"EVOCABANK" CLOSED JOINT STOCK COMPANY

Interim Financial Statements for the period ended

31/03/2023

Contents

Interim statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Interest and similar income	6	6,214,380	4,610,387
Interest and similar expense	6	(3,011,983)	(2,734,095)
Net interest income		**3,202,397**	**1,876,292**
Fee and commission income	7	2,051,704	875,193
Fee and commission expense	7	(1,542,597)	(431,506)
Net fee and commission income		**509,107**	**443,687**
Net trading income	8	2,535,885	1,121,466
Other operating income	9	541,840	89,026
Other operating expenses	10	(248,551)	(553,459)
Operating income		**6,540,678**	**2,977,012**
Impairment losses	11	(124,000)	(328,660)
Personnel expenses	12	(977,214)	(554,826)
Depreciation of property and equipment and amortization of intangible assets	20	(229,112)	(191,349)
Other general administrative expenses	13	(495,263)	(368,289)
Profit before income tax		**4,715,089**	**1,533,888**
Income tax expense	14	(780,888)	(349,220)
Profit for the period		**3,934,201**	**1,184,668**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value during the period		261,792	(667,802)
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI		(377)	1,956
Net changes in allowance for expected credit losses		(6,037)	(1,749)
Income tax related to items that will be reclassified		(47,055)	119,852
Net income/(loss) on financial investments at fair value through other comprehensive income		**208,323**	**(547,743)**
Total other comprehensive income/(loss) for the period, net of tax		**208,323**	**(547,743)**
Total comprehensive income for the period		**4,142,524**	**636,925**

The accompanying notes are an integral part of these interim financial statements.
The interim financial statements were approved by the management on 15 April 2023

Interim statement of financial position

In thousand Armenian drams	Notes	31 March 2023	31 December 2022 (audited)
Assets			
Cash and cash equivalents	15	85,654,952	88,969,092
Amounts receivable under reverse repurchase agreements	16	25,668,894	27,033,349
Loans and advances to banks and other financial institutions	17	11,119,663	4,893,016
Investment securities	18	52,593,223	51,797,556
Loans and advances to customers	19	166,044,061	161,583,223
Property, equipment and intangible assets	20	9,702,518	9,559,960
Repossessed assets	21	1,429,252	1,486,160
Other assets	22	2,600,372	2,701,656
Total assets		**354,812,935**	**348,024,012**
Liabilities and equity			
Liabilities			
Amounts due to banks	23	4,244,087	274,694
Amounts due to customers	24	222,373,263	229,262,980
Debt securities issued	25	19,637,426	10,895,281
Other borrowings	26	30,126,116	33,096,336
Subordinated debt	27	3,939,950	3,993,514
Current income tax liabilities		5,566,194	4,776,679
Deferred income tax liabilities	14	1,008,301	970,430
Other liabilities	28	4,838,864	3,817,888
Total liabilities		**291,734,201**	**287,087,802**
Equity			
Share capital	29	23,000,000	23,000,000
Statutory general reserve		3,500,000	3,500,000
Revaluation reserve		3,351,803	3,378,746
Fair value reserve		(1,430,869)	(1,639,192)
Retained earnings		34,657,800	32,696,656
Total equity		**63,078,734**	**60,936,210**
Total liabilities and equity		**354,812,935**	**348,024,012**

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 April 2023

Interim statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve	Retained earnings	Total
Balance as of 1 January 2023	23,000,000	3,500,000	(1,639,192)	3,378,746	32,696,656	60,936,210
Profit for the period	-	-	-	-	3,934,201	3,934,201
Other comprehensive income						
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(26,943)	26,943	-
Net change in fair value during the period	-	-	261,792	-	-	261,792
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI	-	-	(377)	-	-	(377)
Net changes in allowance for expected credit losses	-	-	(6,037)	-	-	(6,037)
Income tax relating to components of other comprehensive income	-	-	(47,055)	-	-	(47,055)
Total comprehensive income for the period	**-**	**-**	**208,323**	**(26,943)**	**3,961,144**	**4,142,524**
Dividends to shareholders	-	-	-	-	(2,000,000)	(2,000,000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(2,000,000)**	**(2,000,000)**
Balance as of 31 March 2023	**23,000,000**	**3,500,000**	**(1,430,869)**	**3,351,803**	**34,657,800**	**63,078,734**

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve	Retained earnings	Total
Balance as of 1 January 2022	20,000,000	2,000,000	(695,483)	3,486,976	8,984,137	33,775,630
Profit for the period	-	-	-	-	1,184,668	1,184,668
Other comprehensive income						
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(27,121)	27,121	-
Net change in fair value during the period	-	-	(667,802)	-	-	(667,802)
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI	-	-	1,956	-	-	1,956
Net changes in allowance for expected credit losses	-	-	(1,749)	-	-	(1,749)
Income tax relating to components of other comprehensive income	-	-	119,852	-	-	119,852
Total comprehensive income for the period	**-**	**-**	**(547,743)**	**(27,121)**	**1,211,789**	**636,925**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**
Balance as of 31 March 2022	**20,000,000**	**2,000,000**	**(1,243,226)**	**3,459,855**	**10,195,926**	**34,412,555**

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 April 2023

Interim statement of cash flows

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Cash flows from operating activities		
Profit before tax	4,715,089	1,533,888
Adjustments for		
Amortization and depreciation allowances	229,112	191,349
Net gains from sale of property and equipment	(108)	-
Net losses/(gains) on disposal of other assets	1,860	(28,776)
Impairment losses	124,000	328,660
Interest expense on lease liabilities	29,814	19,064
Net gains from revaluation of derivative financial instruments	(4,646)	-
Net (gains)/losses from revaluation of non-trading assets and liabilities	(418,523)	378,714
Interest receivable	(872,149)	(594,818)
Interest payable	(78,439)	448,258
***Cash flows* from operating activities before changes in operating assets and liabilities**	**3,726,010**	**2,276,339**
(Increase)/decrease in operating assets		
Amounts receivable under reverse repurchase agreements	1,313,669	1,763,514
Loans and advances to banks and other financial institutions	(6,158,267)	1,171,361
Derivative financial assets	4,646	-
Loans and advances to customers	(5,467,962)	(12,769,927)
Repossessed assets	63,715	108,039
Other assets	111,460	90,850
Increase/(decrease) in operating liabilities		
Amounts due to banks	4,371,138	(1,688,379)
Amounts payable under repurchase agreements	-	(2,999,999)
Amounts due to customers	(5,071,738)	9,518,819
Other liabilities	1,026,921	460,693
Net cash flow used in operating activities before income tax	**(6,080,408)**	**(2,068,690)**
Income tax paid	(558)	(3,057)
Net cash flow used in operating activities	**(6,080,966)**	**(2,071,747)**
Cash flows from investing activities		
Sale/(purchase) of investment securities	284,572	(4,101,984)
Purchase of property, equipment and intangible assets	(310,942)	(58,600)
Proceeds from sale of property and equipment	1,774	22
Net cash flow used in investing activities	**(24,596)**	**(4,160,562)**
Cash flow from financing activities		
Dividends paid	(2,000,000)	-
Debt securities issued	8,797,875	3,875,892
Other borrowings	(2,826,031)	2,597,420
Lease liabilities	(77,722)	(42,357)
Net cash flow from financing activities	**3,894,122**	**6,430,955**
Net (decrease)/increase in cash and cash equivalents	**(2,211,440)**	**198,646**

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Cash and cash equivalents at the beginning of the period	88,969,092	43,389,076
Exchange differences on cash and cash equivalents	(1,122,951)	437,509
Effect of changes in ECL on cash and cash equivalents	20,251	(2,111)
Cash and cash equivalents at the end of the period (note 15)	**85,654,952**	**44,023,120**

Supplementary information:		
Interest received	5,342,231	4,015,569
Interest paid	(3,060,608)	(2,266,773)

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 April 2023

Report on general economic prudentials (quarterly)

01/01/23-31/03/23

In thousand Armenian drams

Prudentials	Actual	Permissible limit on prudential defined by CBA	Number of breaches during the reporting period
Minumum amount of the core capital	23,000,000	1,000,000	No Breach
Minimum amount of total capital	63,083,366	30,000,000	No Breach
N11 Minumum ratio of the core capital to the risk-weighted assets	19.04%	9.00%	No Breach
N12 Minumum ratio of the total capital to the risk-weighted assets	21.25%	12.00%	No Breach
N21 Minumum ratio of the highly liquid assets to the total assets	41.38%	15.00%	No Breach
N211 Minumum ratio of the highly liquid assets in the first group of currency to the total assets in the first group of currency	30.65%	4.00%	No Breach
N212 Minumum ratio of the highly liquid assets in the second group of currencies to the total assets in the second group of currencies	x	4.00%	No Breach
N22 Minumum ratio of the highly liquid assets to the callable liabilities	148.12%	60.00%	No Breach
N221 Minumum ratio of the highly liquid assets in the first group of currency to the callable liabilities in the first group of currency	110.37%	10.00%	No Breach
N222 Minumum ratio of the highly liquid assets in the second group of currencies to the callable liabilities in the second group of currencies	x	10.00%	No Breach
N23 Minimum ratio of highly liquid assets to total net cash outflow (all currencies)	308.13%	100.00%	No Breach
N231 Minimum ratio of highly liquid assets to total net cash outflow in the first group of currencies	296.15%	100.00%	No Breach
N232 Minimum ratio of highly liquid assets to total net cash outflow in the second group of currencies	x	100.00%	No Breach
N24 Minimum ratio of total available stable funding to total required stable funding (all currencies)	174.62%	100.00%	No Breach
N241 Minimum ratio of total available stable funding to total required stable funding in the first group of currencies	190.08%	100.00%	No Breach
N242 Minimum ratio of total available stable funding to total required stable funding in the second group of currencies	x	100.00%	No Breach
N31 Maximum risk on a single borrower	8.86%	20.00%	No Breach
N32 Maximum risk on major borrowers	47.19%	500.00%	No Breach
N41 Maximum risk on a single borrower related to the Bank	0.31%	5.00%	No Breach
N42 Maximum risk on major borrowers related to the Bank	2.39%	20.00%	No Breach
N51 Deviation of ratio of maximum of marginal ratio of claim to collateral value	4.76%	10.00%	No Breach
N52 Deviation of ratio of maximum of marginal ratio of claim to collateral value	0.60%	5.00%	No Breach
Minimum obligatory reserves at the Central Bank of RA			
In AMD	x	4.00%	No Breach
In USD	x	6% AMD	No Breach
		12% USD	No Breach
In EUR	x	6% AMD	No Breach
		12% EUR	No Breach
Other currencies	x	6% AMD	No Breach
		12% USD	No Breach

Prudentials	Actual	Permissible limit on prudential defined by CBA	Number of breaches during the reporting period
Maximum ratio of total foreign currency position to total capital of the Bank	3.07%	10.00%	No Breach
Maximum ratio of each foreign currency position to total capital of the Bank			
In USD	x	7.00%	No Breach
In EUR	0.07%	7.00%	No Breach
In RUR	x	7.00%	No Breach
Other currencies	3.00%	7.00%	No Breach

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 April 2023.

Notes to the interim financial statements

1 Principal activities

"EVOCABANK" CJSC (the “Bank”) is the renamed “Prometey Bank” CJSC is a Closed Join Stock Company, which was incorporated on 01.06.1990. The Bank is regulated by the legislation of RA 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 Individuals deposit compensation guarantee state system of RA, as well as 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 head office of the Bank and its 13 branches are located: ten branches are located in Yerevan; one branch is located in Gyumri, one branch in Abovyan and another branch is located in Vanadzor.

Number of employees as at the reporting date is 455

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

2 Armenina business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature and the stability and development of the Armenian economy largely depends on these changes.

The continuous Russian-Ukrainian war since February 2022 has had a significant impact on both the conflicting countries and on the world economy. Many leading countries and economic unions have announced severe economic sanctions against Russia, including Russian banks, other organizations and individuals. The war is still ongoing, but it has already led to a humanitarian crisis and huge economic losses in Ukraine, Russia and other countries.

The Ukraine and Russia are important trading partners of Armenia and Armenian business environment has not been spared from this influence. It is noteworthy that as a result of the war in Armenia, a certain economic activity was observed in 2022 due to the large influx of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022, Armenian banks recorded a significant increase in income from intermediary activities. According to the Central Bank of Armenia and international financial organizations, the GDP growth in Armenia in 2022 will be about 13%.

Since the hostilities have not yet stopped, it is impossible to reliably assess its final impact on the business environment of Armenia.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Bank. The Bank's management constantly analyzes the economic situation in the current environment. The future economic and political situation and its impact on the Bank's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

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

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These interim financial statements are based on the Bank’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The interim financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The interim financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Standards and interpretations not yet applied by the Bank

At the date of authorization of these interim financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's interim financial statements from these Amendments.

3.5 Comparable Information

Comparable information has been reclassified in order to be in compliance with the changes of reporting period presentation.

The main changes in the presentation of the statement of financial position have the following effects:

In thousand Armenian drams

	31 December 2022	Reclassification adjustment	31 March 2023 (reclassified)
Loans and advances to banks and other financial institutions	2,850,926	2,042,090	11,119,663
Other assets	4,743,746	(2,042,090)	2,600,372

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the interim financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Calculation of interest income and expense

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.

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 net 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, refer to note 4.4.6.

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recorded in the statement of profit or loss and other comprehensive income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at period-end used by the Bank in the preparation of the interim financial statements are as follows:

	31 March 2023	**31 December 2022 (audited)**
AMD/1 US Dollar	388.48	393.57
AMD/1 EUR	422.28	420.06

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when interim financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurements

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which The Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 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.

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 OCI. This election is made on an investment-by-investment basis.

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.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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.

Reclassifications

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 are never reclassified.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 0), 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 OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI 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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, 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 (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the interim financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4.4.6 Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments
- financial guarantee contracts

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 on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade.

12-month ECL (12mECLs) 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.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs 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. This is further explained in note 37.1.2.

Based on the above process, The Bank groups its financial instruments 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 12mECLs. 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 LTECLs. 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 LTECLs.

- 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 income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined 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 PD, the EAD and the LGD are further explained in note 36.1.2.

Restuctured 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 (refer to note 4.4.4) 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.

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 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 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.

Presentation of allowances 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;
- 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.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, The Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
    - 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;
    - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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. However, 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.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Loans and advances to banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Loans and advances to banks are carried net of any allowance for impairment losses.

4.7 Loans and advances

Loans and advances are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.8 Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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 OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.9 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.10 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.11 Leases

Bank as lessor

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Bank has the right to direct the use of the identified asset throughout the period of use.
- The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition

Bank as lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in other liabilities.

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. Bank's buildings and land are presented at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)
Buildings	40
Computers	1-7
Vehicles	8
Other fixed assets	8

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.14 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.15 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank, amounts due to other international and RA financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.17 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 and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

Liabilities arising from financial guarantees are included within provisions.

4.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.19 Equity

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

The Bank assesses of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Impairment of financial instruments

The Bank assesses of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 36.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

6 Interest and similar income and expenses

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Loans to customers	4,129,042	3,500,122
Investment securities at FVOCI	524,746	496,634
Reverse repurchase transactions	641,009	453,555
Loans and advances to banks	210,751	15,497
Investment securities at amortised cost	707,385	144,073
Other	1,447	506
Total interest and similar income	**6,214,380**	**4,610,387**
Customer accounts	2,171,839	1,843,448
Repurchase transactions	2,526	265,194
Subordinated debt	87,100	108,066
Other borrowings	534,450	383,644
Debt securities issued	185,242	93,282
Amounts due to banks	784	20,695
Interest expense on lease liabilities	29,814	19,064
Other	228	702
Total interest and similar expense	**3,011,983**	**2,734,095**

7 Fee and commission income and expense

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Settlement operations/transfers	241,863	198,046
Plastic cards operations	1,098,969	361,919
Cash operations	118,819	64,352
Guarantees and letters of credit	14,362	13,374
Cash withdrawal fees	570,782	237,078
Other fees and commissions	6,909	424
Total fee and commission income	**2,051,704**	**875,193**
Cash withdrawal fees	486,193	68,174
Settlement operations/transfers	250,012	64,984
Plastic cards operations	798,544	296,065
Guarantees and letters of credit issuance	104	964
Other expenses	7,744	1,319
Total fee and commission expense	**1,542,597**	**431,506**

8 Net trading income

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Gains less losses from trading in foreign currencies	2,530,497	1,126,062
Gains less losses from revaluation of derivative instuments	4,646	-
Net realised gain on investment securities	742	(4,596)
Total net trading income	**2,535,885**	**1,121,466**

9 Other operating income

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Fines and penalties received	55,855	44,789
Net gain on disposal of property, equiment and intangible assets	108	-
Gains from grants relating to assets	519	519
Net gain on disposal of other assets	50	28,776
Net gain from revaluation of financial assets and liabilities	418,523	-
Other	66,785	14,942
Total other operating income	**541,840**	**89,026**

10 Other operating expenses

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Deposit guarantee fund expenses	117,194	112,598
Net loss from revaluation of financial assets and liabilities	-	378,714
Return costs from early repayment of loans	7,319	-
Net loss from disposal of other assets	1,910	-
Cash collection expenses	11,571	7,223
Financial mediator expenses	8,701	6,168
Credit register and other systems usage expenses	25,385	23,100
Cards embossing and delivery expenses	8,628	4,702
Loan forgiveness expenses	711	-
Other	67,132	20,954
Total other operating expenses	**248,551**	**553,459**

11 Impairment losses

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Cash and cash equivalents	(20,251)	2,111
Amounts receivable under reverse repurchase agreements	(817)	(1,053)
Loans and advances to banks and other financial institutions	9,950	17,156
Investment securities at FVOCI	(6,037)	(1,749)
Investment securities at amortised cost	17,832	7,695
Loans and advances to customers	117,949	278,174
Other assets	(6,364)	(2,709)
Financial guarantee contracts	11,738	29,035
Total impairment losses	**124,000**	**328,660**

12 Staff costs

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Compensation of employees, related taxes included	948,437	531,849
Staff training expenses	7,385	3,914
Other staff costs	21,392	19,063
Total staff costs	**977,214**	**554,826**

13 Other general administrative expenses

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Advertising costs	83,098	70,250
Fixed assets repair and maintenance	57,898	48,388
Intangible assets maintenance	112,568	66,708
Communications	13,975	13,056
Representative and organizational expenses	31,011	16,659
Security	26,725	25,817
Office supplies	20,414	13,000
Consulting and other services	29,386	21,780
Taxes, other than income tax, duties	23,292	18,110
Expenses of short term and low value assets leases	16,311	14,781
Insurance expenses	17,655	16,004
Loan recovery expenses	42,045	38,276
Other	20,885	5,460
Total other general administrative expenses	**495,263**	**368,289**

14 Income tax expense

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Current tax expense	790,073	346,815
Deferred tax	(9,185)	2,405
Total income tax expense	**780,888**	**349,220**

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2022: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

Deferred income tax is calculated using the principal tax rate of 18% (2022: 18%).

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams

	Three-Month Period Ended 31 March 2023	Effective rate (%)	Three-Month Period Ended 31 March 2022	Effective rate (%)
Profit before income tax	**4,715,089**		**1,533,888**	
Income tax at the rate of 18%	848,716	18.0	276,100	18.0
(Non-taxable income)/non-deductable expenses	8,717	0.2	9,199	0.6
Foreign exchange (gains)/losses	(75,709)	(1.6)	63,921	4.2
(Gains)/losses from revaluation of derivative instuments	(836)	-	-	-
Total income tax expense	**780,888**	**16.6**	**349,220**	**22.8**

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams				31 March 2023		
	1 January 2023	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred income tax assets	Deferred income tax liabilities
Cash and cash equivalents	(6,325)	(1,470)	-	(7,795)	-	(7,795)
Amounts receivable under reverse repurchase agreements	(590)	(630)	-	(1,220)	-	(1,220)
Loans and advances to banks and other financial institutions	3,882	(2,872)	-	1,010	1,010	-
Investment securities	377,668	3,314	(47,055)	333,927	333,927	-
Loans and advances to customers	(584,252)	(15,792)	-	(600,044)	-	(600,044)
Property, equipment and intangible assets	(704,526)	7,245	-	(697,281)	-	(697,281)
Other assets	(10,638)	(9,094)	-	(19,732)	-	(19,732)
Amounts due to customers	(8,603)	1,516	-	(7,087)	-	(7,087)
Other borrowings	(33,646)	(1,560)	-	(35,206)	-	(35,206)
Subordinated debt	-	-	-	-	-	-
Other liabilities	(3,400)	28,528	-	25,128	25,128	-
Deferred tax asset/(liability)	**(970,430)**	**9,185**	**(47,055)**	**(1,008,300)**	**360,065**	**(1,368,365)**

In thousand Armenian drams				31 December 2022 (audited)		
	1 January 2022	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred income tax assets	Deferred income tax liabilities
Cash and cash equivalents	(4,951)	(1,374)	-	(6,325)	-	(6,325)
Amounts receivable under reverse repurchase agreements	(299)	(291)	-	(590)	-	(590)
Loans and advances to banks and other financial institutions	(653)	4,535	-	3,882	3,882	-
Investment securities	169,819	4,178	203,671	377,668	377,668	-
Loans and advances to customers	(177,216)	(407,036)	-	(584,252)	-	(584,252)
Property, equipment and intangible assets	(736,357)	31,831	-	(704,526)	-	(704,526)
Other assets	(1,194)	(9,444)	-	(10,638)	-	(10,638)
Amounts due to customers	(8,139)	(464)	-	(8,603)	-	(8,603)
Other borrowings	(18,805)	(14,841)	-	(33,646)	-	(33,646)
Subordinated debt	-	-	-	-	-	-
Other liabilities	18,003	(21,403)	-	(3,400)	-	(3,400)
Deferred tax asset/(liability)	**(759,792)**	**(414,309)**	**203,671**	**(970,430)**	**381,550**	**(1,351,980)**

The applicable deferred tax rate for the Bank is 18 % (2022: 18%).

15 Cash and cash equivalents

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Correspondent account with the CBA	50,343,343	54,037,245
Cash on hand	29,349,564	27,822,349
Correspondent accounts with banks	5,974,445	7,142,149

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
	85,667,352	**89,001,743**
Less loss allowance on cash and cash equivalents	(12,400)	(32,651)
Total cash and cash equivalents	**85,654,952**	**88,969,092**

As of 31 March 2023 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 March is computed at 4% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency. Banks reserve 6% of their foreign currency borrowings in AMD and 12% in foreign currency.

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. For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. As of 31 March 2023 the reserves amounted to AMD 31,195,756 thousand (31 December 2022: AMD 31,507,738 thousand).

As of 31 March 2023 the Bank has no Bank except for the CBA (31 December 2022: no bank except for CBA), whose balances exceed 10% of equity.

An analysis of changes in the ECLs on cash and cash equivalents is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	32,651	4,311
Net remeasurement of loss allowance inclusive repayments	(32,651)	(4,311)
New financial assets originated or purchased	12,400	6,422
ECL allowance as at 31 March	**12,400**	**6,422**

16 Amounts received under reverse repurchase agreements

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Reverse repurchase agreements with banks	4,013,137	7,060,265
Reverse repurchase agreements with other financial institutions	21,671,109	19,989,253
	25,684,246	**27,049,518**
Less loss allowance on amounts receivable under reverse repurchase agreements	(15,352)	(16,169)
Total amounts receivable under reverse repurchase agreements	**25,668,894**	**27,033,349**

As of 31 March 2023 the Bank has no any counterparty (31 December 2022: one counterparty, the gross value of these balances was AMD 7,060,265 thousand), whose balances exceed 10% of equity.

An analysis of changes in the ECLs amounts receivable under reverse repurchase agreements is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	16,169	12,183
Net remeasurement of loss allowance inclusive repayments	(16,986)	(11,631)
New financial assets originated or purchased	16,169	10,578
ECL allowance as at 31 March	**15,352**	**11,130**

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements are presented as follows:

In thousand Armenian drams	31 March 2023		31 December 2022 (audited)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state and corporate securities	26,947,262	25,684,246	28,865,885	27,049,518
Total assets pledged and loans under reverse repurchase agreements	**26,947,262**	**25,684,246**	**28,865,885**	**27,049,518**

As of 31 March 2023 the Bank does not possess securities pledged under repurchase agreements and received by the Bank as collateral under reverse repurchase agreements (31 December 2022: either).

17 Loans and advances to banks

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Loans to banks	1,638,118	1,658,206
Deposits placed in banks	2,610,865	-
Deposited funds with the CBA	852,500	1,100,000
Deposited funds in other banks	110,885	124,086
Short-term claims on other financial institutions	5,955,364	2,042,090
Regular way purchase agreements – foreign exchange spot transactions	32	6,785
	11,167,764	**4,931,167**
Less loss allowance on loans and advances to banks	(48,101)	(38,151)
Total loans and advances to banks and other financial institutions	**11,119,663**	**4,893,016**

Deposited funds with the CBA include a guaranteed deposit for settlements via ArCa payment system.

Blocked deposits with financial institutions represent a blocked deposit for membership in Master Card payment system (31 December 2022: either).

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

An analysis of changes in the ECLs on loans and advances to banks is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	38,151	5,084
Net remeasurement of loss allowance inclusive repayments	(11,835)	17,156
New financial assets originated or purchased	21,785	-
ECL allowance as at 31 March	**48,101**	**22,240**

18 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Investment securities at amortised cost		
RA state bonds	29,224,074	25,811,381
Corporate bonds	940,498	963,624
Loss allowance	(68,847)	(51,015)
Total investment securities measured at amortised cost	**30,095,725**	**26,723,990**

An analysis of changes in the ECLs on debt investment securities measured at amortised cost as follow:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	51,015	7,580
Net remeasurement of loss allowance inclusive repayments	(26,118)	(57)
New financial assets originated or purchased	43,950	7,752
ECL allowance as at 31 March	**68,847**	**15,275**

Investment securities at amortised cost by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 March 2023		31 December 2022 (audited)	
	%	Maturity	%	Maturity
Government bonds	6.8-12.0	2024-2031	6.8-12.0	2024-2031
Corporate bonds	9.0-9.5	2025	9.0-9.5	2025

Debt securities measured at FVOCI

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Investment securities measured at FVOCI		
RA state bonds	22,028,574	24,552,968
Corporate bonds	426,099	477,773
Equity instruments	42,825	42,825
Total investment securities measured at FVOCI	**22,497,498**	**25,073,566**

An analysis of changes in the ECLs on debt investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	56,044	71,920

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	**Stage 1**
Net remeasurement of loss allowance inclusive repayments	(23,969)	(7,221)
New financial assets originated or purchased	17,932	5,472
ECL allowance as at 31 March	**50,007**	**70,171**

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value. The ECLs relating to investment securities at amortised cost rounds to zero, that's why it's not disclosed here.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the period.

All debt securities have fixed coupons.

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 March 2023		31 December 2022 (audited)	
	%	**Maturity**	**%**	**Maturity**
Government bonds	6.4-11.8	2023-2037	6□4-11.8	2023-2037
Corporate bonds	9.0-12.0	2023-2025	9.0-12.0	2023-2025

Equity instruments included in investment securities measured at FVOCI are non-quoted equity securities as follows:

Name	Country of incorporation	% controlled		In thousand Armenian drams	
		31 March 2023	**31 December 2022 (audited**	**31 March 2023**	**31 December 2022 (audited**
ArCa	Republic of Armenia	1.25	1.25	10,717	10,717
ACRA Credit Reporting	Republic of Armenia	5.90	5.90	32,108	32,108
				42,825	**42,825**

The Bank's management believes that estimated fair values of these instruments approximates to their costs as at 31 March 2023 and 31 December 2022.

19 Loans and advances to customers

In thousand Armenian drams	31 March 2023			31 December 2022 (audited)		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	59,543,837	(247,375)	59,296,462	56,576,391	(161,412)	56,414,979
Consumer lending	18,690,174	(609,784)	18,080,390	19,066,578	(690,935)	18,375,643
Overdrafts	1,718,426	(54,358)	1,664,068	1,448,796	(53,323)	1,395,473
Commercial lending						
Construction	20,375,930	(151,930)	20,224,000	19,215,548	(158,248)	19,057,300
Industry	19,027,794	(499,217)	18,528,577	19,032,967	(573,918)	18,459,049
Trading	18,743,458	(925,267)	17,818,191	19,894,177	(924,423)	18,969,754
Financial services	8,098,015	(140,414)	7,957,601	7,807,921	(152,525)	7,655,396
Other	22,507,858	(33,086)	22,474,772	21,286,559	(30,930)	21,255,629
Total	**168,705,492**	**(2,661,431)**	**166,044,061**	**164,328,937**	**(2,745,714)**	**161,583,223**

The ECL allowance in these tables includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

As of 31 March 2023 the Bank has no borrowers and groups of related parties (31 December 2022: either), whose loan balances exceed 10% of equity.

An analysis of changes in gross carrying amounts in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams	31 March 2023			
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at 1 January	75,818,039	460,116	813,610	77,091,765
New assets originated or purchased	11,494,986	-	-	11,494,986
Assets repaid	(7,962,463)	(292,932)	(34,801)	(8,290,196)
- Transfer to Stage 1	59,183	(59,183)	-	-
- Transfer to Stage 2	(214,126)	249,132	(35,006)	-
- Transfer to Stage 3	(269,211)	(150,540)	419,751	-
Net change in asset from interest and foreign exchange revaluation	(257,714)	263,184	(305,207)	(299,737)
Recoveries	-	-	254,251	254,251
Amounts written off during the year	-	-	(298,632)	(298,632)
Balance at 31 March	**78,668,694**	**469,777**	**813,966**	**79,952,437**

In thousand Armenian drams				31 March 2023
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at 1 January	80,549,667	2,871,051	3,816,454	87,237,172
New assets originated or purchased	17,300,376	-	-	17,300,376
Assets repaid	(14,975,062)	(10,068)	(252,869)	(15,237,999)
- Transfer to Stage 2	-	4,043	(4,043)	-
- Transfer to Stage 3	(16,064)	(42,835)	58,899	-
Net change in asset from interest and foreign exchange revaluation	(379,268)	(267,980)	258,605	(388,643)
Recoveries	-	-	(6,595)	(6,595)
Amounts written off during the year	-	-	(151,256)	(151,256)
Balance at 31 December	**82,479,649**	**2,554,211**	**3,719,195**	**88,753,055**

In thousand Armenian drams				31 December 2022 (audited)
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at 1 January	64,056,358	1,240,312	1,154,013	66,450,683
New assets originated or purchased	48,294,738	-	-	48,294,738
Assets repaid	(19,304,361)	(219,501)	(708,878)	(20,232,740)
- 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	-
Net change in asset from interest and foreign exchange revaluation	(16,089,797)	(123,610)	(172,415)	(16,385,822)
Recoveries	-	-	841,678	841,678
Amounts written off during the year	-	-	(1,876,772)	(1,876,772)
Balance at 31 December	**75,818,039**	**460,116**	**813,610**	**77,091,765**

In thousand Armenian drams				31 December 2022 (audited)
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at 1 January	74,971,418	217,983	430,402	75,619,803
New assets originated or purchased	88,653,614	-	-	88,653,614
Assets repaid	(37,429,072)	(4,546)	(201,346)	(37,634,964)
- Transfer to Stage 2	(3,605,784)	3,605,784	-	-
- Transfer to Stage 3	(4,657,522)	(214,002)	4,871,524	-
Net change in asset from interest and foreign exchange revaluation	(37,382,987)	(734,168)	(945,841)	(39,062,996)
Recoveries	-	-	75,432	75,432
Amounts written off during the year	-	-	(413,717)	(413,717)
Balance at 31 December	**80,549,667**	**2,871,051**	**3,816,454**	**87,237,172**

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams	Three-Month Period Ended 31 March 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
ECL allowance as at 1 January	431,538	139,658	334,474	905,670
Changes due to financial assets recognised in opening balance that have:				
- Transfer to Stage 1	16,524	(16,524)	-	-
- Transfer to Stage 2	(2,342)	22,327	(19,985)	-
- Transfer to Stage 3	(1,842)	(33,999)	35,841	-
Net remeasurement of loss allowance inclusive repayments	(40,116)	28,261	6,298	(5,557)
New financial assets originated or purchased	55,437	348	-	55,785
Recoveries	-	-	254,251	254,251
Amounts written off during the year	-	-	(298,632)	(298,632)
ECL allowance as at 31 March	**459,199**	**140,071**	**312,247**	**911,517**

In thousand Armenian drams	Three-Month Period Ended 31 March 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
ECL allowance as at 1 January	534,814	430,426	600,729	1,565,969
Changes due to financial assets recognised in opening balance that have:				
- Transfer to Stage 1	61,169	(29,601)	(31,568)	-
- Transfer to Stage 2	(6,325)	20,349	(14,024)	-
- Transfer to Stage 3	(3,683)	(192,940)	196,623	-
Net remeasurement of loss allowance inclusive repayments	(195,310)	(32,025)	334,258	106,923
New financial assets originated or purchased	52,597	-	-	52,597
Recoveries	-	-	192,473	192,473
Amounts written off during the year	-	-	(701,706)	(701,706)
ECL allowance as at 31 March	**443,262**	**196,209**	**576,785**	**1,216,256**

In thousand Armenian drams	Three-Month Period Ended 31 March 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
ECL allowance as at 1 January	312,865	242,688	1,284,491	1,840,044
Changes due to financial assets recognised in opening balance that have:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	3,357	(3,357)	-
- Transfer to Stage 3	(4)	(527)	531	-
Net remeasurement of loss allowance inclusive repayments	(49,161)	(67,603)	160,749	43,985
New financial assets originated or purchased	23,736	-	-	23,736
Recoveries	-	-	(6,595)	(6,595)
Amounts written off during the year	-	-	(151,256)	(151,256)
ECL allowance as at 31 March	**287,436**	**177,915**	**1,284,563**	**1,749,914**

In thousand Armenian drams	Three-Month Period Ended 31 March 2022			
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as at 1 January	388,223	60,766	97,574	546,563
Changes due to financial assets recognised in opening balance that have:				
- Transfer to Stage 1	9	-	(9)	-
- Transfer to Stage 2	(79)	79	-	-
- Transfer to Stage 3	(117)	(59,488)	59,605	-
Net remeasurement of loss allowance inclusive repayments	(28,466)	(676)	79,118	49,976
New financial assets originated or purchased	68,678	-	-	68,678
Recoveries	-	-	13,494	13,494
Amounts written off during the year	-	-	(38,678)	(38,678)
ECL allowance as at 31 March	**428,248**	**681**	**211,104**	**640,033**

As of 31 March 2023, loans to customers in amount of AMD 21,252,206 thousand (31 December 2022: AMD 20,542,703 thousand) serve as collateral for loans due to financial institutions

Maturity analysis of loans and advances to customers are disclosed in note 35.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 36. Information on related parties is disclosed in note 32.

20 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improvements	Computer and communication equipment	Vehicles	Office equipment and other fixed assets	Intangible assets	Right-of-use assets	Total
Cost								
At 1 January 2022 (audited)	6,803,322	213,026	915,252	166,067	2,033,434	677,857	1,026,593	11,835,551
Additions	-	-	5,181	-	35,649	17,770	-	58,600
Reclassifications	-	-	(49)	-	49	-	-	-
Disposals	-	-	-	-	(22)	(17,682)	-	(17,704)
At 31 March 2022	**6,803,322**	**213,026**	**920,384**	**166,067**	**2,069,110**	**677,945**	**1,026,593**	**11,876,447**
At 1 January 2023 (audited)	6,630,480	248,031	1,150,981	187,293	2,316,324	886,422	1,492,714	12,912,245
Additions	-	3,056	160,519	-	120,807	26,560	28,461	339,403
Reclassifications	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(13,683)	-	-	(13,683)
Adjustment to ROU assets	-	-	-	-	-	-	21,253	21,253
At 31 March 2023	**6,630,480**	**251,087**	**1,311,500**	**187,293**	**2,423,448**	**912,982**	**1,542,428**	**13,259,218**
Accumulated depreciation								
At 1 January 2022 (audited)	339,842	63,218	468,923	86,360	1,136,703	210,086	260,989	2,566,121
Charge for the year	54,343	3,432	32,721	4,626	49,569	17,512	29,146	191,349
Reclassifications	-	-	(49)	-	49	-	-	-
Disposals	-	-	-	-	-	(17,682)	-	(17,682)
At 31 March 2022	**394,185**	**66,650**	**501,595**	**90,986**	**1,186,321**	**209,916**	**290,135**	**2,739,788**
At 1 January 2023 (audited)	544,185	77,372	595,060	96,121	1,340,143	284,135	415,269	2,722,106
Charge for the year	53,142	3,894	28,016	5,571	50,622	31,425	56,442	229,112

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communication equipment	Vehicles	Office equipment and other fixed assets	Intangible assets	Right-of-use assets	Total
Reclassifications	-	-	29	-	(29)	-	-	-
Disposals	-	-	-	-	(12,017)	-	-	(12,017)
Adjustment to ROU assets	-	-	-	-	-	-	(12,680)	(12,680)
At 31 March 2023	**597,327**	**81,266**	**623,105**	**101,692**	**1,378,719**	**315,560**	**459,031**	**2,926,521**
Carrying amount								
At 1 January 2022 (audited)	**6,463,480**	**149,808**	**446,329**	**79,707**	**896,731**	**467,771**	**765,604**	**9,269,430**
At 31 March 2022	**6,409,137**	**146,376**	**418,789**	**75,081**	**882,789**	**468,029**	**736,458**	**9,136,659**
At 1 January 2023 (audited)	**6,086,295**	**170,659**	**555,921**	**91,172**	**976,181**	**602,287**	**1,077,445**	**9,559,960**
At 31 March 2023	**6,033,153**	**169,821**	**688,395**	**85,601**	**1,044,729**	**597,422**	**1,083,397**	**9,702,518**

Right-of-use assets

Right-of-use assets represents office building areas leased by the bank for branch operations.

Restrictions on title of fixed assets and intangible assets

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

Contractual commitments

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

Revaluation of assets

The last revaluation of the lands and buildings owned by the Bank was carried out by an independent valuation organization as of June 1, 2020, using a combination of the market, income and cost methods resulting in a revaluation increase of AMD 2,661,164 thousand and a loss of AMD 5,687 thousand. Management has based their estimate on the results of the independent valuation.

The management believes that at 31 March 2023 and 31 December 2022 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of revalued buildings that would have been recognised under the historic cost, the carrying amounts will be presented as follows:

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Cost	3,093,660	3,093,660
Accumulated depreciation	(1,149,128)	(1,128,843)
Carrying amount	**1,944,532**	**1,964,817**

21 Repossessed assets

Details of confiscated assets serving as collateral for loans issued by the Bank at 31 March 2023 and 31 December 2022 are presented below.

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Real estate	1,421,036	1,477,944
Other repossessed assets	8,216	8,216
Total repossessed assets	**1,429,252**	**1,486,160**

During the period ended 31 March 2023 amount of AMD 8,667 thousand were obtained by taking possession of collateral for loans to customers by the Bank(during the period ended 31 December 2022: AMD 51,649 thousand).

At the date of confiscation the collateral is measured at the lower of the carrying amount of non-repaid loan liabilities and the fair value of collateral.

It is the Bank's policy to properly and timely dispose the collateral. The Bank does not principally use non-cash collaterals for carrying out its activity. Assets are measured at the lower of carrying amount and fair value less costs to sell.

22 Other assets

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Receivables and other proceeds	1,279,592	1,518,273
Proceeds on cash transfers	274,677	493,553
Other financial assets	**1,554,269**	**2,011,826**
Less allowance for assets impairment	(7,315)	(13,790)
Total other financial assets	**1,546,954**	**1,998,036**
Prepayments	633,932	438,893
Materials	86,442	93,315
Tax prepayments	1,858	1,861
Other	331,186	169,551
Total non-financial assets	**1,053,418**	**703,620**
Total other assets	**2,600,372**	**2,701,656**

An analysis of changes in the ECLs on other assets is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	13,790	6,135
Net remeasurement of loss allowance inclusive repayments	(13,790)	(6,135)
New financial assets originated or purchased	7,426	3,426
Net amounts written off	(111)	(617)
ECL allowance as at 31 March	**7,315**	**2,809**

23 Amounts due to banks

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Other payables to banks	13,882	274,694
Regular way purchase agreements – foreign exchange spot transactions	4,230,205	-
Total amounts due to banks	**4,244,087**	**274,694**

Loans from financial institutions have fixed interest rates.

As of 31 March 2023 the Bank has no Bank (31 December 2022: no bank), whose balances exceed 10% of equity.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2022: either).

24 Amounts due to customers

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Legal entities		
Current/Settlement accounts	56,647,028	59,516,233
Time deposits	21,463,817	22,163,351
	78,110,845	**81,679,584**
Individuals		
Current/Settlement accounts	40,283,901	44,214,161
Time deposits	103,978,517	103,369,235
	144,262,418	**147,583,396**
Total amounts due to customers	**222,373,263**	**229,262,980**

As of 31 March 2023 time deposits of legal entities / individuals are deposits amounting to AMD 4,793,090 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 of 31 March 2023 the Bank did not have group of related customers (31 December 2022: either), whose accounts balances exceed 10% of equity.

25 Debt securities issued

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Debt securities issued	19,637,426	10,895,281
Total debt securities issued	**19,637,426**	**10,895,281**

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.

As of 31 March 2023 the Bank has no group of counterparties, balances with whom exceed 10% of equity. (31 December 2022: no counterparty).

26 Other borrowings

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Loans from credit organizations	16,766,598	16,165,885
Borrowings received from individuals	-	3,515,893
Borrowings received from CBA	4,485,608	4,376,818
Borrowings from international financial institutions	8,873,910	9,037,740
Total other borrowings	**30,126,116**	**33,096,336**

As of 31 March 2023 the Bank has two group of related counterparties (31 December 2022: three group), borrowings 16,767,168 thousand (31 December 2022: AMD 22,291,601 thousand).

Loans received by individuals are amounts received from a related person of the Bank (refer to note 32).

27 Subordinated debt

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Subordinated debt from individuals	3,939,950	3,993,514
Total subordinated debt	**3,939,950**	**3,993,514**

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.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2022: either).

28 Other liabilities

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Lease liabilities	1,180,518	1,166,032
Due to personnel	462,786	267,037
Dividends to shareholders	620,110	620,110
Payables under Government assistance programs	23,069	29,483
Accounts payables	2,227,416	870,732
Total other financial liabilities	**4,513,899**	**2,953,394**
Tax payable, other than income tax	180,206	743,661
Grants related to assets	38,890	39,409
Expected loss allowance for financial guarantee contracts	92,298	80,560
Other	13,571	864

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Total other non-financial liabilities	324,965	864,494
Total Other liabilities	**4,838,864**	**3,817,888**

Lease liabilities

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right-of-use assets in a consistent manner to its property, plant and equipment (refer to note 20).

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Set out below are presented the movements of lease liabilities during the period.

In thousand Armenian drams

	31 March 2023	31 December 2022 (audited)
As of 1 January	1,166,032	825,593
Additions	28,461	466,121
Accumulation of interest	29,814	92,279
ROU asset adjustment	33,933	-
Payments	(77,722)	(217,961)
Total lease liabilities as of the reporting period	**1,180,518**	**1,166,032**

In 2023 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 6.6-10.42% (2022: 6.6-10.42%).

The lease liabilities are secured by the related underlying assets. For the maturity analysis of lease liabilities as of 31 March 2022 and 31 December 2022 refer to note 35.

Lease payments not recognised as a liability

The Bank has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis (refer to note 13).

Grants related to assets

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
At 1 January	39,409	41,483
Recognition of income	(519)	(519)
At 31 March	**38,890**	**40,964**

29 Equity

As of 31 March 2023 the Bank's registered and paid-in charter capital was AMD 23,000,000 thousand. In accordance with the Bank's statues, 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.

The respective shareholdings of 31 March 2023 and 31 December 2022 may be specified as follows:

In thousand Armenian drams	31 March 2023		31 December 2022 (audited)	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Gevorkyan Mareta	22,999,300	100.0	22,980,100	99.9
Other shareholders	700.0000	0.0	19,900	0.1
	23,000,000	**100.0**	**20,000,000**	**100.0**

As of 31 March 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.

In 2023 The Bank's shareholders did not increase their share capital. In 2022 the Bank increased its share capital by AMD 3,000,000 thousand, issuing ordinary shares totaling AMD 2,250,000 thousand and preference shares totaling AMD 750,000 thousand. The increase of the share capital of the Bank was carried out by the shareholders in AMD, they have the right to receive dividends and distribute the profit in AMD.

During the period ended 31 March 2023 no dividends on preferred shares were accrued (31 December 2022: AMD 620,110 thousand).

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

Distributable among participants reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's charter capital reported in statutory books.

30 Contingent liabilities and commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 March 2023 and 31 December 2022 the nominal or contract amounts were:

In thousand Armenian drams	31 March 2023	31 December 2022 (audited)
Undrawn loan commitments	15,702,497	14,799,173
Guarantees	4,898,929	4,801,136
Total commitments and contingent liabilities	**20,601,426**	**19,600,309**
Less loss allowances	(92,298)	(80,560)

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 19).

The changes in the ECLs on financial guarantees and letters of credit are presented in other liabilities. An analysis of these changes as follow:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	80,560	15,583
Net remeasurement of loss allowance inclusive repayments	(6,660)	(8,762)
New financial assets originated or purchased	18,398	37,797
ECL allowance as at 31 March	**92,298**	**44,618**

31 Contingencies

Tax and legal matters

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. Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include participants, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions comprise loans, deposits, etc.

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

In thousand Armenian drams	Three-Month Period Ended 31 March 2023		Three-Month Period Ended 31 March 2022	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Interim statement of financial position				
Loans and advances to customers				
Loan balance as at 1 January, gross	19,408	324,702	1,303,101	466,284
Loans issued during the year	455,234	55,870	8,991	35,990
Loan repayments during the year	(357,053)	(59,204)	(484,939)	(60,480)
Loan balance at 31 March, gross	117,589	321,368	827,153	441,794
Less allowance for loan impairment	(5,549)	(2,458)	(1,345)	(2,433)
Loan balance at 31 March	112,040	318,910	825,808	439,361
Amounts due to customers				
Deposit and current account balance as at 1 January	1,076,511	2,423,478	4,575,344	1,377,014
Received during the year	7,068,830	35,191,019	238,026	1,032,708
Repayments during the year	(6,434,907)	(36,461,862)	(372,249)	(1,021,505)
Deposit and current account balance at 31 March	1,710,434	1,152,635	4,441,121	1,388,217
Subordinated debt	3,939,950	-	4,927,355	-
Other borrowings	-	-	5,412,812	-
Interim statement of profit or loss and other comprehensive income				
Interest income on loans	995	7,662	16,067	10,617
Impairment (losses)/recoveries	(3,753)	(456)	(839)	618
Interest expense on deposits	(91)	(25,816)	(54,828)	(19,705)
Interest expense on subordinated debt	(87,100)	-	(108,066)	-
Interest expense on other borrowings	(40,745)	-	(44,461)	-
Gains less losses from revaluation of derivative instuments	4,646	-	-	-
Fee and commission expense	-	(527)	-	-

The loans issued to parties related with the Bank are repayable over 1-17 years and have effective interest rates of 11-20% (2022: 11-19%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	Three-Month Period Ended 31 March 2023	Three-Month Period Ended 31 March 2022
Salaries and bonuses	153,786	65,746

Total key management compensation	**153,786**	**65,746**

33 Fair value measurement

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Bank's Board.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

33.1 Financial instruments that are not measured at fair value

As at 31 March 2023 and 31 December 2022 the estimated fair values of all financial instruments approximate their carrying amounts.

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Amounts due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Other loans and borrowings

The fair value of borrowings and loans with fixed and unquoted interest rates is set based on the calculation of future cash flows, which are discounted applying the rates that are offered new debt instruments of similar maturities and terms.

33.2 Financial instruments that are measured at fair value

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

In thousand Armenian drams				31 March 2023
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial and non-financial bonds	426,099	22,028,574	-	22,454,673
Equity instruments	-	-	42,825	42,825
Total	**426,099**	**22,028,574**	**42,825**	**22,497,498**
Net fair value	**426,099**	**22,028,574**	**42,825**	**22,497,498**

In thousand Armenian drams				31 December 2022 (audited)
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial and non-financial bonds	477,773	24,552,968	-	25,030,741
Equity instruments	-	-	42,825	42,825
Total	**477,773**	**24,552,968**	**42,825**	**25,073,566**
Net fair value	**477,773**	**24,552,968**	**42,825**	**25,073,566**

There have been no transfers between levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Armenia.

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquopted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

33.3 Fair value measurement of non-financial assets

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors at each reporting date.

The appraisal was carried out using comparative, cost and income approaches that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The land and building were revalued in June 2020.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

34 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the 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.

In thousand Armenian drams						31 March 2023
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/ liabilities offset in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 16)	25,684,246	-	25,684,246	-	26,947,262	(1,263,016)

In thousand Armenian drams						31 December 2022 (audited)
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/ liabilities offset in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 16)	27,049,518		27,049,518		28,865,885	1,816,367

35 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 March 2023
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	85,654,952	-	85,654,952	-	-	-	85,654,952
Amounts receivable under reverse repurchase agreements	25,668,894	-	25,668,894	-	-	-	25,668,894
Loans and advances to banks and other financial institutions	9,545,247	806,408	10,351,655	768,008	-	768,008	11,119,663
Investment securities at fair value through other comprehensive income including the pledged ones	6,955,527	3,075,503	10,031,030	6,433,373	6,033,095	12,466,468	22,497,498
Investment securities at amortized cost including the pledged ones	1,074,631	1,321,308	2,395,939	21,519,409	6,180,377	27,699,786	30,095,725
Loans and advances to customers	5,753,406	36,206,835	41,960,241	71,911,747	52,172,073	124,083,820	166,044,061
Other financial assets	1,546,954	-	1,546,954	-	-	-	1,546,954
	136,199,611	**41,410,054**	**177,609,665**	**100,632,537**	**64,385,545**	**165,018,082**	**342,627,747**
Liabilities							
Amounts due to banks	4,244,087	-	4,244,087	-	-	-	4,244,087
Amounts due to customers	103,329,530	69,749,733	173,079,263	49,266,460	27,540	49,294,000	222,373,263
Debt securities issued	-	4,911,969	4,911,969	14,725,457	-	14,725,457	19,637,426
Other borrowings	329,099	1,702,378	2,031,477	18,137,471	9,957,168	28,094,639	30,126,116
Subordinated debt	16,858	38,505	55,363	-	3,884,587	3,884,587	3,939,950
Other financial liabilities	2,713,271	821,999	3,535,270	782,554	196,075	978,629	4,513,899
	110,632,845	**77,224,584**	**187,857,429**	**82,911,942**	**14,065,370**	**96,977,312**	**284,834,741**
Net position	**25,566,766**	**(35,814,530)**	**(10,247,764)**	**17,720,595**	**50,320,175**	**68,040,770**	**57,793,006**
Accumulated gap	**25,566,766**	**(10,247,764)**		**7,472,831**	**57,793,006**		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2022 (audited)
Assets							
Cash and cash equivalents	88,969,092		88,969,092	-	-	-	88,969,092
Amounts receivable under reverse repurchase agreements	27,033,349	-	27,033,349	-	-	-	27,033,349
Loans and advances to banks and other financial institutions	3,261,176	855,362	4,116,538	776,478	-	776,478	4,893,016
Investment securities at fair value through other comprehensive income including the pledged ones	3,285,028	9,804,992	13,090,020	6,237,080	5,746,466	11,983,546	25,073,566
Investment securities at amortized cost including the pledged ones	31,704	2,058,835	2,090,539	18,484,715	6,148,736	24,633,451	26,723,990
Loans and advances to customers	5,746,604	34,584,482	40,331,086	71,375,535	49,876,602	121,252,137	161,583,223
Other financial assets	1,998,036	-	1,998,036	-	-	-	1,998,036
	130,324,989	**47,303,671**	**177,628,660**	**96,873,808**	**61,771,804**	**158,645,612**	**336,274,272**
Liabilities							
Amounts due to banks	274,694	-	274,694	-	-	-	274,694
Amounts payable under repurchase agreements	-	-	-	-	-	-	-
Amounts due to customers	112,404,494	70,329,181	182,733,675	46,513,332	15,973	46,529,305	229,262,980
Derivative fiinancial liabilities	-	-	-	-	-	-	-
Debt securities issued	-	4,957,174	4,957,174	5,938,107	-	5,938,107	10,895,281
Other borrowings	1,221,183	3,753,790	4,974,973	18,383,867	9,737,496	28,121,363	33,096,336
Subordinated debt	17,467	40,563	58,030	-	3,935,484	3,935,484	3,993,514
Other financial liabilities	1,171,545	797,638	1,969,183	765,243	218,968	984,211	2,953,394
	115,089,383	**79,878,346**	**194,967,729**	**71,600,549**	**13,907,921**	**85,508,470**	**280,476,199**
Net position	**15,235,606**	**(32,574,675)**	**(17,339,069)**	**25,273,259**	**47,863,883**	**73,137,142**	**55,798,073**
Accumulated gap	**712,453**	**(22,168,330)**		**7,934,190**	**55,798,073**		

36 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board is responsible for implementation, realization and control of processes, which are connected with risk management.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of the Bank and the Management Board.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of the Bank and the Management Board. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place by maturity. The Management receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the members of the Management Board, which includes Bank normative, current balance of the Bank, daily change in income and expenses and changes in off-balance sheet articles.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

36.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of Directors and Management Board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

36.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

In thousand Armenian drams				**31 March 2023**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	29,349,564	-	-	29,349,564
Standard	56,317,788	-	-	56,317,788
Gross carrying amount	**85,667,352**	**-**	**-**	**85,667,352**
Loss allowance	(12,400)	-	-	(12,400)
Net carrying amount	**85,654,952**	**-**	**-**	**85,654,952**
Amounts receivable under reverse repurchase agreements				
Standard	25,684,246	-	-	25,684,246
Gross carrying amount	**25,684,246**	**-**	**-**	**25,684,246**
Loss allowance	(15,352)	-	-	(15,352)
Net carrying amount	**25,668,894**	**-**	**-**	**25,668,894**
Loans and advances to banks and other financial institutions				
High	-	-	-	-
Standard	11,167,764	-	-	11,167,764
Gross carrying amount	**11,167,764**	**-**	**-**	**11,167,764**
Loss allowance	(48,101)	-	-	(48,101)
Net carrying amount	**11,119,663**	**-**	**-**	**11,119,663**
Loans and advances to mortgage and consumer customers				
High	78,500,145	-	-	78,500,145
Standard	168,549	289,402	-	457,951
Low	-	180,375	-	180,375
Non-performing	-	-	813,966	813,966
Gross carrying amount	**78,668,694**	**469,777**	**813,966**	**79,952,437**
Loss allowance	(459,199)	(140,071)	(312,247)	(911,517)
Net carrying amount	**78,209,495**	**329,706**	**501,719**	**79,040,920**

In thousand Armenian drams				31 March 2023
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans and advances to commercial customers				
High	82,474,326	-	-	82,474,326
Standard	5,323	2,526,649	-	2,531,972
Low	-	27,562	-	27,562
Non-performing	-	-	3,719,195	3,719,195
Gross carrying amount	**82,479,649**	**2,554,211**	**3,719,195**	**88,753,055**
Loss allowance	(287,436)	(177,915)	(1,284,563)	(1,749,914)
Net carrying amount	**82,192,213**	**2,376,296**	**2,434,632**	**87,003,141**
Investment securities at amortized cost including the pledged ones				
Standard	30,164,572	-	-	30,164,572
Gross carrying amount	**30,164,572**	**-**	**-**	**30,164,572**
Loss allowance	(68,847)	-	-	(68,847)
Net carrying amount	**30,095,725**	**-**	**-**	**30,095,725**
Debt investment securities at FVOCI including the pledged securities				
Standard	22,454,673	-	-	22,454,673
Gross carrying amount-fair value	**22,454,673**	**-**	**-**	**22,454,673**
Other financial assets				
Standard	1,554,269	-	-	1,554,269
Gross carrying amount	**1,554,269**	**-**	**-**	**1,554,269**
Loss allowance	(7,315)	-	-	(7,315)
Net carrying amount	**1,546,954**	**-**	**-**	**1,546,954**
Loan commitments and financial guarantee				
High	20,601,426	-	-	20,601,426
Gross carrying amount	**20,601,426**	**-**	**-**	**20,601,426**
Loss allowance	(92,298)	-	-	(92,298)
Net carrying amount	**20,509,128**	**-**	**-**	**20,509,128**

In thousand Armenian drams	31 December 2022 (audited)			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	27,822,349			27,822,349
Standard	61,179,394			61,179,394
Gross carrying amount	**89,001,743**	**-**	**-**	**89,001,743**
Loss allowance	(32,561)	-	-	(32,561)
Net carrying amount	**88,969,182**	**-**	**-**	**88,969,182**
Amounts receivable under reverse repurchase agreements				
Standard	27,049,518	-	-	27,049,518
Gross carrying amount	**27,049,518**	**-**	**-**	**27,049,518**
Loss allowance	(16,169)	-	-	(16,169)
Net carrying amount	**27,033,349**	**-**	**-**	**27,033,349**

In thousand Armenian drams	31 December 2022 (audited)			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Loans and advances to banks and other financial institutions				
Standard	2,889,077	-	-	2,889,077
Gross carrying amount	**2,889,077**	**-**	**-**	**2,889,077**
Loss allowance	(38,151)	-	-	(38,151)
Net carrying amount	**2,850,926**	**-**	**-**	**2,850,926**
Loans and advances to mortgage and consumer customers				
High	75,616,570	-	-	75,616,570
Standard	201,469	301,702	-	503,171
Low	-	158,414	-	158,414
Non-performing	-	-	813,610	813,610
Gross carrying amount	**75,818,039**	**460,116**	**813,610**	**77,091,765**
Loss allowance	(431,538)	(139,658)	(334,474)	(905,670)
Net carrying amount	**75,386,501**	**320,458**	**479,136**	**64,884,714**
Loans and advances to commercial customers				
High	80,542,861	-	-	80,542,861
Standard	6,806	2,836,221	-	2,843,027
Low	-	34,830	-	34,830
Non-performing	-	-	3,816,454	3,816,454
Gross carrying amount	**80,549,667**	**2,871,051**	**3,816,454**	**87,237,172**
Loss allowance	(312,865)	(242,688)	(1,284,491)	(1,840,044)
Net carrying amount	**80,236,802**	**2,628,363**	**2,531,963**	**85,397,128**
Investment securities at amortized cost including the pledged ones				
Standard	26,775,005	-	-	26,775,005
Gross carrying amount	**26,775,005**	**-**	**-**	**26,775,005**
Loss allowance	(51,015)	-	-	(51,015)
Net carrying amount	**26,723,990**	**-**	**-**	**26,723,990**
Debt investment securities at FVOCI including the pledged securities				
Standard	25,030,741	-	-	25,030,741
Gross carrying amount-fair value	**25,030,741**	**-**	**-**	**25,030,741**
Other financial assets				
Standard	4,053,916	-	-	4,053,916
Gross carrying amount	**4,053,916**	**-**	**-**	**4,053,916**
Loss allowance	(13,790)	-	-	(13,790)
Net carrying amount	**4,040,126**	**-**	**-**	**4,040,126**
Loan commitments and financial guarantee				
High	19,600,309	-	-	19,600,309
Gross carrying amount	**19,600,309**	**-**	**-**	**19,600,309**
Loss allowance	(80,560)	-	-	(80,560)

In thousand Armenian drams	31 December 2022 (audited)			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Net carrying amount	**19,519,749**	**-**	**-**	**19,519,749**

* Loss allowances represent the ECL allowances on financial guarantees. ECL allowances on loans and advances include ECL allowances on loan commitments.

36.1.2 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Bank assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Bank use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Bank use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's,

Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from BB (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with BB (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Bank to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Collective and individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as due from banks, securities pledged under repurchase agreements and debt instruments at FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),

- Currency
- Other relevant characteristics.

Definition of default and cure

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.

The Bank considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower’s future ability to generate stable and sufficient cash flows,
- the borrower’s overall leverage level has significantly increased or there are
- justified expectations of such changes to leverage; equity reduced by
- 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV)
- loss),
- credit institution or leader of consortium starts bankruptcy/insolvency
- proceedings

It is the Bank’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank’s criterion for ‘cure’ for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank’s policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 0.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Net current transfers from abroad (current US dollar)
- Unemployment
- Bank's non-performing loans to total gross loans
- Trade growth
- Industry growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

36.1.3 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

Industry sectors

The analysis of loan portfolio by industry sectors is represented in note 19.

36.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	**31 March 2023**	**31 December 2022 (audited)**
Real estate	128,183,705	121,547,345
Movable property and other fixed assets	1,542,640	4,088,253
Current accounts and deposits	2,989,369	2,189,492
Inventories	2,218,967	2,318,785
Guarantees	12,087,094	12,867,267
Precious metals, gold	1,530,063	1,602,478
Other	1,353,017	1,269,865
Unsecured	18,800,637	18,445,452
Total loans and advances, gross	**168,705,492**	**164,328,937**

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

36.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

36.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss and other comprehensive income.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 March 2023 and 31 December 2022. The sensitivity of equity is calculated by revaluating fixed rate FVOCI financial assets at 31 March 2023 and 31 December 2022 for the effects of the assumed changes in interest rates.

In thousand Armenian drams

Currency	Change in basis points	31 March 2023 Sensitivity of net interest income	31 December 2022 (audited) Sensitivity of net interest income	31 March 2023 Sensitivity of equity	31 December 2022 (audited) Sensitivity of equity
AMD	+1	73,728	56,601	(481,120)	(501,782)
AMD	-1	(73,728)	(56,601)	481,120	501,782

Average effective interest rates

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

In thousand Armenian drams	31 March 2023			31 December 2022 (audited)		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD, EUR and other convertible currencies	Other currencies	AMD	USD, EUR and other convertible currencies	Other currencies
Interest earning assets						
Amounts receivable under reverse repurchase agreements	12.1	3.1	-	12.0	2.7	-
Loans to banks	-	8.0	-	-	8.0	-
Deposits placed in banks	-	-	6.7	-	-	-
Investment securities	10.3	8.5	-	10.3	8.5	-
Loans and advances to customers	13.0	8.4	9.0	13.4	8.7	8.5
Interest earning liabilities						

In thousand Armenian drams	31 March 2023			31 December 2022 (audited)		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD, EUR and other convertible currencies	Other currencies	AMD	USD, EUR and other convertible currencies	Other currencies
Amounts due to customers	9.9	4.3	5.5	10.0	4.3	5.6
Debt securities issued	11.0	5.0	-	10.7	5.3	-
Other borrowings	6.4	9.4	-	6.3	7.1	-
Subordinated debt	-	9.3	-	-	9.3	-

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 March 2023 and 31 December 2022 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase

In thousand Armenian drams	31 March 2023		31 December 2022 (audited)	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Freely convertible currencies	+5	47,416	+5	72,815
Non-freely convertible currencies	+5	46,434	+5	(60,343)

The Bank's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	31 March 2023			
	AMD	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	17,917,622	64,502,440	3,234,890	85,654,952
Amounts receivable under reverse repurchase agreements	22,829,464	2,839,430	-	25,668,894
Loans and advances to banks and other financial institutions	866,210	1,819,971	8,433,482	11,119,663
Investment securities	47,242,063	5,351,160	-	52,593,223
Loans and advances to customers	83,996,414	81,914,662	132,985	166,044,061

Other financial assets	1,319,868	180,860	46,226	1,546,954
Total	**174,171,641**	**156,608,523**	**11,847,583**	**342,627,747**
Liabilities				
Amounts due to banks	10,473	4,230,205	3,409	4,244,087
Amounts due to customers	88,071,477	129,578,284	4,723,502	222,373,263
Debt securities issued	5,010,094	14,627,332	-	19,637,426
Other borrowings	21,252,206	8,873,910	-	30,126,116
Subordinated debt	-	3,939,950	-	3,939,950
Other financial liabilities	3,911,422	485,315	117,162	4,513,899
Total	**118,255,672**	**161,734,996**	**4,844,073**	**284,834,741**
Regular way purchase agreements – foreign exchange spot transactions effect	32	6,074,798	(6,074,830)	-
Net position	**55,916,001**	**948,325**	**928,680**	**57,793,006**
Commitments and contingent liabilities	**12,180,558**	**8,420,868**	**-**	**20,601,426**

In thousand Armenian drams	**31 December 2022 (audited)**			
	AMD	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
Assets				
Cash and cash equivalents	15,365,028	70,287,351	3,316,713	88,969,092
Amounts receivable under reverse repurchase agreements	24,317,675	2,715,674	-	27,033,349
Loans and advances to banks and other financial institutions	1,110,355	3,721,879	60,782	4,893,016
Investment securities	46,268,338	5,529,218	-	51,797,556
Loans and advances to customers	79,358,543	82,205,751	18,929	161,583,223
Other financial assets	1,701,387	164,564	132,085	1,998,036
Total	**168,121,326**	**164,624,437**	**3,528,509**	**336,274,272**
Liabilities				
Amounts due to banks	5	260,483	14,206	274,694
Amounts due to customers	86,293,524	138,937,415	4,032,041	229,262,980
Debt securities issued	3,008,822	7,886,459	-	10,895,281
Other borrowings	20,542,703	12,553,633	-	33,096,336
Subordinated debt	-	3,993,514	-	3,993,514
Other financial liabilities	2,727,626	208,569	17,199	2,953,394
Total	**112,572,680**	**163,840,073**	**4,063,446**	**280,476,199**
Regular way purchase agreements – foreign exchange spot transactions effect	-	671,931	(671,931)	-
Net position	**55,548,646**	**1,456,295**	**(1,206,868)**	**55,798,073**
Commitments and contingent liabilities	**10,536,831**	**9,063,478**		**19,600,309**

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

36.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency (refer to note 15). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

The indicators as of 31 March 2023 and 31 December 2022 are as follows:

	31 March 2023, %	31 December 2022, %
N2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	41.38	42.40
N2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	148.12	143.94

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 March 2022 and 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 35 for the expected maturities of these liabilities. 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.

In thousand Armenian drams						31 March 2023
	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 value**
Non-derivative financial liabilities						
Amounts due to banks	4,244,087	-	-	-	4,244,087	4,244,087
Amounts due to customers	103,456,419	73,238,030	52,560,708	45,342	229,300,499	222,373,263
Debt securities issued	-	5,773,240	16,225,521	-	21,998,761	19,637,426
Other borrowings	363,331	3,338,556	22,337,751	11,535,444	37,575,082	30,126,116
Subordinated debt	17,241	332,387	1,399,294	5,160,313	6,909,235	3,939,950
Other financial liabilities	2,722,822	920,333	1,009,553	219,462	4,872,170	4,513,899
Total undiscounted non-derivative financial liabilities	**110,803,900**	**83,602,546**	**93,532,827**	**16,960,561**	**304,899,834**	**284,834,741**
Commitments and contingent liabilities	393,974	5,002,847	14,694,876	509,729	20,601,426	20,601,426

In thousand Armenian drams	31 December 2022 (audited)					
	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 value
Non-derivative financial liabilities						
Amounts due to banks	274,694				274,694	274,694
Amounts due to 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
Other borrowings	1,270,797	5,232,073	22,619,258	11,275,987	40,398,115	33,096,336
Subordinated debt	17,855	336,549	1,417,240	5,317,400	7,089,044	3,993,514
Other financial liabilities	1,181,214	894,177	1,004,188	246,505	3,326,084	2,953,394
Total undiscounted non-derivative financial liabilities	**115,288,395**	**85,782,000**	**81,174,058**	**16,870,528**	**299,114,981**	**280,476,199**
Derivative financial instruments						
Commitments and contingent liabilities	494,010	6,414,636	11,691,501	1,000,162	19,600,309	19,600,309

36.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

37 Reconciliation of liabilities arising from financing activities

The changes in the Bank's liabilities arising from financing activities can be classified as follows:.

In thousand Armenian drams

	Other borrowings	Subordinated debt	Lease liabilities	Debt securities issued	Dividend liabilities	Total
At 1 January 2023 (audited)	33,096,336	3,993,514	1,166,032	10,895,281	620,110	49,771,273
Cash-flows	**(2,826,031)**	**-**	**(77,722)**	**8,797,875**	**(2,000,000)**	**3,894,122**
Repayments	(3,911,637)	-	(77,722)	-	(2,000,000)	(5,989,359)
Amounts received	1,085,606	-	-	8,797,875	-	9,883,481
Non-cash	**(144,189)**	**(53,564)**	**92,208**	**(55,730)**	**2,000,000**	**(223,669)**
Adjustment on lease liabilities	-	-	33,933	-	-	33,933
Additions on lease liabilities	-	-	28,461		-	28,461
Foreign exchange gains	(135,651)	(51,238)	-	(58,979)	-	(245,868)
Interest expense	534,450	87,100	29,814	185,242	-	836,606
Interest paid	(542,988)	(89,426)	-	(181,993)	-	(814,407)
Accrued dividend	-	-	-		2,000,000	2,000,000
At 31 March 2023	**30,126,116**	**3,939,950**	**1,180,518**	**19,637,426**	**620,110**	**55,504,120**

In thousand Armenian drams

	Other borrowings	Subordinated debt	Lease liabilities	Debt securities issued	Dividend liabilities	Total
At 1 January 2022 (audited)	27,607,361	4,872,881	825,593	5,822,097	571,000	39,698,932
Cash-flows	**2,597,420**	**-**	**(42,357)**	**3,875,892**	**-**	**6,430,955**
Repayments	(365,115)	-	(42,357)	-	-	(407,472)
Amounts received	2,962,535	-	-	3,875,892	-	6,838,427
Non-cash	**47,648**	**54,474**	**19,064**	**40,073**	**-**	**161,259**
Disposal of lease liability	-	-	-	-	-	-
Foreign exchange gains	51,638	57,618	-	37,486	-	146,742
Interest expense	383,644	108,066	19,064	93,282	-	604,056
Interest paid	(387,634)	(111,210)	-	(90,695)	-	(589,539)
At 31 March 2022	**30,252,429**	**4,927,355**	**802,300**	**9,738,062**	**571,000**	**46,291,146**

38 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

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, polices and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

The minimal required total capital for banks is determined at AMD 30,000,000 thousand.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 March 2023 and 31 December 2022 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	**31 March 2023**	**31 December 2022**
Tier 1 capital	56,520,374	57,018,534
Tier 2 capital	6,562,992	7,757,242
Total regulatory capital	63,083,366	64,775,776
Risk-weighted assets	296,892,700	249,827,345
Capital adequacy ratio	21.25%	25.93%