Evocabank CJSC

Financial Statements

for the year ended 31 December 2023

Contents

KPMG Armenia LLC
Erebuni Plaza business center, 8th floor
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

Independent Auditors' Report

To the Shareholders and Supervisory Board of Evocabank CJSC

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Expected credit losses for loans to legal entities and individuals</th></tr>
<tr><td colspan="2">Please refer to the Note 19 and Note 30(c) in the financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Loans and advances to customers represent 48% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used, as outlined below.

The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas:

– timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments (hereinafter, "IFRS 9"));

– assessment of probability of default (PD) and loss given default (LGD);

– expected cash flows forecast, including from realisation of collateral for loans to customers classified in Stage 3.

Due to the significant volume of loans to customers and complexity and subjectivity over estimating amount of ECL, this area is a key audit matter.</td><td>We analysed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of our internal credit risks specialists.

To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate, our audit procedures included the following:

– for loans to legal entities we assessed and tested the design, implementation and operating effectiveness of the controls over allocation of loans into Stages.

– for loans to individuals we tested the design, implementation and operating effectiveness of controls over calculation of overdue days used as a basis for the allocation of loans into stages.

– for a sample of loans to legal entities, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements applied by the Bank.

– for loans to legal entities assigned to Stages 1 and 2, where PDs are assessed collectively, we assessed the appropriateness of the related models, and reconciled the model input data to primary sources, on a sample basis.

– for loans to legal entities in Stages 1 and 2, where LGD is assessed individually, we assessed the data inputs for LGD calculation, by agreeing collateral values to external valuation reports and testing the correctness and appropriateness of discounts applied. We have involved our internal valuation specialists to help us to assess the appropriateness of the values of pledged collateral used for LGD calculation, on a sample basis.

– for a sample of Stage 3 loans to legal entities, where ECL are assessed individually, we assessed the assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements.</td></tr>
</table>

	– for loans to individuals, on a sample basis we checked the completeness and accuracy of data inputs into ECL calculation models. – for a sample of Stage 3 loans to individuals, where ECL are assessed individually, we assessed, by comparing to information available in the market, the assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. – we assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2023 with the actual results for 2023. – we also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Matter Relating to Comparative Information

The financial statements of the Bank as at and for the year ended 31 December 2022 were audited by other auditors who expressed an unmodified opinion on those statements on 14 April 2023.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Gevorgyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia

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KPMG Armenia LLC
26 April 2024

	Notes	2023 AMD'000	2022 AMD'000
Interest income calculated using effective interest rate	6	29,047,260	20,957,238
Interest expense	6	(13,888,429)	(11,363,137)
Net interest income		**15,158,831**	**9,594,101**
Fee and commission income	7	7,967,909	7,565,223
Fee and commission expense	7	(5,663,032)	(4,235,381)
Net fee and commission income		**2,304,877**	**3,329,842**
Net gain on financial instruments at fair value through profit or loss		12,667	7,631
Net foreign exchange gain	8	7,714,975	29,160,732
Net gain/(loss) on investment securities measured at fair value through other comprehensive income		3,515	(4,730)
Other operating income	9	734,504	452,400
Banking direct expenses	10	(1,312,447)	(1,160,851)
Operating income before impairment and other administrative expenses		**24,616,922**	**41,379,125**
Net impairment losses on financial instruments	11	(732,404)	(2,175,344)
Personnel expenses	12	(6,420,563)	(5,580,282)
Depreciation of property and equipment and amortization of intangible assets	20	(1,006,040)	(823,675)
Other general administrative expenses	13	(3,043,446)	(1,860,478)
Profit before income tax		**13,414,469**	**30,939,346**
Income tax expense	14	(2,378,489)	(5,214,947)
Profit for the year		**11,035,980**	**25,724,399**
Other comprehensive income/(loss),			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve for investment securities:			
– net change in fair value		936,800	(947,588)
– net amount reclassified to profit or loss		(2,882)	3,879
Total items that are or may be reclassified subsequently to profit or loss		933,918	(943,709)
Other comprehensive income/(loss) for the year, net of income tax		**933,918**	**(943,709)**
Total comprehensive income for the year		**11,969,898**	**24,780,690**

The financial statements as set out on pages 7 to 80 were approved by the Management Board on 26 April 2024 and were signed on its behalf by:

Karen Yeghiazaryan
Chairman of the Management Board

Emma Janinyan
Chief Accountant –
Member of the Management Board

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АРМЕНИЯ, «ЭВОКАБАНК» ЗАО
ARMENIA, EVOCABANK CJSC
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The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2023 AMD'000	2022 AMD'000
ASSETS			
Cash and cash equivalents	15	60,937,733	71,384,322
Investment securities measured at fair value through other comprehensive income	16		
− Held by the Bank		30,553,145	25,073,566
− Pledged under sale and repurchase agreements		6,181,126	-
Investment securities measured at amortised cost	16		
− Held by the Bank		49,141,141	26,723,990
Loans and advances to banks and other financial institutions*	17	40,764,775	20,435,696
Amounts receivable under reverse repurchase agreements	18	30,249,231	27,033,349
Loans and advances to customers	19	211,751,365	161,583,223
Property, equipment and intangible assets	20	9,262,505	8,482,515
Right of use asset	21	1,055,100	1,077,445
Repossessed assets	19	1,526,940	1,486,160
Other assets	22	4,220,303	4,743,746
Total assets		**445,643,364**	**348,024,012**
LIABILITIES			
Deposits and balances from banks	23	11,581,709	274,694
Amounts payable under repurchase agreements	28	6,007,733	-
Current accounts and deposits from customers	24	280,821,591	229,262,980
Debt securities issued	25	21,296,245	10,895,281
Other borrowed funds	26	43,353,427	33,096,336
Subordinated borrowings	26	4,107,166	3,993,514
Current tax liability		1,389,238	4,776,679
Deferred tax liability	14	1,452,052	970,430
Lease liability	21	1,150,077	1,166,032
Other liabilities	27	5,024,018	2,651,856
Total liabilities		**376,183,256**	**287,087,802**
EQUITY	29		
Share capital		23,000,000	23,000,000
Revaluation surplus for buildings		3,270,974	3,378,746
Fair value reserve for investment securities		(705,274)	(1,639,192)
Retained earnings		43,894,408	36,196,656
Total equity		**69,460,108**	**60,936,210**
Total liabilities and equity		**445,643,364**	**348,024,012**

* Loans and advances to banks and other financial institutions do not include loans to universal credit organizations. These loans are included in the loans and advances to customers.

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2023 AMD'000	2022 AMD'000
Cash flows from operating activities			
Profit before tax		**13,414,469**	**30,939,346**
Adjustments for			
Amortization and depreciation allowances		1,006,040	823,675
Net (gains)/losses from sale of property and equipment		(166)	104
Net losses/(gains) on disposal of other assets		11,876	(79,002)
Impairment losses		732,404	2,175,344
Interest expense on lease liabilities		103,786	92,279
Net gains from revaluation of non-trading assets and liabilities	8	(1,283,818)	(2,274,926)
Interest receivable*		(749,377)	(208,406)
Interest payable*		829,904	1,195,492
Cash flows from operating activities before changes in operating assets and liabilities		**14,065,118**	**32,663,906**
(Increase)/decrease in operating assets			
Amounts receivable under reverse repurchase agreements		(3,139,744)	(6,903,191)
Loans and advances to banks and other financial institutions		(18,577,877)	(12,489,082)
Loans and advances to customers		(46,859,471)	(41,691,830)
Repossessed assets		146,206	638,529
Other assets		523,443	(3,702,969)
(Decrease)/increase in operating liabilities			
Deposits and balances from banks		11,084,857	1,011,029
Amounts payable under repurchase agreements		6,010,648	(15,947,495)
Current accounts and deposits from customers		46,707,320	94,437,134
Other liabilities		2,447,019	1,800,505
Net cash from operating activities before income tax paid		**12,407,519**	**49,816,536**
Income tax paid		(5,485,032)	(36,869)
Cash flows from operating activities		**6,922,487**	**49,779,667**
Cash flows from investing activities			
Acquisition of investment securities measured at FVOCI		(22,416,499)	(6,705,782)
Proceeds from sale and repayment of investment securities measured at FVOCI		12,032,796	3,209,206
Acquisition of investment securities measured at amortised cost		(21,661,786)	(22,593,125)
Purchase of property, equipment and intangible assets		(1,619,364)	(819,357)
Proceeds from sale of property and equipment		39,187	171,169
Cash flows used in investing activities		**(33,625,666)**	**(26,737,889)**
Cash flows from financing activities			
Issue of share capital	29	-	3,000,000
Dividends paid	29	(3,420,110)	(571,000)
Proceeds from debt securities issued	25	14,668,639	6,802,140
Repayment of debt securities issued	25	(4,866,450)	-
Receipt of other borrowings	26	16,931,181	15,019,845
Repayment of other borrowings	26	(7,320,965)	(7,063,900)
Lease liabilities	21	(282,922)	(217,961)
Cash flows from financing activities		**15,709,373**	**16,969,124**
Net (decrease)/increase in cash and cash equivalents		**(10,993,806)**	**40,010,902**
Effect of changes in exchange rates on cash and cash equivalents		529,580	(4,301,930)
Effect of changes in impairment allowance		17,637	(28,340)
Cash and cash equivalents as at the beginning of the year		71,384,322	35,703,690
Cash and cash equivalents as at the end of the year	15	**60,937,733**	**71,384,322**

* Interest receipts for the year ended 31 December 2023 comprised to AMD 28,297,883 thousand (2022: AMD 20,748,832 thousand). Interest payments for the year ended 31 December 2023 comprised to AMD 14,718,333 thousand (2022: AMD 12,558,629 thousand).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Fair value reserve for investment securities	Revaluation surplus for buildings	Retained earnings*	Total equity
Balance as at 1 January 2022	20,000,000	(695,483)	3,486,976	10,984,137	33,775,630
Profit for the year	-	-	-	25,724,399	25,724,399
Other comprehensive income					
Fair value reserve for investment securities					
− net change in fair value	-	(947,588)	-	-	(947,588)
− net amount reclassified to profit or loss	-	3,879	-	-	3,879
Total comprehensive income for the year	**-**	**(943,709)**	**-**	**25,724,399**	**24,780,690**
Adjustment to reserve on amortization or disposal of property and equipment	-	-	(108,230)	108,230	-
Transactions with owners, recorded directly in equity					
Issue of share capital	3,000,000	-	-	-	3,000,000
Dividends to shareholders	-	-	-	(620,110)	(620,110)
Total transactions with owners	**3,000,000**	**-**	**-**	**(620,110)**	**2,379,890**
Balance as at 31 December 2022	**23,000,000**	**(1,639,192)**	**3,378,746**	**36,196,656**	**60,936,210**
Balance as at 1 January 2023	23,000,000	(1,639,192)	3,378,746	36,196,656	60,936,210
Profit for the year	-	-	-	11,035,980	11,035,980
Other comprehensive income					
Fair value reserve for investment securities					
− net change in fair value	-	936,800	-	-	936,800
− net amount reclassified to profit or loss	-	(2,882)	-	-	(2,882)
Total comprehensive income for the year	**-**	**933,918**	**(107,772)**	**11,035,980**	**11,969,898**
Adjustment to reserve on amortization or disposal of property and equipment	-	-	(107,772)	107,772	-
Transactions with owners, recorded directly in equity					
Dividends to shareholders	-	-	-	(3,446,000)	(3,446,000)
Total transactions with owners	**-**	**-**	**-**	**(3,446,000)**	**(3,446,000)**
Balance as at 31 December 2023	**23,000,000**	**(705,274)**	**3,270,974**	**43,894,408**	**69,460,108**

* In the financial statements for the year ended 31 December 2022 the Bank had separately presented statutory general reserve in the amount of AMD 3,500,000 thousand. The statutory reserve is presented as part of retained earnings in the current financial statements.

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Evocabank CJSC (formerly Prometey Bank CJSC) (the "Bank") is a closed join stock company, which was incorporated on 01.06.1990. The Bank is regulated by the legislation of the Republic of Armenia and conducts its business under license number 27, granted on 02.10.1991 by the Central Bank of Armenia (the "CBA").

The Bank is a member of the state deposit insurance system in the Republic of Armenia and member of Union of Banks of Armenia, ArCa, MasterCard payment systems.

The Bank accepts deposits from the public and extends credits, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank conducts business throughout head office and 13 branches located in Yerevan, Gyumri, Abovyan and Vanadzor. The registered office of the Bank is 44/2 Hanrapetutyan Street, Yerevan 0010, Republic of Armenia.

Number of employees as at 31 December 2023 was 492 (2022: 438).

As at 31 December 2023 and 2022 the Bank's shareholding structure was as follows:

	2023		**2022**	
	AMD'000	**%**	**AMD'000**	**%**
Mareta Gevorkyan	22,999,300	100.0	22,980,100	99.9
Other shareholders	700	0.0	19,900	0.1
	23,000,000	**100**	**23,000,000**	**100**

The Bank is ultimately controlled by a single individual, Mareta Gevorkyan, who has the power to direct the transactions of the Bank at her own discretion and for her own benefit. In addition, she has several other business interests outside the Bank.

(b) Armenian business environment

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

Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories has led to a social unrest in Armenia. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment. In September 2023 the Azerbaijani forces started a new military operation leading to the fleeing of the Nagorno-Karabakh population to Armenia and leaving Azerbaijan in effective control of the territory.

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

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

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss (FVTPL) and investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value and buildings are stated at revalued amounts.

(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 the Bank.

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about critical judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i);

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit loss (“ECL”) and selection of models used to measure ECL – Note 30(c).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information – Note 30(c).

3 Changes in material accounting policies

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective for these financial statements.

Certain amendments and interpretations apply for the first time in 2023, but do not have significant impact on the Bank’s financial statements and accounting policies.

Material accounting policy information

The Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of “material”, rather than “significant”, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 4 Material Accounting Policies (2022: Significant accounting policies) in certain instances in line with the amendments.

4 Material accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments at FVOCI, unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with the CBA, including obligatory reserves denominated in AMD, balances (nostro accounts) held with other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 4(e)(iv).

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 and lease liabilities.

(d) 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 (see Note 4(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

Other fee and commission expenses relate mainly to transaction and service fees, which are generated based on actual transactions with customers. The Bank classifies expenses directly attributable to revenue generation and not resulting from actual transactions with customers as other operating expenses. All other expenses are classified as general administrative expenses.

(e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

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

A debt instrument is measured at FVOCI only 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 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.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

– interest income using the effective interest method;
– ECL and reversals; and
– foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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.

Business model assessment

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

The information considered includes:

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

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

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

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

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

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the CBA. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans (Note 4(e)(iii)).

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

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, the Bank updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Bank first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applied the policies on accounting for modifications to the additional changes.

Financial assets

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

Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

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

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

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

Financial liabilities

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

The 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 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.

iv. Impairment

See also Note 30(c).

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets that are debt instruments;
– net investments in finance leases;
– financial guarantee contracts issued; and
– loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

– debt investment securities that are determined to have low credit risk at the reporting date; and
– other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 30(c)).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

– *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
– *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
– *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
– *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 30(c).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 4(e)(ii)) and ECL are measured as follows.

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 30(c)).
– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past due event;
– the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

– The market's assessment of creditworthiness as reflected in the bond yields.
– The rating agencies' assessments of creditworthiness.
– The country's ability to access the capital markets for new debt issuance.
– The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
– The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

– *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
– *loan commitments and financial guarantee contracts*: generally, as a provision;
– *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
– *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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 'impairment losses on financial instruments' 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.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately.

The factors that the Bank considers when making this assessment include whether:

– the guarantee is implicitly part of the contractual terms of the debt instrument;
– the guarantee is required by laws and regulations that govern the contract of the debt instrument;
– the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
– the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on debt financial assets'.

(f) Loans and advances to customers

Loans and advances to customers caption in the statement of financial position include:

– loans to customers; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
– net investments in finance leases.

(g) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

(h) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 4(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognises a loss allowance (see Note 4(e)(iv)) in accordance with IFRS 9.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(i) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below

(ii) Revaluation

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on a land and building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a land and building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(k) Share capital

(i) Ordinary shares

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

(ii) Preference shares

Non-redeemable preference shares are classified as equity, because they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Bank's equity instruments. Discretionary dividends thereon are recognised as equity distributions on approval by the Bank's shareholders.

(iii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(l) Repossessed property

Repossessed property is stated at lower of cost and net realisable value.

(m) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); 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. The Bank's segmental reporting is based on the following operating segments: Retail Banking, Corporate Banking, Investment Banking and Digital Banking (2022: Retail Banking, Corporate Banking and Investment Banking).

(n) Taxation

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

Current tax 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 assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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 assets and liabilities 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.

(o) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants (Amendment to IAS 1)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS7)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).
- Lack of Exchangeability (Amendments to IAS 21).

5 Comparative information

As at 31 December 2023 the Bank has revised the classification of obligatory reserve with the CBA for attracted funds maintained in foreign currencies (Note 17) and has assessed that the reserve does not qualify for classification to cash and cash equivalents as the Bank is required to maintain a minimum balance at the end of each day. The reserve is included in the loans and advances to banks. Comparative information is reclassified to conform to changes in classification of the reserve.

Additionally comparative information is reclassified to conform to changes in combined presentation of net foreign exchange gain in the current year in the statement of profit or loss and other comprehensive income (Note 8).

The following tables summarize the impacts on the Bank's financial statements.

Statement of financial position

	Impact of reassessment		
As at 31 December 2022	**As previously reported**	**Reclassification**	**As reclassified**
Cash and cash equivalents	88,969,092	(17,584,770)	71,384,322
Loans and advances to banks and other financial institutions	2,850,926	17,584,770	20,435,696

Statement of profit or loss and other comprehensive income

AMD'000	Impact of reclassification		
For the year ended 31 December 2022	**As previously reported**	**Reclassification**	**As reclassified**
Net trading income	26,888,707	(26,888,707)	-
Other operating income	2,727,326	(2,274,926)	452,400
Net foreign exchange gain	-	29,160,732	29,160,732
Net loss on investment securities measured at fair value through other comprehensive income	-	(4,730)	(4,730)
Net gain on financial instruments at fair value through profit or loss	-	7,631	7,631

6 Net interest income

	2023 AMD'000	2022 AMD'000
Interest income calculated using effective interest rate		
Financial assets measured at amortised cost		
Loans and advances to customers	18,789,551	14,983,091
Investment securities measured at amortised cost	3,463,352	2,602,982
Amounts receivable under reverse repurchase agreements	2,873,836	2,168,633
Loans and advances to banks and other financial institutions	1,671,902	202,006
Other	8,985	3,095
	26,807,626	**19,959,807**
Financial assets measured at fair value through other comprehensive income		
Investment securities measured at FVOCI	2,239,634	997,431
Interest income calculated using effective interest rate	**29,047,260**	**20,957,238**
Interest expense		
Current accounts and deposits from customers	9,530,210	7,699,024
Other borrowed funds and subordinated borrowings	2,996,026	2,260,754
Debt securities issued	1,157,491	659,420
Lease liabilities	103,786	92,279
Amounts payable under repurchase agreements	63,058	612,211
Deposits and balances from banks	37,630	39,449
Other	228	-
Total interest expense	**13,888,429**	**11,363,137**
Net interest income	**15,158,831**	**9,594,101**

7 Net fee and commission income

	2023 AMD'000	2022 AMD'000
Fee and commission income		
Plastic cards operations	5,250,213	2,394,126
Charges from cash and non-cash transactions	1,532,067	4,342,699
Money transfers	531,965	558,802
Account service and distance system services	510,864	166,934
Guarantees and letters of credit	90,294	63,324
Other	52,506	39,338
Total fee and commission income	**7,967,909**	**7,565,223**
Fee and commission expense		
Plastic card operations	4,109,903	1,683,660
Charges from cash and non-cash transactions	1,299,511	2,127,428
Money transfers	247,324	283,527
Other	6,294	140,766
Total fee and commission expense	**5,663,032**	**4,235,381**
Net fee and commission income	**2,304,877**	**3,329,842**

(a) Revenue from contracts with customers

The Bank's revenue from contract with customers mainly comprises fee and commission income. The Bank recognises majority of revenue from fees and commission at a point in time. Revenue from contracts with customers recognised in the statement of profit or loss and other comprehensive income for the years ended 31 December 2023 and 2022 comprised to:

	2023 AMD'000	2022 AMD'000
Fee and commission income	**7,967,909**	**7,565,223**

(b) Contract balances

The following table provides information about receivable from contracts with customers.

	2023 AMD'000	2022 AMD'000
Receivable included in other assets	**65,028**	**12,986**

8 Net foreign exchange gain

	2023 AMD'000	2022 AMD'000
Net gain on spot transactions	6,431,157	26,885,806
Net gain from revaluation of financial assets and liabilities	1,283,818	2,274,926
	7,714,975	**29,160,732**

9 Other operating income

	2023 AMD'000	2022 AMD'000
Fines and penalties received	615,033	302,777
Refund of court fees	31,186	40,188
Income from termination of right of use asset	20,161	-
Net gain on disposal of other assets	216	79,252
Other	67,908	30,183
	734,504	**452,400**

10 Banking direct expenses

	2023 AMD'000	2022 AMD'000
Deposit guarantee fund expenses	682,265	480,645
Credit register, other operational systems and other platforms participation expenses	108,938	91,815
Cashback charges	89,505	24,445
Cash collection expenses	83,757	39,134
Loan forgiveness expenses	80,258	361
Financial mediator expenses	35,122	24,673
Cards embossing and delivery expenses	28,913	41,966
Depositary service expenses	27,045	21,250
Reimbursement of fees to customers, due to early repayments of loans	22,964	316,985
Fees for brokerage services	19,454	14,522
Other	134,226	105,055
	1,312,447	**1,160,851**

11 Net impairment losses on financial instruments

The table below shows the impairment losses on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	(17,637)	-	-	(17,637)
Loans and advances to banks and other financial institutions	85,506	-	-	85,506
Loans to legal entities and individuals	18,313	48,903	523,237	590,453
Receivables from finance leases	7,077	-	-	7,077
Investment securities measured at amortised cost	39,897	-	-	39,897
Investment securities measured at fair value through other comprehensive income	19,508	-	-	19,508
Other financial assets	28,148	-	-	28,148
Amounts receivable under reverse repurchase agreements	(6,445)	-	-	(6,445)
Financial guarantee contracts	(14,103)	-	-	(14,103)
Total credit loss expense	**160,264**	**48,903**	**523,237**	**732,404**

The table below shows the impairment losses on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	28,340	-	-	28,340
Loans and advances to banks and other financial institutions	33,067	-	-	33,067
Loans to legal entities and individuals	(160,463)	187,497	1,979,198	2,006,232
Receivables from finance leases	329	-	-	329
Investment securities measured at amortised cost	43,435	-	-	43,435
Investment securities measured at fair value through other comprehensive income	(15,876)	-	-	(15,876)
Other financial assets	10,854	-	-	10,854
Amounts receivable under reverse repurchase agreements	3,986	-	-	3,986
Financial guarantee contracts	64,977	-	-	64,977
Total credit loss expense	**8,649**	**187,497**	**1,979,198**	**2,175,344**

12 Personnel expenses

	2023 AMD'000	2022 AMD'000
Compensation of employees, related taxes included	6,184,761	5,408,237
Staff training expenses	75,753	33,610
Other staff costs	160,049	138,435
	6,420,563	**5,580,282**

13 Other general administrative expenses

	2023 AMD'000	2022 AMD'000
Advertising and public relations	929,103	414,076
Intangible assets maintenance	588,405	325,265
Consulting and other services*	334,586	98,323
Fixed assets repair and maintenance	278,992	215,890
Taxes, other than income tax, duties	168,480	111,778
Loan recovery expenses	137,405	159,999
Representative and organizational expenses	120,446	101,638
Security	108,359	102,402
Office supplies	87,547	88,221
Communications	77,834	57,153
Expenses of short term and low value assets leases	70,151	70,331
Insurance expenses	70,046	66,382
Other	72,092	49,020
	3,043,446	**1,860,478**

*Included in consulting and other services for the year ended 31 December 2023 is AMD 35,000 thousand for the audit of IFRS financial statements of the Bank for the year ended 31 December 2023 and AMD 73,856 thousand for other non-audit services, which were paid/are payable to the audit firm. All these fees exclude VAT.

14 Income tax expense

	2023 AMD'000	2022 AMD'000
Current tax expense	2,013,567	4,800,638
Adjustment of income tax of previous years	84,024	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	280,898	414,309
Total income tax expense	**2,378,489**	**5,214,947**

In 2023 the applicable tax rate for current tax is 18% (no change comparing with 2022).

Reconciliation of effective tax rate for the year ended 31 December:

	2023 AMD'000	%	2022 AMD'000	%
Profit before income tax	13,414,469		30,939,346	
Income tax at the applicable tax rate	2,414,604	18.0	5,569,082	18.0
Adjustment of income tax of previous years	84,024	0.6	-	-
Non-taxable income	(120,139)	(0.9)	(354,135)	(1.1)
Total income tax expense	**2,378,489**	**17.7**	**5,214,947**	**16.9**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax asset and net deferred tax liability accordingly as at 31 December 2023 and 2022.

Movements in temporary differences during the years ended 31 December 2023 and 2022 are presented as follows:

AMD'000	Balance 1 January 2023	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2023
Cash and cash equivalents	(6,325)	(4,096)	-	(10,421)
Amounts receivable under reverse repurchase agreements	(590)	1,163	-	573
Loans and advances to banks and other financial institutions	3,882	(6,927)	-	(3,045)
Investment securities	377,668	(3,799)	(200,724)	173,145
Loans and advances to customers	(584,252)	(122,676)	-	(706,928)
Property, equipment and intangible assets	(720,472)	(207,709)	-	(928,181)
Right of use asset	(193,940)	4,022	-	(189,918)
Lease liability	209,886	(2,872)	-	207,014
Other assets	(10,638)	14,615	-	3,977
Current accounts and deposits from customers	(8,603)	(5,617)	-	(14,220)
Other borrowed funds	(33,646)	(25,844)	-	(59,490)
Other liabilities	(3,400)	78,842	-	75,442
Total deferred tax liability	**(970,430)**	**(280,898)**	**(200,724)**	**(1,452,052)**

AMD'000	Balance 1 January 2022	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2022
Cash and cash equivalents	(4,951)	(1,374)	-	(6,325)
Amounts receivable under reverse repurchase agreements	(299)	(291)	-	(590)
Loans and advances to banks and other financial institutions	(653)	4,535	-	3,882
Investment securities	169,819	4,178	203,671	377,668
Loans and advances to customers	(177,216)	(407,036)	-	(584,252)
Property, equipment and intangible assets	(747,156)	26,685	-	(720,471)
Right of use asset	(137,808)	(56,132)	-	(193,940)
Lease liability	148,607	61,278	-	209,885
Other assets	(1,194)	(9,444)	-	(10,638)
Current accounts and deposits from customers	(8,139)	(464)	-	(8,603)
Other borrowed funds	(18,805)	(14,841)	-	(33,646)
Other liabilities	18,003	(21,403)	-	(3,400)
Total deferred tax liability	**(759,792)**	**(414,309)**	**203,671**	**(970,430)**

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the Bank can utilise the benefits therefrom.

15 Cash and cash equivalents

	2023 AMD'000	2022 AMD'000
Cash on hand	20,752,867	27,822,349
Nostro accounts with the CBA	34,298,539	36,452,475
Nostro accounts with other banks		
− rated A1 to A3	3,489,814	4,565,839
− rates from Baa1 to Baa3	814,941	-
− rated from Ba1 to Ba3	525,426	191,635
− rated from B1 to B3	9,756	6,069
− not rated	1,067,439	2,378,606
Total nostro accounts with other banks	**5,901,341**	**7,142,149**
Total gross cash and cash equivalents	**60,952,747**	**71,416,973**
Credit loss allowance	(15,014)	(32,651)
Total net cash and cash equivalents	**60,937,733**	**71,384,322**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of cash and cash equivalents. Included in the balance of not rated nostro accounts with banks as at 31 December 2023 is a balance 412,472 thousand with an Armenian bank which has an external ratings per Fitch corresponding to rating of B1 by Moody's respectively (2022: AMD 424,945 thousand).

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2023 and 2022.

As at 31 December 2023 and 2022 the Bank had no placement with banks, except for the CBA, whose balances exceeded 10% of the Bank's equity.

Nostro accounts with the CBA relate to settlement activity (see Note 17) and are readily available for withdrawal.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for cash and cash equivalents for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	32,651	-	-	32,651
Net remeasurement of loss allowance	(32,651)	-	-	(32,651)
New financial assets originated or purchased	15,014	-	-	15,014
Balance at 31 December	**15,014**	**-**	**-**	**15,014**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	4,311	-	-	4,311
Net remeasurement of loss allowance	(4,311)	-	-	(4,311)
New financial assets originated or purchased	32,651	-	-	32,651
Balance at 31 December	**32,651**	**-**	**-**	**32,651**

16 Investment securities

(a) Investment securities measured at fair value through other comprehensive income

	2023 AMD'000	2022 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	30,190,240	24,552,968
Corporate bonds of Armenian not rated companies	320,080	477,773
Total debt and other fixed-income instruments	**30,510,320**	**25,030,741**
Equity investments		
Corporate shares	42,825	42,825
Total investment securities measured at FVOCI held by the Bank	**30,553,145**	**25,073,566**
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	6,181,126	-
Total investment securities pledged under sale and repurchase agreements measured at FVOCI	**6,181,126**	**-**
Total investment securities measured at FVOCI	**36,734,271**	**25,073,566**

Investment securities measured at fair value through other comprehensive income are fully in Stage 1 as at 31 December 2023 and 2022.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at fair value through other comprehensive income for the years ended 31 December 2023 and 2022. The loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities measured at fair value through other comprehensive income is their fair value.

AMD'000	**2023**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment securities at fair value through other comprehensive income				
Balance at 1 January	56,044	-	-	56,044
Net remeasurement of loss allowance inclusive repayments	(23,471)	-	-	(23,471)
New assets originated or purchased	42,979	-	-	42,979
Balance at 31 December	**75,552**	**-**	**-**	**75,552**

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment securities at fair value through other comprehensive income				
Balance at 1 January	71,920	-	-	71,920
Net remeasurement of loss allowance inclusive repayments	(33,808)	-	-	(33,808)
New assets originated or purchased	17,932	-	-	17,932
Balance at 31 December	**56,044**	**-**	**-**	**56,044**

(i) Non-quoted equity investment securities designated at fair value through other comprehensive income

Included in financial assets at fair value through other comprehensive income are non-quoted equity securities as follows:

Name	Country of incorporation	Main activity	% controlled 2023	% controlled 2022	2023 AMD'000	2022 AMD'000
ArCa	Republic of Armenia	Payment system	1.25	1.25	10,717	10,717
ACRA Credit Reporting	Republic of Armenia	Credit bureau	5.90	5.90	32,108	32,108
					42,825	**42,825**

As at 31 December 2023 and 2022 investments primarily include mandatory shares in exchanges and credit bureaus. The Bank's management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2023 and 2022.

(b) Investment securities measured at amortised cost

	2023 AMD'000	2022 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	25,705,479	21,395,653
Government Eurobonds of the Republic of Armenia	5,394,322	4,415,728
Government securities of foreign countries rated Aaa	14,097,950	-
Total government bonds	**45,197,751**	**25,811,381**
Corporate bonds of Armenian companies		
− rated from Ba1 to Ba3	3,025,840	963,624
− not rated	1,008,462	-
Total corporate bonds	**4,034,302**	**963,624**
Total debt and other fixed-income instruments	**49,232,053**	**26,775,005**
Total gross investment securities measured at amortised cost	**49,232,053**	**26,775,005**
Credit loss allowance	(90,912)	(51,015)
Total net investment securities measured at amortised cost	**49,141,141**	**26,723,990**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at amortised cost.

Included in the balance of not rated corporate bonds of Armenian companies as at 31 December 2023 is a balance 1,008,462 thousand with a company which has an external ratings per Fitch corresponding to rating of Ba3 by Moody's.

As at 31 December 2023 the Bank has no counterparty except for the Government of the Republic of Armenia (2022: no counterparty except for the Government of the Republic of Armenia) whose balances exceed 10% of the Bank's equity.

Investment securities measured at amortised cost are fully in Stage 1 as at 31 December 2023 and 2022.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at amortised cost for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	51,015	-	-	51,015
Net remeasurement of loss allowance inclusive repayments	12,914	-	-	12,914
New assets originated or purchased	26,983	-	-	26,983
Balance at 31 December	**90,912**	**-**	**-**	**90,912**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	7,580	-	-	7,580
Net remeasurement of loss allowance inclusive repayments	(515)	-	-	(515)
New assets originated or purchased	43,950	-	-	43,950
Balance at 31 December	**51,015**	**-**	**-**	**51,015**

17 Loans and advances to banks and other financial institutions

	2023 AMD'000	**2022 AMD'000**
Due from the CBA		
Credit card settlement deposit with the CBA	3,607,500	1,100,000
Deposit with the CBA, obligatory reserves	22,438,845	17,584,770
Credit card settlement deposit with other financial institutions	93,338	65,278
Balances held with state depository	2,896,229	-
Loans and deposits with other banks and financial institutions		
Armenian banks		
- rated from Ba1 to Ba3	2,247,231	79,967
- not rated	4,863,349	1,578,291
Other banks and financial institutions		
- rated from A1 to A3	-	25,204
- not rated	4,741,940	40,337
Total loans and deposits with other banks and financial institutions	**11,852,520**	**1,723,799**
Total gross loans and advances to banks and other financial institutions	**40,888,432**	**20,473,847**
Credit loss allowance	(123,657)	(38,151)
Total net loans and advances to banks and other financial institutions	**40,764,775**	**20,435,696**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of loans and advances to banks. For not rated loans and deposits with Armenian banks the Bank has assessed the credit risk to approximate to external rating of B1 according to Moody's. Included in the balance of not rated loans and deposits with other banks and financial institutions as at 31 December 2023 are balances of AMD 1,147,654 thousand and AMD 2,875,230 thousand to financial institutions which have external ratings per Fitch corresponding to rating of Aa3 and Ba1 by Moody's, respectively.

Included in the loans and deposits with other banks and financial institutions is an amount of AMD 2,875,230 thousand deposit with a single counterparty, the amount for which had not yet been transferred to the counterparty and is recorded as a liability in deposits and balances to banks (Note 23).

(a) Balances with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and withdrawability of which is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the CBA for attracted funds. For funds attracted in AMD the obligatory reserve is 4% (2022: 4%) and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 6% is maintained in AMD and 12% in the respective currency of funds attracted (2022: 10% in AMD and 8% in respective currency of funds attracted). The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 15) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks.

(b) Concentration of loans and advances to banks

As at 31 December 2023 and 2022 the Bank has no counterparty except for the CBA, whose balances exceed 10% of the Bank's equity.

No loans and advances to banks are past due or impaired. Loans and advances to banks are fully in Stage 1 as at 31 December 2023 and 2022. All the loans and advance to banks are measured at amortised cost as at 31 December 2023 and 2022.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans and advances to banks for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	38,151	-	-	38,151
Net remeasurement of loss allowance inclusive repayments	(38,151)	-	-	(38,151)
New assets originated or purchased	123,657	-	-	123,657
Balance at 31 December	**123,657**	**-**	**-**	**123,657**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	5,084	-	-	5,084
Net remeasurement of loss allowance inclusive repayments	(5,084)	-	-	(5,084)
New assets originated or purchased	38,151	-	-	38,151
Balance at 31 December	**38,151**	**-**	**-**	**38,151**

18 Amounts receivable under reverse repurchase agreements

	2023 AMD'000	2022 AMD'000
Amounts receivable from medium size Armenian banks, not rated	411,943	7,060,265
Amounts receivable from other small and medium Armenian financial institutions, not rated	29,847,012	19,989,253
Total gross amounts receivable under reverse repurchase agreements	**30,258,955**	**27,049,518**
Credit loss allowance	(9,724)	(16,169)
Total net amounts receivable under reverse repurchase agreements	**30,249,231**	**27,033,349**

Collateral accepted as security for assets

As at 31 December 2023 amounts receivable under reverse repurchase agreements were collateralised by government securities with fair value of AMD 31,972,194 thousand (2022: AMD 28,865,885 thousand).

As of 31 December 2023 the Bank has no counterparty, whose balance exceeded 10% of equity (2022: one counterparty). The gross amount receivable of the counterparty balance as at 31 December 2022 was AMD 7,060,265 thousand.

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks and financial institutions. All of them are categorised under Stage 1 and are measured at amortised cost as at 31 December 2023 and 2022.

For not rated amounts receivable from small and medium Armenian financial institutions and medium size Armenian banks as at 31 December 2023 and 2022 the Bank has assessed the credit risk to approximate to external rating of B1 according to Moody's.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for amounts receivable under reverse repurchase agreements for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	16,169	-	-	16,169
Net remeasurement of loss allowance inclusive repayments	(16,169)	-	-	(16,169)
New assets originated or purchased	9,724	-	-	9,724
Balance at 31 December	**9,724**	**-**	**-**	**9,724**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	12,183	-	-	12,183
Net remeasurement of loss allowance inclusive repayments	(12,183)	-	-	(12,183)
New assets originated or purchased	16,169	-	-	16,169
Balance at 31 December	**16,169**	**-**	**-**	**16,169**

19 Loans and advances to customers

		2023 AMD'000	2022 AMD'000
Loans to legal entities at amortised cost			
Loans to large companies	19(a)	43,829,383	37,442,004
Loans to small and medium size companies	19(a)	59,356,138	41,854,700
Loans to credit and investment organizations	19(a)	7,849,754	7,807,921
Total gross loans and advances to legal entities at amortised cost		**111,035,275**	**87,104,625**
Loans to individuals at amortised cost			
Mortgage	19(a)	72,730,593	56,576,391
Consumer lending	19(a)	28,593,677	20,516,192
Total gross loans and advances to individuals at amortised cost		**101,324,270**	**77,092,583**
Total gross loans and advances to customers at amortised cost		**212,359,545**	**164,197,208**
Receivables from finance lease	19(b)	**3,002,924**	**131,729**
Credit loss allowance		(3,611,104)	(2,745,714)
Total net loans and advances to customers		**211,751,365**	**161,583,223**

(a) Loans to legal entities and individuals

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to legal entities for the years ended 31 December 2023 and 2022.

AMD'000	**2023**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	80,417,120	2,871,051	3,816,454	87,104,625
New assets originated	51,682,893	-	-	51,682,893
Assets repaid	(30,172,631)	(572,449)	(304,470)	(31,049,550)
Transfer to Stage 1	410,485	(406,442)	(4,043)	-
Transfer to Stage 2	(3,453,146)	3,484,160	(31,014)	-
Transfer to Stage 3	(499,073)	(2,430,171)	2,929,244	-
Amounts written off	-	-	(646,804)	(646,804)
Recoveries	-	-	311,793	311,793
Net change in asset from interest and foreign exchange revaluation	2,506,702	455,825	669,791	3,632,318
Balance at 31 December	**100,892,350**	**3,401,974**	**6,740,951**	**111,035,275**

AMD'000	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Balance at 1 January	74,971,418	217,983	430,402	75,619,803
New assets originated*	54,801,673	-	-	54,801,673
Assets repaid*	(28,911,822)	(115,563)	(268,311)	(29,295,696)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(3,605,784)	3,605,784	-	-
Transfer to Stage 3	(4,657,522)	(214,002)	4,871,524	-
Recoveries	-	-	79,119	79,119
Amounts written off	-	-	(413,717)	(413,717)
Net change in asset from interest and foreign exchange revaluation	(12,180,843)	(623,151)	(882,563)	(13,686,557)
Balance at 31 December	**80,417,120**	**2,871,051**	**3,816,454**	**87,104,625**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to legal entities for the years ended 31 December 2023 and 2022.

AMD'000	2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Balance at 1 January	312,536	242,688	1,284,491	1,839,715
Transfer to Stage 1	9,604	(6,247)	(3,357)	-
Transfer to Stage 2	(6,740)	6,740	-	-
Transfer to Stage 3	(42)	(235,815)	235,857	-
Net remeasurement of loss allowance inclusive repayments	(120,690)	20,745	1,059,287	959,342
New financial assets originated	303,594	-	-	303,594
Recoveries	-	-	311,793	311,793
Amounts written off	-	-	(411,309)	(411,309)
Balance at 31 December	**498,262**	**28,111**	**2,476,762**	**3,003,135**

AMD'000	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Balance at 1 January	388,223	60,766	97,574	546,563
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(33,111)	33,111	-	-
Transfer to Stage 3	(34,744)	(60,471)	95,215	-
Net remeasurement of loss allowance inclusive repayments*	(169,749)	208,984	1,427,577	1,466,812
New financial assets originated*	161,917	298	2,410	164,625
Recoveries	-	-	75,432	75,432
Amounts written off	-	-	(413,717)	(413,717)
Balance at 31 December	**312,536**	**242,688**	**1,284,491**	**1,839,715**

* The Bank has excluded movement of revolving credit lines and overdrafts from the new assets originated and assets repaid lines in the movement of gross carrying values and respective loan loss allowance for loans to legal entities and loans to individuals. Comparative information for the year ended 31 December 2022 has been amended with this regard.

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to individuals for the years ended 31 December 2023 and 2022.

AMD'000	**2023**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	75,818,856	460,117	813,610	77,092,583
New assets originated	52,969,692	-	-	52,969,692
Assets repaid	(28,337,359)	(209,950)	(865,310)	(29,412,619)
Transfer to Stage 1	244,018	(196,508)	(47,510)	-
Transfer to Stage 2	(319,590)	351,967	(32,377)	-
Transfer to Stage 3	(448,888)	(81,313)	530,201	-
Recoveries	-	-	1,137,506	1,137,506
Amounts written off	-	-	(770,130)	(770,130)
Change in balance of asset from interest and foreign exchange	551,003	64,277	(308,042)	307,238
Balance at 31 December	**100,477,732**	**388,590**	**457,948**	**101,324,270**

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	64,056,358	1,240,312	1,154,013	66,450,683
New assets originated *	39,848,444	-	-	39,848,444
Assets repaid*	(20,777,767)	(331,087)	(227,371)	(21,336,225)
Transfer to Stage 1	215,531	(215,531)	-	-
Transfer to Stage 2	(363,656)	424,746	(61,090)	-
Transfer to Stage 3	(990,774)	(646,300)	1,637,074	-
Recoveries	-	-	1,023,674	1,023,674
Amounts written off	-	-	(1,415,061)	(1,415,061)
Change in balance of asset from interest and foreign exchange	(6,169,280)	(12,023)	(1,297,629)	(7,478,932)
Balance at 31 December	**75,818,856**	**460,117**	**813,610**	**77,092,583**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to individuals for the years ended 31 December 2023 and 2022.

AMD'000	**2023**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	431,538	139,658	334,474	905,670
Transfer to Stage 1	91,395	(68,500)	(22,895)	-
Transfer to Stage 2	(10,549)	18,081	(7,532)	-
Transfer to Stage 3	(6,783)	(33,372)	40,155	-
Net remeasurement of loss allowance inclusive repayments	(349,146)	28,158	(536,050)	(857,038)
New financial assets	184,555	-	-	184,555
Recoveries	-	-	1,137,506	1,137,506
Amounts written off during the year	-	-	(770,130)	(770,130)
Balance at 31 December	**341,010**	**84,025**	**175,528**	**600,563**

AMD'000	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	534,814	430,426	600,729	1,565,969
Transfer to Stage 1	79,985	(79,985)	-	-
Transfer to Stage 2	(7,316)	25,363	(18,047)	-
Transfer to Stage 3	(23,314)	(214,361)	237,675	-
Net remeasurement of loss allowance inclusive repayments*	(311,221)	(27,671)	495,509	156,617
New financial assets originated*	158,590	5,886	53,702	218,178
Recoveries	-	-	841,678	841,678
Amounts written off during the year	-	-	(1,876,772)	(1,876,772)
Balance at 31 December	**431,538**	**139,658**	**334,474**	**905,670**

Credit quality of loans to customers

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2023. Additional information about credit quality of corporate loans and advances to customers based on Internal Credit Rating model is disclosed in Note 30.

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Loans to large corporate customers				
− not overdue	36,464,183	1,724,724	552,259	38,741,166
− overdue more than 30 days and less than 90 days	-	-	2,042,779	2,042,779
− overdue more than 90 days	-	-	3,045,438	3,045,438
Total gross loans to large corporate customers	**36,464,183**	**1,724,724**	**5,640,476**	**43,829,383**
Credit loss allowance	(246,811)	(12,233)	(2,347,412)	(2,606,456)
Total net loans to large corporate customers	**36,217,372**	**1,712,491**	**3,293,064**	**41,222,927**
Loans to small and medium size companies				
− not overdue	56,571,150	1,650,086	-	58,221,236
− overdue less than 30 days	7,263	26,768	-	34,031
− overdue more than 30 days and less than 90 days	-	396	10,994	11,390
− overdue more than 90 days	-	-	1,089,481	1,089,481
Total gross loans to small and medium size companies	**56,578,413**	**1,677,250**	**1,100,475**	**59,356,138**
Credit loss allowance	(150,922)	(15,878)	(129,350)	(296,150)
Total net loans to small and medium size companies	**56,427,491**	**1,661,372**	**971,125**	**59,059,988**
Loans to credit and investment organizations				
− not overdue	7,849,754	-	-	7,849,754
Total gross loans to credit and investment organizations	**7,849,754**	**-**	**-**	**7,849,754**
Credit loss allowance	(100,529)	-	-	(100,529)
Total net loans to credit and investment organizations	**7,749,225**	**-**	**-**	**7,749,225**
Total gross loans to corporate customers	**100,892,350**	**3,401,974**	**6,740,951**	**111,035,275**
Total net loans to corporate customers	**100,394,088**	**3,373,863**	**4,264,189**	**108,032,140**

	Stage 1	Stage 2	Stage 3	Total
	AMD'000	AMD'000	AMD'000	AMD'000
Mortgage loans				
− not overdue	72,221,297	158,193	199,101	72,578,591
− overdue less than 30 days	11,315	23,017	13,678	48,010
− overdue more than 30 days and less than 90 days	-	41,403	-	41,403
− overdue more than 90 days	-	-	62,589	62,589
Total gross mortgage loans	**72,232,612**	**222,613**	**275,368**	**72,730,593**
Credit loss allowance	(39,537)	(26,080)	(57,247)	(122,864)
Total net mortgage loans	**72,193,075**	**196,533**	**218,121**	**72,607,729**
Consumer loans to retail customers*				
− not overdue	28,116,824	60,189	440	28,177,453
− overdue less than 30 days	128,296	10,281	-	138,577
− overdue more than 30 days and less than 90 days	-	95,238	751	95,989
− overdue more than 90 days	-	269	181,389	181,658
Total gross consumer loans to retail customers	**28,245,120**	**165,977**	**182,580**	**28,593,677**
Credit loss allowance	(301,473)	(57,945)	(118,281)	(477,699)
Total net consumer loans to retail customers	**27,943,647**	**108,032**	**64,299**	**28,115,978**
Total gross loans to retail customers	**100,477,732**	**388,590**	**457,948**	**101,324,270**
Total net loans to retail customers	**100,136,722**	**304,565**	**282,420**	**100,723,707**
Total gross loans to customers	**201,370,082**	**3,790,564**	**7,198,899**	**212,359,545**
Total net loans to customers	**200,530,810**	**3,678,428**	**4,546,609**	**208,755,847**

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

	Stage 1	Stage 2	Stage 3	Total
	AMD'000	AMD'000	AMD'000	AMD'000
Loans to large corporate customers				
− not overdue	31,839,255	2,369,913	837,903	35,047,071
− overdue more than 90 days	-	-	2,394,933	2,394,933
Total gross loans to large corporate customers	**31,839,255**	**2,369,913**	**3,232,836**	**37,442,004**
Credit loss allowance	(115,900)	(234,571)	(1,214,124)	(1,564,595)
Total net loans to large corporate customers	**31,723,355**	**2,135,342**	**2,018,712**	**35,877,409**
Loans to small and medium size companies				
− not overdue	40,763,138	458,303	46,522	41,267,963
− overdue less than 30 days	6,806	8,005	3,975	18,786
− overdue more than 30 days and less than 90 days	-	34,830	-	34,830
− overdue more than 90 days	-	-	533,121	533,121
Total gross loans to small and medium size companies	**40,769,944**	**501,138**	**583,618**	**41,854,700**
Credit loss allowance	(44,111)	(8,117)	(70,367)	(122,595)
Total net loans to small and medium size companies	**40,725,833**	**493,021**	**513,251**	**41,732,105**

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to credit and investment organizations				
− not overdue	7,807,921	-	-	7,807,921
Total gross loans to credit and investment organizations	**7,807,921**	**-**	**-**	**7,807,921**
Credit loss allowance	(152,525)	-	-	(152,525)
Total net loans to credit and investment organizations	**7,655,396**	**-**	**-**	**7,655,396**
Total gross loans to corporate customers	**80,417,120**	**2,871,051**	**3,816,454**	**87,104,625**
Total net loans to corporate customers	**80,104,584**	**2,628,363**	**2,531,963**	**85,264,910**
Mortgage loans				
− not overdue	56,269,824	93,547	93,963	56,457,334
− overdue less than 30 days	52,359	-	-	52,359
− overdue more than 30 days and less than 90 days	-	-	3,020	3,020
− overdue more than 90 days	-	-	63,678	63,678
Total gross mortgage loans	**56,322,183**	**93,547**	**160,661**	**56,576,391**
Credit loss allowance	(109,598)	(11,260)	(37,944)	(158,802)
Total net mortgage loans	**56,212,585**	**82,287**	**122,717**	**56,417,589**
Consumer loans to retail customers*				
− not overdue	19,347,065	178,951	110,874	19,636,890
− overdue less than 30 days	149,438	29,025	32,381	210,844
− overdue more than 30 days and less than 90 days	170	158,594	35,486	194,250
− overdue more than 90 days	-	-	474,208	474,208
Total gross consumer loans to retail customers	**19,496,673**	**366,570**	**652,949**	**20,516,192**
Credit loss allowance	(321,939)	(128,398)	(296,531)	(746,868)
Total net consumer loans to retail customers	**19,174,734**	**238,172**	**356,418**	**19,769,324**
Total gross loans to retail customers	**75,818,856**	**460,117**	**813,610**	**77,092,583**
Total net loans to retail customers	**75,387,319**	**320,459**	**479,135**	**76,186,913**
Total gross loans to customers	**156,235,976**	**3,331,168**	**4,630,064**	**164,197,208**
Total net loans to customers	**155,491,903**	**2,948,822**	**3,011,098**	**161,451,823**

* Consumer loans to retail customers in both periods mainly include credit cards to retail customers, online consumer loans, consumer loans secured by real estate and gold-backed loans.

(i) Analysis of collateral and other credit enhancements

Loans to legal entities

Loans to legal entities are subject to individual credit appraisal and impairment testing. The general creditworthiness of a legal entity tends to be the most relevant indicator of credit quality of the loan. However, collateral provides additional security and the Bank generally requires corporate borrowers to provide it.

The main types of collateral obtained are real estate properties, equipment, inventory and cash collateral.

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

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Loans to individuals

Mortgage loans are secured by the underlying housing real estate.

As at 31 December 2023 consumer loans are secured by real estate, movable property, cash and gold.

The analysis of gross loan portfolio by collateral is represented as follows:

	2023 AMD'000	2022 AMD'000
Real estate	161,845,204	121,547,345
Movable property and other fixed assets	7,967,117	4,088,253
Current accounts and deposits	3,403,289	2,189,492
Precious metals, gold	1,456,745	1,602,478
Inventories	-	2,318,785
Other	1,526,381	1,269,865
Unsecured	36,160,809	31,180,990
	212,359,545	**164,197,208**

The following tables provide information on the collateral pledged for the loans to customers classified at Stage 3 as at 31 December 2023 and 2022.

31 December 2023	**Gross carrying amount**	**Estimated market value of collateral**					**Uncovered amount**	**Associated ECL**
		Real estate	**Vehicles**	**Equipment**	**Surplus**	**Total collateral**		
Loans to legal entities	6,740,950	7,797,204	108,600	6,789,733	(8,149,136)	6,546,401	194,549	2,476,762
Mortgage loans	275,367	472,700	-	-	(201,276)	271,424	3,943	57,248
Consumer loans	182,581	191,921	-	-	(143,932)	47,989	134,592	118,280
Total	**7,198,898**	**8,461,825**	**108,600**	**6,789,733**	**(8,494,344)**	**6,865,814**	**333,085**	**2,652,290**

31 December 2022	**Gross carrying amount**	**Estimated market value of collateral**					**Uncovered amount**	**Associated ECL**
		Real estate	**Vehicles**	**Equipment**	**Surplus**	**Total collateral**		
Loans to legal entities	3,816,454	4,279,845	108,600	1,628,833	(2,213,841)	3,803,437	13,017	1,284,491
Mortgage loans	160,661	110,806	-	-	-	110,806	49,855	37,944
Consumer loans	652,949	387,722	-	-	-	387,722	265,227	296,531
Total	**4,630,064**	**4,778,373**	**108,600**	**1,628,833**	**(2,213,841)**	**4,301,965**	**328,099**	**1,618,966**

As at 31 December 2023 and 2022 for each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Repossessed collateral

During the year ended 31 December 2023, the Bank obtained certain assets by taking possession of collateral for loans to customers with a carrying amount of AMD 198,862 thousand (2022: AMD 51,649 thousand).

	2023 AMD'000	2022 AMD'000
Real estate	1,518,724	1,477,944
Other	8,216	8,216
Total repossessed collateral	**1,526,940**	**1,486,160**

The Bank's intention is to sell these assets as soon as it is practicable.

(ii) Industry and geographical analysis of the loans to legal entities and individuals

Loans to customers were issued to finance in the following economic sectors:

	2023 AMD'000	2022 AMD'000
Trade	27,048,229	24,021,708
Construction	24,585,775	19,083,819
Manufacturing	18,669,843	13,221,675
Finance and investment	7,849,754	7,807,921
Energy	6,847,592	4,917,789
Transportation and communication	6,400,752	1,226,256
Hospitality and food service	6,289,663	3,547,616
Food and beverage	5,364,183	5,012,387
Culture and leisure	4,256,944	5,026,014
Agriculture	1,786,846	1,368,697
Other	1,935,694	1,870,743
Loans to individuals	101,324,270	77,092,583
	212,359,545	**164,197,208**
Credit loss allowance	(3,603,698)	(2,745,385)
	208,755,847	**161,451,823**

(iii) Significant credit exposures

As of 31 December 2023 and 2022, the Bank has no borrowers and groups of related borrowers, whose loan balances exceed 10% of the Bank's equity.

(iv) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(b) Receivables from finance leases

	2023 AMD'000	2022 AMD'000
Gross investment in finance leases receivable		
Less than one year	1,008,483	39,172
Between one and two years	1,000,057	39,172
Between two and three years	948,551	39,172
Between three and four years	485,344	32,468
Between four and five years	173,607	24,473
More than five years	16,832	-
	3,632,874	**174,457**
Unearned finance income	(629,950)	(42,728)
Gross investment in finance lease receivables	**3,002,924**	**131,729**
Impairment allowance	(7,406)	(329)
Net investment in finance leases	**2,995,518**	**131,400**

(i) Quality analysis of finance leases

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2023:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Receivables from finance leases				
− not overdue	3,002,924	-	-	3,002,924
Total gross receivables from finance leases	**3,002,924**	**-**	**-**	**3,002,924**
Credit loss allowance	(7,406)	-	-	(7,406)
Total net receivables from finance leases	**2,995,518**	**-**	**-**	**2,995,518**

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2022:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Receivables from finance leases				
− not overdue	131,729	-	-	131,729
Total gross receivables from finance leases	**131,729**	**-**	**-**	**131,729**
Credit loss allowance	(329)	-	-	(329)
Total net receivables from finance leases	**131,400**	**-**	**-**	**131,400**

(ii) Concentration of receivables from finance leases

As at 31 December 2023 and 2022 the Bank has no customers whose balances exceed 10% of the Bank's equity.

20 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvements	Computers and communication equipment	Vehicles	Fixtures and fittings	Intangible assets	Total
Cost							
Balance at 1 January 2023	6,630,480	248,031	1,150,981	187,293	2,316,324	886,422	11,419,531
Additions	607,016	22,734	226,827	95,538	421,725	245,524	1,619,364
Reclassifications	-	-	100	-	(100)	-	-
Disposals/write-offs	-	(42,254)	(6,349)	-	(43,021)	(51,494)	(143,118)
Balance at 31 December 2023	**7,237,496**	**228,511**	**1,371,559**	**282,831**	**2,694,928**	**1,080,452**	**12,895,777**
Depreciation and amortisation							
Balance at 1 January 2023	544,185	77,372	595,060	96,121	1,340,143	284,135	2,937,016
Depreciation and amortisation for the year	229,805	14,641	150,731	24,487	215,115	165,574	800,353
Reclassifications	-	-	2	-	(2)	-	-
Disposals/write-offs	-	(4,899)	(6,349)	-	(41,355)	(51,494)	(104,097)
Balance at 31 December 2023	**773,990**	**87,114**	**739,444**	**120,608**	**1,513,901**	**398,215**	**3,633,272**
Carrying amount							
At 31 December 2023	**6,463,506**	**141,397**	**632,115**	**162,223**	**1,181,027**	**682,237**	**9,262,505**

AMD'000	Land and buildings	Leasehold improvements	Computers and communication equipment	Vehicles	Fixtures and fittings	Intangible assets	Total
Cost							
Balance at 1 January 2022	6,803,322	213,026	915,252	166,067	2,033,434	677,857	10,808,958
Additions	-	35,005	236,071	30,654	291,377	226,250	819,357
Reclassifications	(2,342)	-	-	-	2,342	-	-
Disposals/write-offs	(170,500)	-	(342)	(9,428)	(10,829)	(17,685)	(208,784)
Balance at 31 December 2022	**6,630,480**	**248,031**	**1,150,981**	**187,293**	**2,316,324**	**886,422**	**11,419,531**
Depreciation and amortisation							
Balance at 1 January 2022	339,842	63,218	468,923	86,360	1,136,703	210,086	2,305,132
Depreciation and amortisation for the year	213,925	14,154	126,479	19,187	203,916	91,734	669,395
Reclassifications	(1,057)	-	-	-	1,057	-	-
Disposals/write-offs	(8,525)	-	(342)	(9,426)	(1,533)	(17,685)	(37,511)
Balance at 31 December 2022	**544,185**	**77,372**	**595,060**	**96,121**	**1,340,143**	**284,135**	**2,937,016**
Carrying amount							
At 31 December 2022	**6,086,295**	**170,659**	**555,921**	**91,172**	**976,181**	**602,287**	**8,482,515**

(a) Restrictions on title of fixed assets and intangible assets

As of 31 December 2023 and 2022, the Bank does not possess any fixed assets and intangible assets pledged as security for liabilities or whose title is otherwise restricted.

(b) Contractual commitments

As of 31 December 2023 and 2022 the Bank had not contractual commitments of making investments in fixed assets and intangible assets.

(c) Revaluation of assets

The carrying value of land and buildings as at 31 December 2023, if the land and buildings would not have been revalued, would amount to AMD 2,473,457 thousand (31 December 2022: AMD 1,964,817 thousand).

The fair value of the land and buildings was last determined as at 31 December 2023 based on valuation performed by an external, independent licensed valuator, having appropriate recognised professional qualifications and recent experience in the category of property being valued. The fair value was determined using a combination of the cost and market approaches. The market approach was based on announced asking prices for similar properties in terms of use, age, location and condition applying coefficients for adjusting the input prices for differences in use, age, location and condition, if any, ranging from 0.98 to 1.4. The cost approach calculated the investments needed to construct a similar building minus accumulated physical depreciation. Functional and economic depreciation were assessed as nil considering the location and age of the buildings.

The determined fair value approximated recorded carrying amount of the land and buildings as at 31 December 2023.

The fair value of land and buildings is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

21 Leases

The Bank leases assets such as branch offices and other spaces. The leases of branch office and other spaces typically run for a period of 5 to 12 years.

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.

Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2023 AMD'000	**2022 AMD'000**
Balance at 1 January	1,077,445	765,604
Additions to right of use assets	378,333	466,121
Lease contract terminations	(271,961)	-
Depreciation charge for the period	(205,687)	(154,280)
Lease contract modifications	76,970	-
Balance at 31 December	**1,055,100**	**1,077,445**

(b) Amounts recognised in profit or loss

	2023 AMD'000	2022 AMD'000
Depreciation of right of use asset	205,687	154,280
Interest on lease liabilities	103,786	92,279
Expenses of short term and low value assets leases (Note 13)	70,151	70,331

(c) Amounts recognised in the statement of cash flows

	2023 AMD'000	2022 AMD'000
Total cash outflow for leases	353,073	288,292

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2023 AMD'000	2022 AMD'000
Balance at 1 January	**1,166,032**	**826,385**
Changes from financing cash flows		
Repayments	(282,922)	(217,961)
Total changes from financing cash flows	**(282,922)**	**(217,961)**
Other changes		
Additions to lease liability	378,333	465,329
Termination	(271,961)	-
Modification	56,809	-
Interest expense	103,786	92,279
Balance at 31 December	**1,150,077**	**1,166,032**

22 Other assets

	2023 AMD'000	2022 AMD'000
Receivables and other proceeds	1,712,671	1,518,273
Proceeds on cash transfers	599,091	493,553
Short-term amounts due from other financial institutions	-	2,042,000
Credit loss allowance	(3,738)	(13,790)
Total other financial assets at amortised cost	**2,308,024**	**4,040,036**
Prepayments to suppliers	1,419,363	438,893
Materials	115,682	93,315
Tax prepayments	1,195	1,861
Other	376,039	169,641
Total other non-financial assets	**1,912,279**	**703,710**
Total other assets	**4,220,303**	**4,743,746**

As at 31 December 2023 other financial assets in the amount of AMD 2,311,762 thousand were allocated to Stage 1 and were not overdue (2022: AMD 4,053,916 thousand fully allocated to Stage 1 and not overdue.)

The following tables show reconciliations from the opening to the closing balances of the loss allowance for other financial assets for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	13,790	-	-	13,790
Net remeasurement of loss allowance	(13,790)	-	-	(13,790)
New financial assets originated or purchased	41,938	-	-	41,938
Net amounts written off	(38,200)	-	-	(38,200)
Balance at 31 December	**3,738**	**-**	**-**	**3,738**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	6,135	-	-	6,135
Net remeasurement of loss allowance	(6,135)	-	-	(6,135)
New financial assets originated or purchased	16,989	-	-	16,989
Net amounts written off	(3,199)	-	-	(3,199)
Balance at 31 December	**13,790**	**-**	**-**	**13,790**

23 Deposits and balances from banks

	2023 AMD'000	**2022 AMD'000**
Time deposits from banks	6,720,267	-
Vostro accounts	1,987,393	14,211
Other payables to banks	2,874,049	260,483
	11,581,709	**274,694**

As of 31 December 2023, the Bank has no counterparty banks (31 December 2022: no banks), whose balances exceed 10% of the Bank's equity.

24 Current accounts and deposits from customers

	2023 AMD'000	2022 AMD'000
Current accounts and demand deposits		
− Individuals	49,085,302	44,214,161
− Legal entities	82,007,289	59,516,233
Term deposits		
− Individuals	115,828,100	103,369,235
− Legal entities	33,900,900	22,163,351
	280,821,591	**229,262,980**

As of 31 December 2023, time deposits of legal entities/individuals include deposits amounting to AMD 6,516,116 thousand (31 December 2022: AMD 3,778,314 thousand) held as security against loans to customers, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

As at 31 December 2023, the Bank has one customer (31 December 2022: no customer) whose balance exceed 10% of equity. The gross value of this balance as 31 December 2023 is AMD 7,216,537 thousand (2022: nil).

25 Debt securities issued

	2023 AMD'000	2022 AMD'000
Domestic bonds issued	**21,296,245**	**10,895,281**

On 28 March 2022, the Bank issued bonds with a public placement for a total of AMD 2 billion and USD 10 million. The bonds have been fully placed. The coupon annual yield of the bonds is 11% and 5%, the coupon payment frequency is quarterly, the turnover term is 30 months.

On 27 March 2023, the Bank issued bonds with a public placement for a total of AMD 2 billion, USD 10 million and EUR 7 million. The bonds have been fully placed. The coupon annual yield of the bonds is 11%, 5.25% and 4%, the coupon payment frequency is quarterly, the turnover term is 30 and 39 months. On 25 September 2023, the Bank issued bonds with a public placement for a total of AMD 2 billion and USD 10 million. The bonds have been fully placed. The coupon annual yield of the bonds is 11% and 5%, the coupon payment frequency is quarterly, the turnover term is 30 months.

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

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2023 AMD'000	2022 AMD'000
Balance at 1 January	**10,895,281**	**5,822,097**
Changes from financing cash flows		
Sale of debt securities issued	14,668,639	6,802,140
Repayment of debt securities issued	(4,866,450)	-
Total changes from financing cash flows	**9,802,189**	**6,802,140**
The effect of changes in foreign exchange rates	**603,674**	**(1,742,458)**
Other changes		
Interest expense	1,157,491	659,420
Interest paid	(1,162,390)	(645,918)
Balance at 31 December	**21,296,245**	**10,895,281**

26 Other borrowed funds and subordinated borrowings

	2023 AMD'000	2022 AMD'000
Loans from credit organizations	20,144,512	16,165,885
Borrowings received from individuals	-	3,515,893
Borrowings received from RA government and CBA	4,875,973	4,376,818
Borrowings from international financial institutions	18,332,942	9,037,740
	43,353,427	**33,096,336**
Subordinated borrowings from international financial institutions	4,107,166	3,993,514
	4,107,166	**3,993,514**

According to the agreement the Central Bank of Armenia provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring of the loans is performed by the "Directing Office of the "German Armenian Foundation" program". These loans are considered to be separate market segment loans.

As at 31 December 2023 included in loans from credit organizations are loans of AMD 20,144,512 thousand (31 December 2022: AMD 16,165,885 thousand) with arrangements to sub-lend these funds to borrowers for qualifying mortgage loans. There is no actual market for this type of financing, provided by local and international non-government organisations to support small and medium-size businesses in specific sectors of economy and develop the mortgage market. These loans bear interest rate of CBA refinancing rate and are represent a separate market segment.

(a) Concentration of borrowings from international financial institutions

As of 31 December 2023, the Bank has three counterparties (31 December 2022: three counterparties), the balances of which exceed 10% of the Bank's equity. These borrowings as of 31 December 2023 amounted to AMD 31,781,102 thousand (31 December 2022: AMD 22,291,601 thousand).

(b) Subordinated borrowing

Subordinate debt represents a long-term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

During 2016 The Bank has received a subordinated debt in amount of US dollar 10,000 thousand maturing in 2031.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as at 31 December 2023 and 2022.

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

AMD'000	Other borrowed funds	Subordinated borrowings
Balance at 1 January 2023	**33,096,336**	**3,993,514**
Changes from financing cash flows		
Receipt	16,931,181	-
Repayments	(7,320,965)	-
Total changes from financing cash flows	**9,610,216**	**-**
The effect of changes in foreign exchange rates	370,604	113,566
Other changes		
Interest expense	2,642,848	353,178
Interest paid	(2,366,577)	(353,092)
Balance at 31 December 2023	**43,353,427**	**4,107,166**

AMD'000	Other borrowed funds	Subordinated borrowings
Balance at 1 January 2022	27,607,361	4,872,881
Changes from financing cash flows		
Receipt	15,019,845	-
Repayments	(7,063,900)	-
Total changes from financing cash flows	**7,955,945**	**-**
The effect of changes in foreign exchange rates	(2,660,976)	(877,995)
Other changes		
Interest expense	1,868,616	392,138
Interest paid	(1,674,610)	(393,510)
Balance at 31 December 2022	**33,096,336**	**3,993,514**

27 Other liabilities

	2023 AMD'000	2022 AMD'000
Accounts payables	2,837,304	870,732
Dividends payable on preference shares	646,000	620,110
Due to personnel	461,388	267,037
Payables under Government assistance programs	-	29,483
Total other financial liabilities	**3,944,692**	**1,787,362**
Tax payable, other than income tax	940,036	743,661
Grants related to assets	37,439	39,409
Expected loss allowance for financial guarantee contracts	66,457	80,560
Other	35,394	864
Total other non-financial liabilities	**1,079,326**	**864,494**
Total other liabilities	**5,024,018**	**2,651,856**

28 Amounts payable under repurchase agreements

	2023 AMD'000	2022 AMD'000
Amounts payable to the CBA	6,007,733	-
Total amounts payable under repurchase agreements	**6,007,733**	**-**

(a) Concentration of amounts payable under repurchase agreements

As at 31 December 2023 and 2022, the Bank has no counterparty whose balances exceed 10% of equity.

29 Share capital and reserves

(a) Issued capital

As of 31 December 2023, the Bank's registered and paid-in charter capital was AMD 23,000,000 thousand. In accordance with the Bank's statutes, the share capital consists of 172,500 ordinary shares, all of which have a par value of AMD 100,000 each and 57,500 non-redeemable preference shares, all of which have a par value of AMD 100,000 each.

As of 31 December 2023 and 31 December 2022 the Bank did not possess any of its own shares.

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

The holders of preference shares are entitled to annual dividends of 10-12% of nominal value of preference shares at the discretion of the Bank and are not entitled to vote, except for issues on reorganization or liquidation of the Bank.

(b) Nature and purpose of reserves

Fair value reserve for investment securities

The fair value reserve for investment securities comprises the cumulative net change in the fair value of investment securities measured at FVOCI, until the assets are derecognised. This amount is reduced by the amount of loss allowance. Upon derecognition of the debt instrument asset the respective portion of the reserve is reclassified to profit or loss.

Revaluation surplus for land and buildings

The revaluation surplus for land and buildings comprises the cumulative positive change in value of land and buildings, until the assets are derecognised or impaired. Depreciation is recycled through retained earnings.

(c) Dividends

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

According to legal requirements, the Bank is required to create a non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses.

The amount of preference dividends recognized in the financial statements as at 31 December 2023 amounted of AMD 646,000 thousand (31 December 2022: AMD 620,110 thousand). Dividends per preference share for 2023 amounted to AMD 11,235 (2022: AMD 10,785).

Dividends on ordinary shares declared and paid by the Bank in 2023 amounted to AMD 2,800,000 thousand (2022: no dividends declared and paid). Dividends per ordinary share for 2023 amounted to AMD 16,232.

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Center monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2023 and 31 December 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023 Average effective interest rate, %			2022 Average effective interest rate, %		
	AMD	**USD, EUR**	**Other currencies**	**AMD**	**USD, EUR**	**Other currencies**
Interest earning assets						
Investment securities	10.8	2.6	-	10.3	8.5	-
Loans and advances to banks and other financial institutions	-	6.0	21.0	-	8.0	-
Amounts receivable under reverse repurchase agreements	10.4	4.3	-	12.0	2.7	-
Loans and advances to customers	13.2	8.4	10.4	13.4	8.7	8.5
Interest bearing liabilities						
Deposits and balances from banks	-	1.9	-	-	-	-
Amounts payable under repurchase agreements	9.9	-	-	-	-	-
Debt securities issued	11.4	4.9	-	10.7	5.3	-
Term deposits from customers	10.6	4.4	5.4	10.0	4.3	5.6
Subordinated borrowings	-	9.3	-	-	9.3	-
Other borrowed funds	6.9	10.9	-	6.3	7.1	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities, except for interest bearing cash and cash equivalents and current accounts and demand deposits from customers, and existing as at 31 December 2023 and 2022, is as follows:

	2023 AMD'000	**2022 AMD'000**
100 bp parallel rise	145,484	56,601
100 bp parallel fall	(145,484)	(56,601)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial instruments at fair value through other comprehensive income, based on positions existing as at 31 December 2023 and 2022 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2023	**2022**
	Equity AMD'000	**Equity AMD'000**
100 bp parallel rise	(916,764)	(501,782)
100 bp parallel fall	916,764	501,782

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS Accounting Standards.

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	24,822,892	5,926,880	5,248,057	35,997,829
Amounts receivable under reverse repurchase agreements	2,762,086	-	-	2,762,086
Investment securities	20,481,974	-	-	20,481,974
Loans and advances to banks and other financial institutions	29,408,723	6,158,470	1,397,104	36,964,297
Loans and advances to customers	87,345,887	23,568,527	455,736	111,370,150
Other financial assets	377,875	102,553	201,081	681,509
Total assets	**165,199,437**	**35,756,430**	**7,301,978**	**208,257,845**
LIABILITIES				
Deposits and balances from banks	4,735,933	6,825,615	7,701	11,569,249
Current accounts and deposits from customers	126,178,342	25,221,319	6,270,739	157,670,400
Debt securities issued	12,151,341	3,136,939	-	15,288,280
Subordinated borrowings	4,107,166	-	-	4,107,166
Other borrowed funds	17,519,189	-	-	17,519,189
Other financial liabilities	517,307	255,239	37,314	809,860
Total liabilities	**165,209,278**	**35,439,112**	**6,315,754**	**206,964,144**
Net position	**(9,841)**	**317,318**	**986,224**	**1,293,701**

* Other currencies mainly include Russian Rubles.

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	36,500,421	16,086,807	3,432,258	56,019,486
Amounts receivable under reverse repurchase agreements	2,631,698	83,976	-	2,715,674
Investment securities	5,529,218	-	-	5,529,218
Loans and advances to banks and other financial institutions	15,814,742	3,523,004	-	19,337,745
Loans and advances to customers	70,319,930	11,885,821	18,929	82,224,680
Other financial assets	2,149,548	-	192,867	2,342,415
Total assets	**132,945,557**	**31,579,608**	**3,644,054**	**168,169,218**
LIABILITIES				
Deposits and balances from banks	193,836	66,647	14,206	274,689
Current accounts and deposits from customers	110,528,627	28,311,583	4,129,246	142,969,456
Debt securities issued	7,886,459	-	-	7,886,459
Subordinated borrowings	3,993,514	-	-	3,993,514
Other borrowed funds	10,435,991	2,117,642	-	12,553,633
Other financial liabilities	151,926	55,484	18,358	225,768
Total liabilities	**133,190,353**	**30,551,356**	**4,161,810**	**167,903,519**
Net position	**(244,796)**	**1,028,252**	**(517,756)**	**265,699**

* Other currencies mainly include Russian Rubles.

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2023 and 2022, would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is on net of tax basis, and is based on foreign currency exchange rate variances that the Bank considers to be reasonably possible at the end of the reporting period. The income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

	2023 AMD'000	2022 AMD'000
10% appreciation of USD against AMD	(984)	(24,480)
10% appreciation of EUR against AMD	31,731	102,852
10% appreciation of other currencies against AMD	98,622	(51,776)

A strengthening of the AMD against the above currencies at 31 December 2023 and 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee and Risk Management Center, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (legal entities and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Legal entity loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the loan portfolio of legal entities. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Center and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Center with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 19.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at 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. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

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, based on management's judgment. 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.

PD estimation process

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Loans and advances to customers

The Bank implements its own internal credit rating model for individually significant large-scale loans, the later consists about 47% of total corporate loan portfolio. The Bank assigns ratings in accordance with Moody's ratings scale and applies PD's by Moody's corresponding to the respective rating.

The following table provides information on the credit quality of Stage 1 and Stage 2 corporate loans as at 31 December 2023 and 2022 for which the Bank has estimated internal credit rating:

	2023		
AMD'000	**Gross amount**	**Credit loss allowance**	**Net amount**
Loans to corporate customers			
Ba2	6,275,324	(33,365)	6,241,959
B1	21,692,218	(78,692)	21,613,526
B2	16,520,689	(203,299)	16,317,390
B3	5,629,189	(21,723)	5,607,466
Caa1 (Stage 2)	1,627,194	(6,679)	1,620,515
Total loans to corporate customers	**51,744,614**	**(343,758)**	**51,400,856**

As at 31 December 2023, included in the B3 rating is a single customer classified to Stage 2 with gross loan of AMD 1,724,724 thousand and credit loss allowance of AMD 12,233 thousand.

	2022		
AMD'000	**Gross amount**	**Credit loss allowance**	**Net amount**
Loans to corporate customers			
B1	22,720,436	(104,759)	22,615,677
B2	642,503	(1,150)	641,353
B3	10,028,675	(248,003)	9,780,672
	33,391,614	**(353,912)**	**33,037,702**

As at 31 December 2022, included in the B3 rating is a single customer classified to Stage 2 with gross loan of AMD 2,369,913 thousand and credit loss allowance of AMD 234,571 thousand.

In 2023 and 2022, for the above customers the Bank has applied PDs equal to the default rates per Moody's corresponding to the assigned ratings above. Internal ratings assigned by the Bank exactly correspond to the external rating scale by Moody's.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12m ECL. For Stage 2 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

For Stage 3 and POCI financial assets exposure at default is equal to the gross amount of the loans.

EAD is derived based loan individual repayment schedules.

Loss given default

For unsecured retail Stage 1, Stage 2 and Stage 3 exposures, the Bank calculated LGD on portfolio level. The Bank uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date and discounted to the date of default using effective interest rate of each loan. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, etc.). For remaining Stage 1, Stage 2 and Stage 3 exposures the Bank calculates LDG individually considering expected cash, including cash flows from realisation of collateral. As at 31 December 2023 the LGD range of corporate loans assessed individually was 5%-53.7% (2022: 5%-53.7%).

Significant increase in credit risk

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. The main criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant risk in credit risk of the assets, when payments related to that assets are past due for more than 30 days.
The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- overdue days of the borrower in other financial institutions in Armenia;
- difficulties in the financial conditions of the borrower;
- renegotiation of the loan terms resulting from deterioration of the borrower's financial position;
- for individually rated loans decrease of internal rating by two notches or more.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a macroeconomic indicators as forward-looking information, such as:

- USD/AMD exchange rate;
- real GDP growth.

The Bank obtains the forecasts of macroeconomic data from third party source (Economic Intelligence Unit, Ministry of Finance of RA). The projected value real GDP growth for 2024 is 7% and projected USD/AMD rate is 389.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2023:

AMD'000				**Related amounts not offset in the statement of financial position**	
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Net amount**
Amounts receivable under reverse repurchase agreements	30,249,231	-	30,249,231	(30,249,231)	-
Total financial assets	**30,249,231**	**-**	**30,249,231**	**(30,249,231)**	**-**
Amounts payable under repurchase agreements	6,007,733	-	6,007,733	(6,007,773)	-
Total financial liabilities	**6,007,733**	**-**	**6,007,733**	**(6,007,773)**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2022:

AMD'000 Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	27,033,349	-	27,033,349	(27,033,349)	-
Total financial assets	**27,033,349**	**-**	**27,033,349**	**(27,033,349)**	**-**
Amounts payable under repurchase agreements	-	-	-	-	-
Total financial liabilities	-	-	-	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks and international financial organisations, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. 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.

The maturity analysis for financial liabilities as at 31 December 2023 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	11,581,709	-	-	-	11,581,709	11,581,709
Amounts payable under repurchase agreements	6,012,374	-	-	-	6,012,374	6,007,733
Current accounts and deposits from customers	142,872,717	90,546,134	56,067,147	70,016	289,556,014	280,821,591
Debt securities issued	-	7,345,018	16,430,984	-	23,776,002	21,296,245
Subordinated borrowings	18,573	346,915	1,457,843	5,103,304	6,926,634	4,107,167
Other borrowed funds	508,944	14,954,533	24,753,182	12,391,329	52,607,989	43,353,424
Lease liability	27,040	273,740	1,040,465	129,571	1,470,815	1,201,856
Total financial liabilities	**161,021,357**	**113,466,340**	**99,749,621**	**17,694,220**	**391,931,537**	**368,369,725**
Commitments and contingent liabilities	**24,539,842**	**-**	**-**	**-**	**24,539,842**	**24,539,842**

The maturity analysis for financial liabilities as at 31 December 2022 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	274,694	-	-	-	274,694	274,694
Current accounts and deposits from customers	112,543,835	73,826,180	49,780,602	30,636	236,181,253	229,262,980
Debt securities issued	-	5,493,021	6,352,770	-	11,845,791	10,895,281
Subordinated borrowings	17,855	336,549	1,417,240	5,317,400	7,089,044	3,993,514
Other borrowed funds	1,270,797	5,232,073	22,619,258	11,275,987	40,398,115	33,096,336
Lease liability	445,319	155,038	569,977	246,505	1,416,839	1,166,032
Total financial liabilities	**114,552,500**	**85,042,861**	**80,739,847**	**16,870,528**	**297,205,736**	**278,688,837**
Commitments and contingent liabilities	**19,600,309**	**-**	**-**	**-**	**19,600,309**	**19,600,309**

Included in due to customers in the table above and in the table below are term deposits of individuals. In accordance with the legislation of the Republic of Armenia, the Bank is obliged to repay term deposits of individuals upon demand of a depositor, forfeiting the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates.

	2023 AMD'000	**2022 AMD'000**
Demand and less than 1 month	7,317,656	5,999,163
From 1 to 3 months	12,814,376	14,601,083
From 3 to 6 months	19,064,848	14,831,667
From 6 to 12 months	35,546,693	27,176,181
More than 1 year	41,084,527	40,761,141
	115,828,100	**103,369,235**

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2023:

AMD'000	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS							
Cash and cash equivalents	60,937,733	-	-	-	-	-	60,937,733
Investment securities at fair value through other comprehensive income	-	6,152,413	22,906,470	7,675,388	-	-	36,734,271
Investment securities at amortised cost	8,507,638	13,039,328	20,598,971	6,995,204	-	-	49,141,141
Loans and advances to banks and other financial institutions	33,767,305	4,729,244	2,268,226	-	-	-	40,764,775
Amounts receivable under reverse repurchase agreements	30,249,231	-	-	-	-	-	30,249,231
Loans to customers	3,986,324	45,300,291	96,040,114	64,072,397	-	2,352,239	211,751,365
Property, equipment and intangible assets	-	-	-	-	9,262,505	-	9,262,505
Right of use asset	-	-	-	-	1,055,100	-	1,055,100
Repossessed assets	-	-	-	-	1,526,940	-	1,526,940
Other assets	2,308,024	-	-	-	1,912,279	-	4,220,303
Total assets	**139,756,255**	**69,221,276**	**141,813,781**	**78,742,989**	**13,756,824**	**2,352,239**	**445,643,364**
LIABILITIES							
Amounts payable under repurchase agreements	6,007,733	-	-	-	-	-	6,007,733
Deposits and balances from banks	11,581,709	-	-	-	-	-	11,581,709
Current accounts and deposits from customers	142,644,218	86,139,853	51,993,403	44,117	-	-	280,821,591
Debt securities issued	-	6,065,145	15,231,100	-	-	-	21,296,245
Subordinated borrowings	18,164	18,164	-	4,047,682	-	-	4,107,166
Other borrowed funds	462,114	12,600,786	19,653,537	10,636,990	-	-	43,353,427
Lease liability	5,597	210,867	846,480	87,133	-	-	1,150,077
Current tax liability	-	1,389,238	-	-	-	-	1,389,238
Deferred tax liability	-	-	1,452,052	-	-	-	1,452,052
Other liabilities	3,255,192	689,500	-	-	1,079,326	-	5,024,018
Total liabilities	**163,974,727**	**107,113,553**	**89,176,572**	**14,815,922**	**1,079,326**	**-**	**376,183,256**
Net position	**(24,218,472)**	**(37,892,277)**	**52,637,209**	**63,927,067**	**12,677,498**	**2,352,239**	**69,460,108**

* For management of negative short-term liquidity position the Bank relies on the financial securities, which can be sold or pledged under repo agreements and on the fact that term deposits will be prolonged upon maturity.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2022:

AMD'000	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS							
Cash and cash equivalents	71,384,322	-	-	-	-	-	71,384,322
Investment securities at fair value through other comprehensive income	3,285,028	9,804,992	6,237,080	5,746,466	-	-	25,073,566
Investment securities at amortised cost	31,704	2,058,835	18,484,715	6,148,736	-	-	26,723,990
Loans and advances to banks and other financial institutions	18,803,856	855,362	776,478	-	-	-	20,435,696
Amounts receivable under reverse repurchase agreements	27,033,349	-	-	-	-	-	27,033,349
Loans to customers	3,038,077	34,584,482	71,375,535	49,876,602	-	2,708,527	161,583,223
Property, equipment and intangible assets	-	-	-	-	8,482,515	-	8,482,515
Right of use asset	-	-	-	-	1,077,445	-	1,077,445
Repossessed assets	-	-	-	-	1,486,160	-	1,486,160
Other assets	4,040,126	-	-	-	703,620	-	4,743,746
Total assets	**127,616,462**	**47,303,671**	**96,873,808**	**61,771,804**	**11,749,740**	**2,708,527**	**348,024,012**
LIABILITIES							
Deposits and balances from banks	274,694	-	-	-	-	-	274,694
Current accounts and deposits from customers	112,404,494	70,329,181	46,513,332	15,973	-	-	229,262,980
Debt securities issued	-	4,957,174	5,938,107	-	-	-	10,895,281
Subordinated borrowings	17,467	40,563	-	3,935,484	-	-	3,993,514
Other borrowed funds	1,221,183	3,753,790	18,383,867	9,737,496	-	-	33,096,336
Lease liability	445,319	96,344	405,401	218,968	-	-	1,166,032
Current tax liability	-	4,776,679	-	-	-	-	4,776,679
Deferred tax liability	-	-	970,430	-	-	-	970,430
Other liabilities	1,156,752	630,610	-	-	864,494	-	2,651,856
Total liabilities	**115,519,909**	**84,584,341**	**72,211,137**	**13,907,921**	**864,494**	**-**	**287,087,802**
Net position	**12,096,553**	**(37,280,670)**	**24,662,671**	**47,863,883**	**10,885,246**	**2,708,527**	**60,936,210**

31 Capital management

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The CBA sets and monitors capital requirements for the Bank. Under the current capital requirements set by the CBA, banks have to maintain a minimum total capital of AMD 30,000,000 thousand (2022: AMD 30,000,000 thousand). The Bank is in compliance with minimum total capital requirements as at 31 December 2023 and 2022.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, 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 and 2022, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2023 and 2022.

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, for December:

	2023 AMD'000 Unaudited	2022 AMD'000 Unaudited
Total regulatory capital	70,878,103	64,775,776
Total risk weighted assets	374,673,944	249,827,345
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**18.92%**	**25.93%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

32 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to legal entities and individuals.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2023 AMD'000	2022 AMD'000
Contracted amount		
Undrawn loan and credit line commitments to corporate customers	13,608,507	10,015,644
Undrawn loan and credit card commitments to individuals	2,632,404	1,821,462
Guarantees	4,044,305	4,801,136
	20,285,216	**16,638,242**
Impairment allowance	**(66,457)**	**(80,560)**

In addition to the above credit related commitments, the Bank has undrawn guarantee commitments the provision of which is subject to additional approval by the Bank. The Bank considers such balances as uncommited. The total amount of such uncommited balances as at 31 December 2023 comprised AMD 4,254,626 thousand (2022: AMD 2,962,067 thousand).

As at 31 December 2023 and 31 December 2022 financial credit related commitments are fully in Stage 1. As at 31 December 2023 included in the undrawn loan and credit line commitments to corporate customers are customers rated in accordance with Bank's internal credit rated system of B1 with carrying amount of AMD 1,382,089 thousand (2022: 2,969 thousand) and B2 with carrying amount of AMD 2,631,135 thousand (2022: nill.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for commitments for the years ended 31 December 2023 and 2022.

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	80,560	-	-	80,560
New exposures originated	10,424	-	-	10,424
Net remeasurement of loss allowance inclusive repayments	(24,527)	-	-	(24,527)
Balance at 31 December	**66,457**	**-**	**-**	**66,457**

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	15,583	-	-	15,583
New exposures originated	18,398	-	-	18,398
Net remeasurement of loss allowance inclusive repayments	46,579	-	-	46,579
Balance at 31 December	**80,560**	**-**	**-**	**80,560**

33 Contingencies

(a) Litigation

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.

(b) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. 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 Armenia that are 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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

34 Related party transactions

(a) Transactions with key management personnel

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2023 AMD’000	2022 AMD’000
Salaries and bonuses	2,420,421	2,278,886
Total key management remuneration	**2,420,421**	**2,278,886**

These amounts include benefits to key management personnel accrued in the statement of profit or loss and other comprehensive income of respective periods.

The outstanding balances and average effective interest rates as at 31 December 2023 and 2022 for transactions with key management personnel are as follows:

	2023 AMD’000	Average effective interest rate, %	2022 AMD’000	Average effective interest rate, %
Statement of financial position				
Loans and advances to customers – gross	291,574	12.28%	287,649	11.86%
Loans and advances to customers – ECL	(1,272)	-	(2,859)	-
Current accounts and deposits from customers	1,854,720	0.0% - 6.82%	1,955,954	0.0%-6.76%

Amounts included in profit or loss in relation to transactions with key management personnel for the year ended 31 December are as follows:

	2023 AMD'000	2022 AMD'000
Profit or loss		
Interest income	29,172	46,792
Interest expense	(46,531)	(44,926)
Fee and commission expense	(2,795)	(1,750)

(b) Transactions with other related parties

The volumes of related party transactions, outstanding balances at 31 December 2023, and related expense and income for the year are as follows:

AMD'000	Shareholders	Other entities related to UCP and close members of UCP	Other entities related to key management personnel and close members of key management personnel
Statement of financial position			
Loans and advances to customers			
Balance as at 1 January 2023, gross	19,408	-	37,218
Loans issued during the year	2,380,621	810,663	-
Loan repayments during the year	(221,348)	-	(13,729)
Balance at 31 December 2023, gross	**2,178,681**	**810,663**	**23,489**
Credit loss allowance	(53,474)	(432)	(10)
Balance at 31 December 2023, net	**2,125,207**	**810,231**	**23,479**
Amounts receivable under reverse repurchase agreements			
Balance as at 1 January 2023	-	-	2,907,196
Received during the year	-	-	91,795,017
Repaid during the year	-	-	(92,092,347)
Balance at 31 December 2023, gross	-	-	**2,609,866**
Credit loss allowance	-	-	(839)
Balance at 31 December 2023, net	-	-	**2,609,027**
Current accounts and deposits from customers			
Balance as at 1 January 2023	1,076,511	-	453,008
Received during the year	18,307,842	1,367,506	94,269,101
Repaid during the year	(18,304,101)	(1,331,157)	(94,633,478)
Balance at 31 December 2023	**1,080,252**	**36,349**	**88,631**
Subordinated debt	**4,107,166**	**-**	**-**
Statement of profit or loss and other comprehensive income			
Interest income on loans	28,988	22,399	2,917
Interest income on reverse repurchase transactions	-	-	305,152
Interest expense on deposits	(129)	-	(10,782)
Interest expense on subordinated debt	(353,178)	-	-
Interest expense on other borrowings	(40,745)	-	-

Subordinated debt received from shareholder bears interest rate of 9% and is repayable in 2031.

Loans and advances to other related parties are denominated in AMD, EUD, USD and RUB, bearing interest rates of 4.39-14.85% and are repayable in 2025-2033.

Amounts receivable under reverse repurchase agreements with other related parties are in AMD, bear an average interest rate of 11.24% and are short term maturity instruments.

Term deposits from other related parties are in AMD, USD and EUR and bear interest rate of 3.2%-5.11% and are repayable in 2024-2026.

The volumes of related party transactions, outstanding balances at 31 December 2022, and related expense and income for the year are as follows:

AMD'000	**Shareholders**	**Other entities related to UCP and close members of UCP**	**Other entities related to key management personnel and close members of key management personnel**
Statement of financial position			
Loans and advances to customers			
Balance as at 1 January 2022, gross	1,303,101	-	61,821
Loans issued during the year	119,052	-	50,356
Loan repayments during the year	(1,402,745)	-	(75,124)
Balance at 31 December 2022, gross	**19,408**	**-**	**37,053**
Credit loss allowance	(1,671)	-	(93)
Balance at 31 December 2022, net	**17,737**	**-**	**36,960**
Amounts receivable under reverse repurchase agreements			
Balance as at 1 January 2022	-	-	2,950,131
Received during the year	-	-	48,564,779
Repaid during the year	-	-	(48,607,714)
Balance at 31 December 2022, gross	-	-	**2,907,196**
Credit loss allowance	-	-	(1,738)
Balance at 31 December 2022, net	**-**	**-**	**2,905,458**
Current accounts and deposits from customers			
Balance as at 1 January 2022	**4,575,344**	-	**331,085**
Received during the year	23,858,710	-	51,231,956
Repaid during the year	(27,357,543)	-	(51,098,085)
Balance at 31 December 2022	**1,076,511**	-	**464,956**
Subordinated debt	**4,107,166**	**-**	**-**
Other borrowings	**3,443,085**		
Statement of profit or loss and other comprehensive income			
Interest income on loans	24,195	-	2,169
Interest income on reverse repurchase transactions	-	-	296,509
Interest expense on deposits	(69,526)	-	(13,387)
Interest expense on subordinated debt	(301,944)	-	-
Interest expense on other borrowings	(132,650)	-	-

Subordinated debt received from shareholder bears interest rate of 9% and is repayable in 2031.

Other borrowings received from shareholder are in EUD and USD, bear interest rates of 4.5% and 5.75% respectively and are repayable in 2023 and 2025.

Loans and advances to other related parties are denominated in AMD, EUD, USD and RUB, bearing interest rates of 7.22-12.68% and are repayable in 2025-2032.

Term deposits from other related parties are in AMD, USD and EUR and bear interest rate of 3.02%-8.16% and are repayable in 2023-2025.

Amounts receivable under reverse repurchase agreements with other related parties are in AMD, bear an average interest rate of 10.78% and are short term maturity instruments.

35 Financial assets and liabilities: fair values and accounting classifications

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2023 the estimated fair values of all financial instruments except for loans and advances to customers and investment securities at amortised cost approximate their carrying values. The fair value of loans and advances to customers is categorised in Level 3 fair value hierarchy and fair value of investment securities measured at amortised cost is categorised in Level 2 in fair value hierarchy.

As at 31 December 2023 the Bank had outstanding borrowings from the Central Bank of Armenia denominated in AMD and bearing nominal interest rate of 6%-7.5% and from local credit organization denominated in AMD and bearing interest rate of 4.5%-10.5%. The loans are considered to be separate market segment loans, therefore the Bank assesses that the loans are received at market rates.

The table below sets out the carrying amounts and fair values of loans and advances to customers and investment securities at amortised cost as at 31 December 2023:

2023	Carrying amount AMD'000	Fair value AMD'000	Difference AMD'000
Loans and advances to customers	211,751,365	210,706,502	1,044,863
Investment securities measured at amortised cost	49,141,141	49,864,082	(722,941)
Total	**260,892,506**	**260,570,584**	**321,922**

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2023 and 2022 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	2023			
AMD'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Debt and other fixed-income instruments	320,080	30,190,240	-	30,510,320
Equity instruments	-	-	42,825	42,825
Securities pledged under repurchase agreements	-	6,181,126	-	6,181,126
Total assets	**320,080**	**36,371,366**	**42,825**	**36,734,271**

	2022			
AMD'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial and non-financial bonds	477,773	24,552,968	-	25,030,741
Equity instruments	-	-	42,825	42,825
Total assets	**477,773**	**24,552,968**	**42,825**	**25,073,566**

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 realisable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. For financial instruments allocated to Level 2 the Bank uses quoted prices for similar instruments in markets that are considered less than active.

The following assumptions are used by management to estimate the fair values of loans and advances to customers: discount rates of 7.8%-8.6% for loans denominated in foreign currency and 11.5%-16.8% for loans denominated in Armenian drams, are used for discounting future cash flows from loans and advances to customers.

The following assumptions are used by management to estimate the fair values of investment securities measured at amortised cost – 10.2%-11.4% for securities denominated in AMD and rates of 5.5%-6.9% for securities denominated in foreign currency.

36 Segment information

Operating segments

The Bank is organised on the basis of four main operating segments (2022: three). These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

Retail banking representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products provided to legal entities.

Investment banking – representing financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

Digital banking – representing banks operations on digital platforms.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital.
There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

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

2023	Retail banking AMD'000	Corporate banking AMD'000	Investment banking AMD'000	Digital banking AMD'000	Total AMD'000
Interest income	9,232,365	8,625,718	10,248,724	940,453	29,047,260
Interest expense	(2,779,667)	(5,226,932)	(1,268,575)	(4,613,255)	(13,888,429)
Fee and commission income (Note 7)	663,750	666,519	1,202,333	5,435,307	7,967,909
Net non-interest income/ (expense)*	(273,314)	751,547	4,909,934	(3,897,985)	1,490,182
Inter-segment income	(724,941)	3,869,095	(8,369,933)	5,225,779	-
Operating income before impairment and other administrative expenses	**6,118,193**	**8,685,947**	**6,722,483**	**3,090,299**	**24,616,922**
Net impairment losses on financial instruments	(42,238)	(1,141,150)	(135,255)	586,239	(732,404)
Personnel and other general administrative expenses	(3,930,867)	(2,940,782)	(728,648)	(2,869,752)	(10,470,049)
Profit before income tax	**2,145,088**	**4,604,015**	**5,858,580**	**806,786**	**13,414,469**
Income tax expense	(700,337)	(927,656)	(541,896)	(208,600)	(2,378,489)
Profit for the year	**1,444,751**	**3,676,359**	**5,316,684**	**598,186**	**11,035,980**

2022	Retail banking AMD'000	Corporate banking AMD'000	Investment Banking AMD'000	Total AMD'000
Interest income	9,321,933	5,625,811	6,009,494	20,957,238
Interest expense	(7,675,078)	(2,972,443)	(715,616)	(11,363,137)
Fee and commission income (Note 7)	3,398,848	1,228,394	2,937,981	7,565,223
Net non-interest income/(expense)*	20,525,090	8,934,525	(5,239,814)	24,219,801
Inter-segment income	(490,986)	565,605	(74,619)	-
Operating income before impairment and other administrative expenses	**25,079,807**	**13,381,892**	**2,917,426**	**41,379,125**
Net impairment losses on financial instruments	(376,876)	(1,725,140)	(73,328)	(2,175,344)
Personnel and other general administrative expenses	(4,193,286)	(3,501,188)	(569,961)	(8,264,435)
Profit before income tax	**20,509,645**	**8,155,564**	**2,274,137**	**30,939,346**
Income tax expense	(3,456,980)	(1,374,652)	(383,315)	(5,214,947)
Profit for the year	**17,052,665**	**6,780,912**	**1,890,822**	**25,724,399**

* Net non-interest income includes net fee and commission income, other operating income, banking direct expenses, net gain on financial instruments at fair value through profit or loss, net foreign exchange gain and net gain on investment securities measured at fair value through other comprehensive income.

2023	Retail banking AMD'000	Corporate banking AMD'000	Investment banking AMD'000	Digital banking AMD'000	Total AMD'000
Interest earning financial assets	96,893,984	111,027,863	131,554,142	3,829,518	343,305,506
Interest bearing financial liabilities	108,394,748	137,711,735	34,024,245	82,175,694	362,306,422

2022	Retail banking AMD'000	Corporate banking AMD'000	Investment banking AMD'000	Total AMD'000
Interest earning financial assets	76,186,908	85,396,315	88,823,981	250,407,204
Interest bearing financial liabilities	174,870,311	94,998,424	10,895,280	280,764,015

Interest earning assets include financial assets at fair value through other comprehensive income, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortised cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2023 and 2022 was as follows:

2023	Retail banking AMD'000	Corporate banking AMD'000	Investment banking AMD'000	Digital banking AMD'000	Total AMD'000
Plastic cards operations	177,424	-	-	5,072,789	5,250,213
Charges from cash and non-cash transactions	188,690	136,066	1,167,759	39,552	1,532,067
Money transfers	176,035	313,320	-	42,610	531,965
Account service and distance system services	84,875	118,645	34,574	272,770	510,864
Guarantees and letters of credit	-	90,294	-	-	90,294
Other	36,726	8,194	-	7,586	52,506
	663,750	**666,519**	**1,202,333**	**5,435,307**	**7,967,909**

2022	Retail banking AMD'000	Corporate banking AMD'000	Investment banking AMD'000	Total AMD'000
Charges from cash and non-cash transactions	729,063	642,387	2,971,249	4,342,699
Plastic cards operations	2,394,126	-	-	2,394,126
Money transfers	195,390	363,412	-	558,802
Account service and distance system services	53,301	113,633	-	166,934
Guarantees and letters of credit	-	63,324	-	63,324
Other	27,852	11,486	-	39,338
	3,399,732	**1,194,242**	**2,971,249**	**7,565,223**