2022		7,000,000	(351,536)	15,530,279	22,178,743
Total comprehensive income					
Profit for the year		-	-	5,906,736	5,906,736
Other comprehensive (loss)/gain for the period		-	(451,800)	-	(451,800)
Total comprehensive income for the period		-	(451,800)	5,906,736	5,454,936
Debt to equity swap	21	21,200,000	-	-	21,200,000
Dividend capitalization	21	1,900,000	-	(1,900,000)	0
Dividends paid to shareholders of the Bank	21	-	-	(100,000)	(100,000)
Balance as at 30 December 2022		30,100,000	(803,336)	19,437,015	48,733,679
Balance as at 1 January 2023		30,100,000	(803,336)	19,437,015	48,733,679
Total comprehensive income					
Profit for the year		-	-	4,376,055	4,376,055
Other comprehensive (loss)/gain for the period		-	366,106	-	366,106
Total comprehensive income for the period		-	366,106	4,376,055	4,742,161
Dividends paid to shareholders of the Bank	21	-	-	-	-
Balance as at 31 December 2023		30,100,000	(437,230)	23,813,069	53,475,839

Statement of cash flows**As of period ended 31 December 2023***(thousands of Armenian Drams)*

	Notes	01/01/2023- 31/12/2023	01/01/2022- 31/12/2022
Cash flows from operating activities			
Interest received		14,655,075	13,306,740
Interest paid		(1,386,782)	(2,626,124)
Fees and commissions received		206,644	10,841
Fees and commissions paid		(85,232)	(154,900)
Benefits from foreign exchange trading operations/(loss)		578,603	1,069,223
Salary paid-other equivalent payments		(4,524,098)	(3,492,680)
Other operating income, other expenses paid		(1,728,155)	(939,540)
Cash flow from changes in operating assets and liabilities		7,716,055	7,173,560
<i>(Increase)/decrease in operating assets</i>			
Loans to customers		(32,638,882)	(5,927,564)
Amount due from banks		(862,495)	(118,781)
Other assets		(1,831,137)	(387,155)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts payable under repurchase agreements		2,948,351	0
Amounts due to customers		32,286,301	581,847
Other liabilities		1,545,852	612,027
Net cash used in operating activities before income taxes and interest		9,164,045	1,933,934
Income tax paid		(1,716,045)	(34,635)
Net cash flow from operating activities before income taxes are paid		7,448,001	1,899,299
Cash flows from investing activities			
Investment stocks (increase)/decrease		(3,809,542)	-
Purchase of property and equipment, intangible assets		(1,270,653)	(742,949)
Alienation of property		(280,695)	(619,703)
Net cash (used in) investing activities		(5,360,890)	(1,362,652)
Cash flows from financing activities			
Shareholders' contributions to the authorized capital		-	0
Loans from banks	42	(2,939,067)	2,584,835
Increase/(decrease) of issued bonds	42	4,434,955	1,119,158
Increase/(decrease) in other borrowed funds	42	4,537,276	(2,456,693)
Payments due to lease liabilities	42	(428,936)	(193,785)
Dividends paid to shareholders of the Bank	21	-	(100,000)
Net cash from financing activities		5,604,228	953,515
Effect of exchange rates changes on cash and cash equivalents		119,978	(722,837)
Effect of expected credit losses on cash and cash equivalents		(2,749)	275
Net increase in cash and cash equivalents		7,808,569	767,600
Cash and cash equivalents, beginning		3,180,144	2,412,544
Cash and cash equivalents, ending	7	10,988,713	3,180,144

(thousands of Armenian Drams)

1. Principal activities

a) Organization 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 on 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 31 December 2023, the Bank has around 953 employees (31 December 2022: 750 employees).

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

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

Shareholder	31/12/2023, %	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 a 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 of 31 December 2023 and 31 December 2022, were AMD 404.79 and AMD 393.57 to 1 USD and AMD 447.9 and AMD 420.06 to EUR 1, respectively.

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

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 *Leases*, 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 recognizes 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 at 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 to 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 cost of meeting the obligations under the contract exceeds 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 labor 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 on 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 recognized 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 because 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 after 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 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 repurchased 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 agreement 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 '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 amortization and impairment losses.

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

Amortization 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 capitalized development costs, are not capitalized 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 recognized 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 a cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit.

Reposessed assets

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

Reposessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition reposessed 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, reposessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of reposessed 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 contracts, 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 recognized 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 recognized 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 recognized 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 authorized for issue.

Taxation

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

	31/12/23	31/12/22
Cash on hand	7,756,920	2,266,322
Current accounts with other banks	400,421	665,675
Current accounts with the Central Bank, including obligatory reserves (not restricted part, see Note 6)	2,835,239	249,266
Impairment	(3,868)	(1,119)
Cash and cash equivalents	10,988,713	3,180,144

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

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

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

(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- 31/12/2023	01/01/2022- 31/12/2022
ECL allowance as of 1 January	1,119	1,394
Changes in ECL	2,747	(275)
On 31 December	3,869	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:

	31/12/23	31/12/22
Mandatory reserves in CBA (in foreign currencies) (Note 5)	970,776	110,377
Impairment	(510)	(58)
	970,266	110,319

As of 31 December 2023, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 964,802 thousand (2022: 112,928) (See Note 5).

The 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:

	31/12/23	31/12/22
ECL allowance as of 1 January	58	-
Changes in ECL	452	58
On 31 December	510	58

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

7. Derivative financial instruments

(thousands of Armenian Drams)

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.

	31/12/2023		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	-	-	1,967,850	2,549
	-	-	1,967,850	2,549

8. Investment securities

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

	31/12/2023	31/12/2022
Debt securities at FVOCI		
Government securities of the Republic of Armenia	5,258,863	4,551,296
Investment securities attracted to repurchase contracts	3,126,409	0
	8,385,272	4,551,296

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 of 1 January 2023	4,551,296	4,551,296
New assets originated or purchased	4,926,072	4,926,072
Assets repaid	(1,494,739)	(1,494,739)
Net change in fair value	402,644	402,644
On 31 December 2023	8,385,272	8,385,272
Debt securities at FVOCI	Stage 1	Total
ECLs as of 1 January 2023	52,083	52,083
Changes in ECL	43,874	43,874
On 31 December 2023	95,957	95,957
Debt securities at FVOCI	Stage 1	Total
Fair value as of 1 January 2022	5,116,897	5,116,897
New assets originated or purchased	463,460	463,460
Assets repaid	(491,613)	(491,613)
Net change in fair value	(537,448)	(537,448)
On 31 December 2022	4,551,296	4,551,296
Debt securities at FVOCI	Stage 1	Total
ECLs as of 1 January 2022	65,610	65,610
Changes in ECL	(13,527)	(13,527)
At 31 December 2022	52,083	52,083

(thousands of Armenian Drams)

9. Loans to customers

	31/12/2023	31/12/2022
Gold-secured loans	54,134,888	48,608,346
Mortgage loans	19,274,800	7,426,959
Other retail loans	3,990,125	1,593,618
Corporate loans	13,859,468	1,512,019
Gross loans to customers	91,259,282	59,140,942
Impairment allowance	(2,077,493)	(2,729,952)
Net loans to customers at amortized cost	89,181,788	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 amortized 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:

<i>Loans to customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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
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 2022 is as follows:

<i>Loans to customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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

<i>Loans to customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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
Discount depreciation	–	–	66,569	66,569
Recoveries	–	–	207,884	207,884
Amounts written off	–	–	(2,038,650)	(2,038,650)
Foreign exchange adjustments	18,870	7,544	6,230	32,644
At 31 December 2022	249,795	850,780	1,629,377	2,729,952

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- ▶ Gold 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.

	<i>Maximum exposure to credit risk</i>	<i>Property</i>	<i>Financial means</i>	<i>Fair value of collateral held under the base scenario</i>			<i>Total collateral</i>	<i>Net Exposure</i>	<i>Associated ECL</i>
				<i>Gold</i>	<i>Other</i>	<i>Surplus</i>			
31-Dec-23									
Gold-secured loans	4,233,784	-	-	3,723,843	-	-	3,723,843	509,941	980,357
Mortgage loans	639,021	-	382,458	-	-	-	382,458	256,563	206,480
Other retail loans	55,517	4,583	-	-	-	-	4,583	50,935	30,460
Loans to legal entities	90,055	-	-	-	28,870	-	28,870	61,185	4,082
	5,018,377	4,583	382,458	3,267,732	3,752,714	-	4,139,754	878,623	1,221,379

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

Assets under lien

As of 31 December 2023, loans to customers with a gross value of AMD 7,835,312 thousand (2022: AMD 3,290,742 thousand) serve as collateral for other borrowed funds (see Note 18).

Concentration of loans to customers

As of 31 December 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:

	31/12/2023	31/12/2022
Individuals	77,399,813	57,618,831
Private companies	13,238,297	1,522,111
Financial institutions	621,172	-
Government organizations	-	-
Gross loans to customers	91,259,282	59,140,942
Less: allowance for impairment	(2,077,493)	(2,729,952)
Loans to customers	89,181,788	56,410,990

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

	31/12/2023	31/12/2022
Individuals	77,399,813	57,618,831
Construction	3,543,784	34,887
Services	3,804,872	350,459
Trading enterprises	4,211,509	874,689
Agriculture and food processing	821,193	116,221
Manufacturing	856,938	131,628
Financial sector	621,172	-
Gross loans to customers	91,259,282	59,140,942
Less: allowance for impairment	(2,077,493)	(2,729,952)
Loans to customers	89,181,788	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:

	<i>Land and buildings</i>	<i>Leasehold improve- ments</i>	<i>Compu- ters and communi- cation equipment</i>	<i>Motor vehicles</i>	<i>Fixtures and Fittings</i>	<i>Property, equipment</i>	<i>Right-of- use assets</i>	<i>Total</i>
Cost								
31 December 2022	130,130	197,709	592,299	168,167	803,424	1,891,729	2,237,667	4,129,396
Additions	5,924	384,091	393,757	22,649	668,998	1,475,419	192,774	1,668,193
Disposals and write-offs	-	-	(481)	(132,409)	(3,364)	(136,254)	-	(136,254)
31 December 2023	<u>136,054</u>	<u>581,800</u>	<u>985,576</u>	<u>58,407</u>	<u>1,469,057</u>	<u>3,230,894</u>	<u>2,430,441</u>	<u>5,661,335</u>
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	6,801	18,649	274,839	4,392	136,485	441,166	259,446	700,612
Disposals and write-offs	-	-	(197)	(132,409)	(2,294)	(134,900)	-	(134,900)
31 December 2023	<u>52,465</u>	<u>52,546</u>	<u>667,698</u>	<u>26,305</u>	<u>369,958</u>	<u>1,168,972</u>	<u>836,065</u>	<u>2,005,037</u>
Net book value								
31 December 2023	<u>83,589</u>	<u>529,254</u>	<u>317,878</u>	<u>32,102</u>	<u>1,099,099</u>	<u>2,061,922</u>	<u>1,594,376</u>	<u>3,656,299</u>
	<i>Land and buildings</i>	<i>Leasehold improve- ments</i>	<i>Compu- ters and communi- cation equipment</i>	<i>Motor vehicles</i>	<i>Fixtures and Fittings</i>	<i>Property, equipment</i>	<i>Right-of- use assets</i>	<i>Total</i>
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	<u>130,130</u>	<u>197,709</u>	<u>592,299</u>	<u>168,167</u>	<u>803,422</u>	<u>1,891,727</u>	<u>2,237,667</u>	<u>4,129,394</u>
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	<u>45,664</u>	<u>33,897</u>	<u>393,056</u>	<u>154,322</u>	<u>235,767</u>	<u>862,706</u>	<u>576,619</u>	<u>1,439,325</u>
Net book value								
31 December 2022	<u>84,466</u>	<u>163,812</u>	<u>199,243</u>	<u>13,845</u>	<u>567,655</u>	<u>1,029,021</u>	<u>1,661,048</u>	<u>2,690,069</u>

(thousands of Armenian Drams)

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

Right-of-use assets include only buildings.

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

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

11. Intangible assets

The movements in other intangible assets were as follows:

	<i>Licenses</i>	<i>Computer Software</i>	<i>Development cost</i>	<i>Total</i>
Cost				
31 December 2022	116,334	365,843	205,436	687,613
Additions	240,663	664,001	242,010	1,146,674
Disposals and write offs	1,072	133	257,912	259,117
31 December 2023	355,925	1,029,711	189,534	1,575,170
Accumulated amortization and impairment				
31 December 2022	53,278	20,865	-	74,143
Amortization charge	35,885	66,674	-	102,559
Disposals and write offs	1,072	133	-	-1,205
31 December 2022	88,091	87,406	-	175,497
Net book value				
31 December 2022	63,056	344,978	205,436	613,470
31 December 2023	267,834	942,305	189,534	1,399,673
	<i>Licenses</i>	<i>Computer Software</i>	<i>Development cost</i>	<i>Total</i>
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- 31/12/2023	01/01/2022- 31/12/2022
Current tax charge	1,107,849	702,121
Deferred tax credit – origination and reversal of temporary differences	(181,965)	121,118
Income tax expense	925,884	823,239

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 Decem- ber 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 31 December 2023:

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	(2,749)	-	-	(2,749)
Amounts due from banks	6	(452)	-	-	(452)
Loans to customers at amortized cost	9	(528,185)	(409,583)	768,276	(169,493)
Debt securities measured at FVOCI	8	(43,874)	-	-	(43,874)
Other financial assets	14	(61,235)	-	-	(61,235)
Financial guarantees	20	(90,475)	-	-	(90,475)
Total credit loss expense		(726,971)	(409,583)	768,276	(368,279)

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

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	275	-	-	275
Amounts due from banks	6	58	-	-	58
Loans to customers at amortized cost	9	(78,370)	568,712	(1,139,191)	(648,849)
Debt securities measured at FVOCI	8	13,527	-	-	13,527
Other financial assets	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:

	31/12/2023	31/12/2022
Other receivables	211,412	185,446
Less: allowance for impairment of other financial assets	(24,844)	(8,531)
Total other financial assets	186,567	176,915
Prepayments	2,102,037	440,126
Repossessioned assets	98,023	110,443
Prepaid taxes other than income tax	23,596	54,862
Other non-financial assets	148	33,077
Total other non-financial assets	2,223,803	638,508
Total other assets	2,410,371	815,423

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

	Stage1	Total
ECL on 1 January 2023	8,531	8,531
Changes in ECL	16,310	(2,502)
On 31 December 2023	24,844	6,029

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

	Stage 1	Total
ECL on 1 January 2022	10,697	10,697
Changes in ECL	(2,166)	(2,166)
On 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:

	31/12/2023	31/12/2022
Current accounts and demand deposits		
Retail	1,255,628	176,428
Corporate	10,085,054	87,806
Term deposits		
Retail	18,018,513	222,789
Corporate	4,957,175	95,902
Total	34,316,341	582,925

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

	31/12/2023	31/12/2022
Individuals	18,559,760	344,249
Financial institutions	8,452,299	95,902
Other entities	6,452,571	83,799
Employees	709,062	54,968
Government organizations	109,321	0
Private enterprises	33,328	4,007
Amounts due to customers	34,316,341	582,925

On 31 December 2023, current accounts, and deposits from customers of AMD 12,371,700 thousand (36.05%) were due to the ten largest customers (2022: 464.729 thousand AMD).

On 31 December 2023, bank had one customer whose residues exceed 10% of equity 4,830,731 thousand Armenian drams (2022: 0 AMD).

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

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

16. Amounts due to banks.

Amounts due to banks include the following:

	31/12/2023	31/12/2022
Loans from banks	5,059,015	7,765,422
Reverse Repo agreements	2,952,186	-
Total	8,011,201	7,765,422

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

As of 31 December 2023, amounts due to banks include AMD denominated loans with the total amount of 114,763 thousand (2022: 762,009 thousand) and annual interest rate of 12.5% (2022: 12.5%) and USD denominated loans with the total amount of 4,944,359 thousand (2022: 7,003,413 thousand) and annual interest rate of 6.6 -8.3% (2022: 6.5-8.0%).

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

(thousands of Armenian Drams)

17. Debt securities issued.

Debt securities issued consisted of the following:

	31/12/2023	31/12/2022
Domestic bonds in USD	3,496,986	938,276
Domestic bonds in AMD	2,467,883	513,263
Debt securities issued	5,964,869	1,451,539

During the fourth quarter of 2023, the Bank issued AMD and USD bonds with nominal amount of AMD 1,166,300 thousand and USD 5,078 thousand accordingly.

Bonds, denominated in AMD, bear annual interest rate of 11.5% and USD denominated bonds, bear annual interest rate of 6.25 %. The contractual maturity of AMD and USD bonds ranges from 2025-2026.

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

18. Other borrowed funds

Other borrowed funds consisted of the following:

	31/12/2023	31/12/2022
Loans from refinancing credit organizations	5,715,677	5,715,677
Loans from CBA	2,119,637	2,119,637
Borrowings from commercial organizations	90,738	90,738
Borrowings from shareholders and other related parties	-	-
Borrowings from government non-profit organizations	8,009	8,009
Other borrowed funds	7,934,061	7,934,061

In 2023. As of December 31, the bank had other borrowed funds from no lender, the balance of which exceeded 10% of equity.

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

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

19. Lease liability.

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

	31/12/2023	31/12/2022
As at 1 January	1,787,052	1,344,542
Additions	157,555	636,295
Accretion of interest	134,498	156,362
Payments	(174,303)	(350,147)
As of the reporting date	1,904,801	1,787,052

The Bank had total cash outflows for leases of AMD 428,936 during year 2023 (2022: AMD 381,471 thousand).

In fourth quarter of 2023 the Bank also had non-cash additions to right-of-use assets in amount of AMD 192,774 thousand and additions to lease liabilities in amount of AMD 194,774 thousand (2022: AMD 636,295 thousand each of them).

(thousands of Armenian Drams)

20. Other liabilities

	31/12/2023	31/12/2022
Accounts payable	940,580	316,021
Payables to employees	676,846	498,440
Provision for guarantees	128,412	30,184
Total other financial liabilities	1,745,838	844,645
Non-income tax payable	156,660	106,338
Total other non-financial liabilities	156,660	106,338
Total other liabilities	1,902,497	950,983

21. Equity**Issued capital.**

As of 31 December 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 21,500) each.

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

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

Nature and purpose of reserves*Revaluation reserve for investment securities*

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

Dividends

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

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.

(thousands of Armenian Drams)

22. Commitments and contingencies (continued)

Taxation

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

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

Commitments and contingencies

	31/12/2023	31/12/2022
Credit related commitments		
Financial guarantees	3,210,301	754,600
Commitments and contingencies	3,210,301	754,600

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

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at 1 January 2023	30,184	0	0	30,184
New exposures	101,252	0	0	101,252
Amounts paid	(3,024)	0	0	(3,024)
Transfers to Stage 1	0	0	0	0
Transfers to Stage 2	0	0	0	0
Transfers to Stage 3	0	0	0	0
Impact on period end ECL of exposures transferred between stages during the period	0	0	0	0
Changes to models and inputs used for ECL calculations	0	0	0	0
Foreign exchange adjustments	0	0	0	0
As at 31 December 2023	128,412	0	0	128,412

An analysis of changes in the ECLs during the year ended 31 December 2022 is as follows:

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at 1 January 2022	0	0	0	0
New exposures	30,184	0	0	30,184
Amounts paid	0	0	0	0
Transfers to Stage 1	0	0	0	0
Transfers to Stage 2	0	0	0	0
Transfers to Stage 3	0	0	0	0
Impact on period end ECL of exposures transferred between stages during the period	0	0	0	0
Changes to models and inputs used for ECL calculations	0	0	0	0
Foreign exchange adjustments	0	0	0	0
As at 31 December 2022	30,184	0	0	30,184

(thousands of Armenian Drams)

23. Net interest income

Net interest income comprises:

	01/10/2023- 31/12/2023	01/01/2023- 31/12/2023	01/10/2022- 31/12/2022	01/01/2022- 31/12/2022
Financial assets measured at amortized cost				
Loans to customers	3,888,971	14,274,772	2,545,225	12,991,619
Cash and cash equivalents	1,288	4,595	2,168	3,633
	3,890,260	14,279,367	2,547,393	12,995,252
Financial assets measured at fair value through other comprehensive income				
Investment securities	189,112	605,874	115,037	463,467
Interest revenue calculated using effective rate	4,079,372	14,885,241	2,662,431	13,458,719
Interest expense				
Other borrowed funds	132,986	334,823	53,129	1,326,166
Amounts due to banks	110,017	616,254	185,917	840,885
Amounts due to customers	366,306	951,859	1,810	1,810
Lease liabilities	46,802	181,300	51,632	156,362
Debt securities issued	4,928	100,673	4,786	26,780
Amounts payable under repurchase agreements	85,749	183,931	40,376	68,443
Amounts due to customers	1,031	89,423	1,349	1,349
Other	747,820	2,458,264	338,998	2,421,795
Interest expense	3,331,552	12,426,977	2,323,433	11,036,924
Net interest income	132,986	334,823	53,129	1,326,166

24. Net fee and commission income

Net fee and commission income comprise:

	01/10/2023- 31/12/2023	01/10/2023- 31/12/2023	01/10/2022- 31/12/2022	01/01/2022- 31/12/2022
Guarantees	57,322	108,944	0	0
Cash operations	1,466	79,583	4,779	19,929
Insurances	4,418	7,007	953	2,815
Service fee for account maintenance	1,811	2,561	0	0
Money transfers	227	480	0	0
Other	5,666	8,069	1,326	3,410
Fee and commission income	70,910	206,644	7,058	26,155
Settlements operations	5,477	42,815	1,955	10,838
Cash operations	8,044	15,695	66,598	115,939
Foreign exchange deals	7,560	12,405	0	0
Money transfers	11,919	11,919	0	8,041
Service fee for account maintenance	334	1,163	2,604	5,139
Plastic card maintenance services	409	1,087	435	7,834
Securities operations	0	12	3,600	6,027
Other	0	136	391	2,823
Fee and commission expense	33,744	85,232	75,582	156,641
Net fee and commission expense	37,165	121,412	(68,524)	(130,486)

(thousands of Armenian Drams)

25. Personnel and Other operating expenses

Personnel and other operating expenses comprise:

	01/10/2023- 31/12/2023	01/01/2023- 31/12/2023	01/10/2022- 31/12/2022	01/01/2022- 31/12/2022
Salaries and bonuses	1,299,517	4,410,155	686,828	3,191,875
Mandatory pension contributions	56,058	54,782	48,149	155,842
Personnel insurances	22,451	72,429	15,862	46,156
Personnel expenses	1,378,025	4,537,367	750,839	3,393,873

Other operating expenses

	01/10/2023- 31/12/2023	01/01/2023- 31/12/2023	01/10/2022- 31/12/2022	01/01/2022- 31/12/2022
Marketing and advertising	189,305	363,420	57,694	108,323
Repairs and maintenance	67,654	197,069	44,996	129,061
Office supplies	43,522	162,723	38,954	121,242
Charity	6,735	157,794	28,313	94,013
Professional services	67,155	141,045	16,031	84,856
Security	35,063	115,277	28,954	100,730
Entertainment	7,144	46,651	11,438	32,711
Non-refundable taxes and duties other than on income	18,984	43,176	13,146	42,821
Communications	14,315	42,082	13,069	35,657
Expenses of disbursement and collection of loans	9,642	39,560	10,765	31,577
Deposit insurance expenses	14,784	28,325	16,000	16,000
Business travel and related expenses	5,107	23,061	5,668	21,052
Personnel training	5,039	20,892	1,985	7,344
Membership fees	9,160	19,053	35,030	38,141
Representation expenses	6,538	15,398	22,590	30,978
Operating lease expenses	3,120	14,251	10,837	31,324
Penalties incurred	0	10,000	0	4
Expenses of disposal of properties	5,930	5,930	0	0
Financial system mediator expenses	1,370	5,476	12,179	30,819
Other	66,427	147,661	31,379	54,257
Other operating expenses	576,997	1,598,846	399,027	1,010,909

The Bank recognised rent expense from short-term leases of AMD 6,420 thousand and leases of low-value assets of AMD 7,831 thousand for the year ended 31 December 2023 (On 31 December 2022 – rent expense from short-term leases of AMD 24,058 thousand and leases of low-value assets of AMD 7,266 thousand).

(thousands of Armenian Drams)

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 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.

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 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.

(thousands of Armenian Drams)

26. Risk management (continued)

Risk mitigation

As part of the overall risk management process, the Bank uses derivatives 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.

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 a 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 derecognized 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 realization of any collateral. It is usually expressed as a percentage of the EAD.

26. Risk management (continued)

Credit risk (continued)

(thousands of Armenian Drams)

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 represents 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 recognized, the Bank recognizes 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 recognized based on a credit adjusted EIR. ECL are only recognized 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 has 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 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 an 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 2023 and 31 December 2022:

	31 December 2023			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Gold secured loans				
– not overdue	31,451,091	11,661,106	1,000,371	45,020,895
– overdue of less than 30 days	83,908	3,110,394	281,953	3,445,531
– overdue of 30-89 days	-	2,701,878	481,690	3,183,568
– overdue of 90-179 days	-	15,125	1,199,582	1,214,706
– overdue of 180-270 days	-	-	580,342	580,342
– overdue more than 270 days	-	-	689,846	689,846
Total gross gold secured loans	31,535,000	17,488,502	4,233,784	54,134,888
Credit loss allowance	(219,107)	264,397	980,357	1,490,573
Total net gold secured loans	31,315,893	17,224,106	3,253,427	52,644,315
Mortgage and other loans secured by real estate				
– not overdue	17,550,367	1,047,219	416,094	19,013,680
– overdue of less than 30 days	-	31,498	29,090	60,588
– overdue of 30-89 days	-	6,696	56,106	62,802
– overdue of 90-179 days	-	-	12,376	12,376
– overdue of 180-270 days	-	-	125,355	125,355
– overdue more than 270 days	-	-	-	-
Total gross mortgage and other loans secured by real estate	17,550,367	1,085,412	639,021	19,274,800
Credit loss allowance	56,032	132,780	206,480	395,292
Total net mortgage and other loans secured by real estate	17,494,335	952,632	432,541	18,879,508
Other corporate loans				
– not overdue	13,545,377	183,737	1,906	13,731,020
– overdue of less than 30 days	-	28,011	-	28,011
– overdue of 30-89 days	-	12,288	-	12,288
– overdue of 90-179 days	-	-	83,903	83,903
– overdue of 180-270 days	-	-	4,246	4,246
– overdue more than 270 days	-	-	-	-
Total gross commercial loans	13,545,377	224,036	90,055	13,859,468
Credit loss allowance	38,508	45,645	4,113	88,266
Total net commercial loans	13,506,869	178,391	85,942	13,771,202
Other retail loans				
– not overdue	3,675,117	234,323	6,869	3,916,309
– overdue of less than 30 days	1,372	18,597	-	19,970
– overdue of 30-89 days	-	5,197	6,596	11,793
– overdue of 90-179 days	-	-	28,629	28,629
– overdue of 180-270 days	-	-	13,423	13,423
– overdue more than 270 days	-	-	-	-
Total gross other retail loans to customers	3,676,489	258,118	55,517	3,990,125
Credit loss allowance	16,562	56,340	30,460	103,362
Total net other retail loans to customers	3,659,927	201,778	25,058	3,886,763
Total gross loans to customers	67,184,836	19,056,068	5,018,377	91,259,282
Credit loss allowance	356,922	499,161	1,221,410	2,077,493
Total net loans to customers	66,827,914	18,556,907	3,796,967	89,181,788

(thousands of Armenian Drams)

26. Risk management (continued)**Credit risk (continued)***Credit quality per class of financial assets (continued)*

	31 December 2022			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Gold secured loans				
– not overdue	24,562,625	9,085,242	817,639	34,465,506
– overdue of less than 30 days	32,069	3,753,155	298,088	4,083,312
– overdue of 30-89 days	–	5,015,624	667,123	5,682,747
– overdue of 90-179 days	–	–	3,169,621	3,169,621
– overdue of 180-270 days	–	–	767,681	767,681
– overdue more than 270 days	–	–	439,479	439,479
Total gross gold secured loans	24,594,694	17,854,021	6,159,631	48,608,346
Credit loss allowance	(189,177)	(764,427)	(1,510,010)	(2,463,614)
Total net gold secured loans	24,405,517	17,089,594	4,649,621	46,144,732
Mortgage and other loans secured by real estate				
– not overdue	6,742,699	430,628	136,532	7,309,859
– overdue of less than 30 days	–	32,219	58,377	90,596
– overdue of 30-89 days	–	–	–	–
– overdue of 90-179 days	–	–	19,761	19,761
– overdue of 180-270 days	–	–	6,743	6,743
Total gross mortgage and other loans secured by real estate	6,742,699	462,847	221,413	7,426,959
Credit loss allowance	(13,149)	(33,321)	(94,600)	(141,070)
Total net mortgage and other loans secured by real estate	6,729,550	429,526	126,813	7,285,889
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 31 December 2023:

	Note		High grade	Standard grade	Total
Cash and cash equivalents, except for cash on hand	5	Stage1	–	3,235,661	3,235,661
Amounts due from banks	6	Stage1	–	970,776	970,776
Investment securities	8	Stage1	–	8,385,272	8,385,272
Total			–	12,591,709	12,591,709

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 2023 and 31 December 2022.

2023:

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

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 stressful 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 daily. 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 31 December 2023, these ratios were as follows:

	Threshold	31 December 2023, %	31 December 2022, %
N2.1 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	20.04 %	15.18 %
N2.2 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	210.43 %	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 31 December 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 31 December 2023	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities						
Derivative financial liabilities	–	–	–	–	–	–
Amounts due to banks	–	209,828	2,847,964	2,389,918	–	5,447,710
Amounts due to customers	–	15,020,190	18,388,454	2,253,340	–	35,661,983
Debt securities issued	–	124,076	1,454,840	5,295,516	–	6,874,432
Reverse Repo agreement	–	2,952,186	–	–	–	2,952,186
Other borrowed funds	–	172,644	1,153,463	5,259,221	4,119,874	10,705,202
Lease liability	–	2,329	6,347	257,695	2,181,056	2,447,428
Other financial liabilities	–	1,575,449	–	–	–	1,575,449
Financial guarantees	–	3,210,301	–	–	–	3,210,301
Total undiscounted financial liabilities	–	23,267,003	23,851,069	15,455,689	6,300,931	68,874,691

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.

	31/12/2023			31/12/2022		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	10,988,713	0	10,988,713	3,180,144	0	3,180,144
Amounts due from banks	970,266	0	970,266	110,319	0	110,319
Derivative financial assets	0	0	0			
Loans to customers	19,795,936	69,385,852	89,181,788	17,069,826	39,341,164	56,410,990
Investment securities	2,634,629	5,750,643	8,385,272	0	4,551,296	4,551,296
Property, equipment and right-of-use assets	0	3,656,299	3,656,299	0	2,690,069	2,690,069
Intangible assets	0	1,399,673	1,399,673	0	613,470	613,470
Current income tax assets	0	0	0	0	0	0
Other assets	186,567	2,223,803	2,410,371	170,212	645,211	815,423
Total	34,576,111	82,416,270	116,992,381	20,530,501	47,841,210	68,371,711
Amounts due to banks	2,758,533	2,300,482	5,059,015	4,502,769	3,262,653	7,765,422
Derivative financial liabilities	0	0	0	2,549	0	2,549
Amounts due to customers	32,245,735	2,070,606	34,316,341	582,125	800	582,925
Debt securities issued	1,160,367	4,804,502	5,964,869	359,829	1,091,710	1,451,539
Reverse Repo agreement	2,952,186	0	2,952,186	0	0	0
Other borrowed funds	825,364	7,108,698	7,934,062	210,596	3,122,594	3,333,190
Lease liability	6,222	1,748,771	1,754,993	267,611	1,519,441	1,787,052
Current income tax liabilities	1,625,016	0	1,625,016	1,504,320	0	1,504,320
Deferred tax liabilities	0	2,007,562	2,007,562	0	2,260,052	2,260,052
Other liabilities	1,902,497	0	1,902,497	950,983	0	950,983
Total	43,475,921	20,040,621	63,516,542	8,380,782	11,257,250	19,638,032
Net	(8,899,810)	62,375,649	53,475,839	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 2023 fourth quarter	Sensitivity of net interest income 2023 fourth quarter	Sensitivity of equity 2023 fourth quarter
AMD	3.18%	–	(935,512)
Currency	Decrease in basis points 2023 fourth quarter	Sensitivity of net interest income 2023 fourth quarter	Sensitivity of equity 2023 fourth quarter
AMD	-3.18%	–	1,305,299
Currency	Increase in basis points 2022	Sensitivity of net interest income 2022	Sensitivity of equity 2022
AMD	3.18%	–	(702,300)
Currency	Decrease in basis points 2022	Sensitivity of net interest income 2022	Sensitivity of equity 2022
AMD	-3.18%	–	1,006,300

Currency risk

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

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
Assets				
Cash and cash equivalents	4,372,160	881,621	1,711,642	6,965,424
Amounts due from banks	914,030	50,772	0	964,802
Loans to customers	12,486,514	251,292	0	12,737,806
Total assets	3,256	1,073	0	4,329
Liabilities	17,775,959	1,184,758	1,711,642	20,672,360
Amounts due to banks				
Amounts due to customers	4,944,253	0	0	4,944,253
Debt securities issued	0	0	0	0
Other liabilities	8,662,747	439,187	149,964	9,251,897
Total liabilities	3,496,986	0	0	3,496,986
Net position	5,563	129,737	56,293	191,593
Effect of derivatives	17,109,549	568,924	206,257	17,884,729
Net position including derivatives	666,411	615,835	1,505,386	2,787,631

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

Currency	Change in currency rate in % 31/12/2023	Effect on profit before tax 31/12/2023	Change in currency rate in % 31/12/2022	Effect on profit before tax 31/12/2022
USD	12.62%	84,101	5.00%	(53,298)
USD	(12.62%)	(84,101)	(5.00%)	53,298
EUR	21.31%	131,234	8.50%	53,255
EUR	(21.31%)	(131,234)	(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.

	<i>Fair value measurement using</i>			<i>Total</i>
	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
At 31 December 2022				
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	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
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	Unrecognised 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:

	31/12/2023		
	Shareholders and their close family members	Key management personnel and their close family members	Other related parties
Loans and advances to customers			
Loans outstanding at beginning of the financial period , gross	-	23,802	-
Loans issued during the year	-	46,700	168,187
Loan repayments during the year	-	(55,737)	(33,142)
Other movements	-	-	-
Loans outstanding at the end of the financial period	-	14,765	135,045
Less: allowance for impairment at	-	632	(2,983)
Loans outstanding at 31 December, net	-	15,396	132,062
Current accounts			
At 31 December 2022	121,082	5,337	-
Net flow during the period	(63,319)	16,423	671,891
At 31 December 2023	57,763	21,760	671,891
Term Deposits			
Deposit balances at 31 December 2022	-	-	-
Addition	7,896,626	99,254	5,076,063
Disposal	(7,896,625)	(39,526)	(1,990,326)
Other	-	250	86,957
Deposit balances at 31 December 2023	-	59,978	3,172,694
Lease Liabilities			
Lease liabilities at the beginning of the financial period.	959,170	-	808,591
Additions during the period	90,739	-	-
Accretion of interest	99,342	-	74,215
Payments during the period	(221,800)	-	(150,913)
Other	-	-	17,217
Lease liabilities at the end of the financial period.	927,451	-	749,110
Other assets	-	438,826	101,480
Financial guarantees	-	-	734,400
Interest revenue calculated using effective rate	-	32,772	-
Credit loss expense charge for loans	-	(157)	-
Interest expense on deposits and current accounts	(290,913)	(1,687)	(78,066)
Interest expense on lease liabilities	(99,342)	-	(74,215)

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:

	31/12/2023	31/12/2022
Salaries and other short-term benefits	552,975	362,775
Mandatory pension contributions	7,673	5,812
Total key management personnel compensation	560,648	368,587

(thousands of Armenian Drams)

29. Changes in liabilities arising from financing activities

	<i>Note</i>	<i>Debt securities issued</i>	<i>Other borrowed funds</i>	<i>Lease liabilities</i>	<i>Total liabilities from financing activities</i>
Carrying amount at 31 December 2021	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 2022	17,18,19	1,451,539	3,333,190	1,787,052	6,571,781
Proceeds from issue		4,758,175	5,363,220	219,826	10,341,221
Redemption		(503,636)	(1,106,702)	(433,185)	(2,043,523)
Foreign currency translation		58,250	0	0	58,250
Non-cash transactions		–	–	–	0
Other		200,541	344,354	181,300	726,194
Carrying amount at 31 December 2023	17,18,19	5,964,869	7,934,062	1,754,993	15,653,924

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 to support its business and to maximize shareholders' value.

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

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

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