evocaBANK

"EVOCABANK" CLOSED JOINT STOCK COMPANY

Interim Financial Statements for the period ended

31/12/2023

Contents

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	31 December 2023	31 December 2022 (audited)	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Interest and similar income	6	29,047,260	20,957,238	8,211,613	5,918,972
Interest and similar expense	6	(13,888,429)	(11,363,137)	(4,014,509)	(2,881,229)
Net interest income		**15,158,831**	**9,594,101**	**4,197,104**	**3,037,743**
Fee and commission income	7	7,967,909	7,565,223	2,224,428	2,587,888
Fee and commission expense	7	(5,663,032)	(4,235,381)	(1,689,886)	(1,461,259)
Net fee and commission income		**2,304,877**	**3,329,842**	**534,542**	**1,126,629**
Net foreign exchange gain	8	7,714,975	29,160,732	2,211,388	6,545,852
Net gain on investment securities measured at fair value through other comprehensive income at fair value through profit or loss		3,515	(4,730)	(5,174)	-
Net gain on financial instruments at fair value through profit or loss		12,667	7,631	9,609	2,186
Other operating income	9	734,504	452,400	275,502	110,092
Other operating expenses	10	(1,312,447)	(1,160,851)	(455,345)	(246,788)
Operating income		**24,616,922**	**41,379,125**	**6,767,626**	**10,575,714**
Impairment losses	11	(732,404)	(2,175,344)	(14,055)	(50,530)
Personnel expenses	12	(6,420,563)	(5,580,282)	(2,435,371)	(3,555,460)
Depreciation of property and equipment and amortization of intangible assets	20	(1,006,040)	(823,675)	(283,282)	(225,070)
Other general administrative expenses	13	(3,043,446)	(1,860,478)	(1,074,479)	(590,938)
Profit before income tax		**13,414,469**	**30,939,346**	**2,960,439**	**6,153,716**
Income tax expense	14	(2,378,489)	(5,214,947)	(736,784)	(1,003,335)
Profit for the year		**11,035,980**	**25,724,399**	**2,223,655**	**5,150,381**
Other comprehensive income					
Net change in fair value during the year		1,121,144	(1,133,460)	(366,431)	(1,965,427)
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI		(6,010)	1,956	(1,991)	-
Net changes in allowance for expected credit losses		19,508	(15,876)	19,981	33,192
Income tax related to items that will be reclassified		(200,724)	203,671	66,316	353,777
Net income/(loss) on financial investments at fair value through other comprehensive income		**933,918**	**(943,709)**	**(282,125)**	**(1,578,458)**
Total other comprehensive income/(loss) for the year, net of tax		**933,918**	**(943,709)**	**(282,125)**	**(1,578,458)**
Total comprehensive income for the year		**11,969,898**	**24,780,690**	**1,941,530**	**3,571,923**

The accompanying notes are an integral part of these interim financial statements.
The interim financial statements were approved by the management on 12 January 2024

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022 (audited)
Assets			
Cash and cash equivalents	15	60,937,733	71,384,322
Amounts receivable under reverse repurchase agreements	16	30,249,231	27,033,349
Loans and advances to banks and other financial institutions	17	40,764,775	22,477,786
Investment securities	18	85,875,412	51,797,556
Loans and advances to customers	19	211,751,365	161,583,223
Property, equipment and intangible assets	20	10,317,605	9,559,960
Repossessed assets	21	1,526,940	1,486,160
Other assets	22	4,220,303	2,701,656
Total assets		**445,643,364**	**348,024,012**
Liabilities and equity			
Liabilities			
Amounts due to banks	23	11,581,709	274,694
Amounts payable under repurchase agreements	24	6,007,733	-
Amounts due to customers	25	280,821,591	229,262,980
Debt securities issued	26	21,296,245	10,895,281
Other borrowings	27	43,353,427	33,096,336
Subordinated debt	28	4,107,166	3,993,514
Current income tax liabilities		1,389,238	4,776,679
Deferred income tax liabilities	14	1,452,052	970,430
Other liabilities	29	6,174,095	3,817,888
Total liabilities		**376,183,256**	**287,087,802**
Equity			
Share capital	30	23,000,000	23,000,000
Statutory general reserve		3,500,000	3,500,000
Revaluation reserve		3,270,974	3,378,746
Fair value reserve		(705,274)	(1,639,192)
Retained earnings		40,394,408	32,696,656
Total equity		**69,460,108**	**60,936,210**
Total liabilities and equity		**445,643,364**	**348,024,012**

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

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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 (audited)	23,000,000	3,500,000	(1,639,192)	3,378,746	32,696,656	60,936,210
Profit for the year	-	-	-	-	11,035,980	11,035,980
Other comprehensive income						
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(107,772)	107,772	-
Net change in fair value during the year	-	-	1,121,144	-	-	1,121,144
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI	-	-	(6,010)	-	-	(6,010)
Net changes in allowance for expected credit losses	-	-	19,508	-	-	19,508
Income tax relating to components of other comprehensive income	-	-	(200,724)	-	-	(200,724)
Total comprehensive income for the year	**-**	**-**	**933,918**	**(107,772)**	**11,143,752**	**11,969,898**
Dividends to shareholders	-	-	-	-	(3,446,000)	(3,446,000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(3,446,000)**	**(3,446,000)**
Balance as of 31 December 2023	**23,000,000**	**3,500,000**	**(705,274)**	**3,270,974**	**40,394,408**	**69,460,108**

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve	Retained earnings	Total
Balance as of 1 January 2022 (audited)	20,000,000	2,000,000	(695,483)	3,486,976	8,984,137	33,775,630
Profit for the year	-	-	-	-	25,724,399	25,724,399
Other comprehensive income						
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(108,230)	108,230	-
Net change in fair value during the year	-	-	(1,133,460)	-	-	(1,133,460)
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	-	-	(15,876)	-	-	(15,876)
Income tax relating to components of other comprehensive income	-	-	203,671	-	-	203,671
Total comprehensive income for the year	**-**	**-**	**(943,709)**	**(108,230)**	**25,832,629**	**24,780,690**
Increase in share capital	3,000,000	**-**	**-**	**-**	**-**	3,000,000
Distribution to reserve	-	1,500,000	-	-	(1,500,000)	-
Dividends to shareholders	-	-	-	-	(620,110)	(620,110)
Total transactions with owners	**3,000,000**	**1,500,000**	**-**	**-**	**(2,120,110)**	**2,379,890**
Balance as of 31 December 2022	**23,000,000**	**3,500,000**	**(1,639,192)**	**3,378,746**	**32,696,656**	**60,936,210**

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

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Statement of cash flows

In thousand Armenian drams

	31 December 2023	31 December 2022 (audited)
Cash flows from operating activities		
Profit before tax	13,414,469	30,939,346
Adjustments for		
Amortization and depreciation allowances	1,006,040	823,675
Net (gains)/losses from sale of property and equipment	(166)	104
Net losses/(gains) on disposal of other assets	89,289	(79,002)
Impairment losses	732,404	2,175,344
Interest expense on lease liabilities	103,786	92,279
Net gains from revaluation of non-trading assets and liabilities	(1,283,818)	(2,274,926)
Interest receivable	(749,377)	(208,406)
Interest payable	829,904	1,195,492
Cash flows from operating activities before changes in operating assets and liabilities	**14,142,531**	**32,663,906**
(Increase)/decrease in operating assets		
Amounts receivable under reverse repurchase agreements	(3,139,745)	(6,903,191)
Loans and advances to banks and other financial institutions	(16,539,460)	(20,174,468)
Loans and advances to customers	(46,863,483)	(41,691,830)
Repossessed assets	68,793	638,529
Other assets	(1,508,713)	(3,702,969)
Increase/(decrease) in operating liabilities		
Amounts due to banks	11,084,645	1,011,029
Amounts payable under repurchase agreements	6,010,648	(15,947,495)
Amounts due to customers	46,706,803	94,437,134
Other liabilities	2,432,488	1,800,505
Net cash flow from operating activities before income tax	**12,394,507**	**42,131,150**
Income tax paid	(5,485,032)	(36,869)
Net cash flow from operating activities	**6,909,475**	**42,094,281**
Cash flows from investing activities		
Purchase of investment securities	(32,019,916)	(26,089,701)
Purchase of property, equipment and intangible assets	(1,619,364)	(819,357)
Proceeds from sale of property and equipment	39,187	171,169
Net cash flow used in investing activities	**(33,600,093)**	**(26,737,889)**
Cash flow from financing activities		
Issue of share capital	-	3,000,000
Dividends paid	(3,420,110)	(571,000)
Debt securities issued	9,802,254	6,802,140
Other borrowings	9,607,114	-
Subordinated debt	-	7,955,945
Lease liabilities	(289,587)	(217,961)
Net cash flow from financing activities	**15,699,671**	**16,969,124**
Net (decrease)/increase in cash and cash equivalents	**(10,990,947)**	**32,325,516**

In thousand Armenian drams

	31 December 2023	31 December 2022 (audited)
Cash and cash equivalents at the beginning of the year	71,384,322	43,389,076
Exchange differences on cash and cash equivalents	526,721	(4,301,930)
Effect of changes in ECL on cash and cash equivalents	17,637	(28,340)
Cash and cash equivalents at the end of the year (note 15)	**60,937,733**	**71,384,322**
Supplementary information:		
Interest received	28,297,883	20,748,832
Interest paid	(12,954,739)	(10,075,366)

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

The interim financial statements were approved by the management on 12 January 2024

Report on general economic prudentials (quarterly)

01/10/2023-31/12/2023

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	70,878,103	30,000,000	No Breach
S11 Minumum ratio of the Tier 1 core capital to the risk-weighted assets	15.60%	6.20%	No Breach
S12 Minumum ratio of the Tier 1 capital to the risk-weighted assets	17.13%	8.30%	No Breach
S1 Minumum ratio of the total capital to the risk-weighted assets	18.92%	11.00%	No Breach
S21 Minumum ratio of the highly liquid assets to the total assets	39.75%	15.00%	No Breach
S211 Minumum ratio of the highly liquid assets in the first group of currency to the total assets in the first group of currency	29.48%	4.00%	No Breach
S212 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
S22 Minumum ratio of the highly liquid assets to the callable liabilities	128.77%	60.00%	No Breach
S221 Minumum ratio of the highly liquid assets in the first group of currency to the callable liabilities in the first group of currency	91.52%	10.00%	No Breach
S222 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
S23 Minimum ratio of highly liquid assets to total net cash outflow (all currencies)	369.75%	100.00%	No Breach
S23 (FX) Minimum ratio of highly liquid assets to total net cash outflow in the first group of currencies	305.47%	100.00%	No Breach
S23 (FX) Minimum ratio of highly liquid assets to total net cash outflow in the second group of currencies	x	100.00%	No Breach
S24 Minimum ratio of total available stable funding to total required stable funding (all currencies)	177.32%	100.00%	No Breach
S24 (FX) Minimum ratio of total available stable funding to total required stable funding in the first group of currencies	171.58%	100.00%	No Breach
S24(FX)1 Minimum ratio of total available stable funding to total required stable funding in the second group of currencies	x	100.00%	No Breach
S31 Maximum risk on a single borrower	11.55%	20.00%	No Breach
S32 Maximum risk on major borrowers	55.99%	500.00%	No Breach
S41 Maximum risk on a single borrower related to the Bank	3.96%	5.00%	No Breach
S42 Maximum risk on major borrowers related to the Bank	8.52%	20.00%	No Breach
S51 Deviation of ratio of maximum of marginal ratio of claim to collateral value	5.50%	10.00%	No Breach
S52 Deviation of ratio of maximum of marginal ratio of claim to collateral value	3.39%	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
Maximum ratio of total foreign currency position to total capital of the Bank	1.58%	10.00%	No Breach
Maximum ratio of each foreign currency position to total capital of the Bank			
In USD	0.67%	7.00%	No Breach
In EUR	x	7.00%	No Breach
In RUR	0.19%	7.00%	No Breach
Other currencies	0.71%	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 12 January 2024

Notes to the financial statements

1 Background

a) Organisation and 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 492

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

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

In thousand Armenian drams	31 December 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	0.0	19,900	0.1
	23,000,000	**100.0**	**20,000,000**	**100.0**

b) 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.

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.

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank. The AMD is also the presentation currency for the purposes of these financial statements.

The official CBA exchange rates as at 31 December 2023 and 2022, were AMD 404.79 and AMD 393.57 to USD 1, and AMD 447.9 and AMD 420.06 to EUR 1, respectively.

d) Use of estimates and judgments

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

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i);
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition.

Assumptions and estimations uncertainty

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

- impairment of financial instruments: selection of model used to measure ECL, determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 37.1.2;
- estimates of fair values of financial assets and liabilities – Note 34.

3 Changes in significant accounting policies

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

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

4 Significant accounting policies

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

a) Foreign currency transactions

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

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

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

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

b) Cash and cash equivalents

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

c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

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

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

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

d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 4(c)).

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

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

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

e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

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

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Interest rate benchmark reform

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

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

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

Financial assets

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

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

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

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

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

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

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

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

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

Financial liabilities

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

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

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

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

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

iv. Impairment

See also Note 37.1.2

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 37.1.2).

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

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

Measurement of ECL

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

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

See also Note 37.1.2.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 37.1.2).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

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

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

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

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

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

f) Loans and advances to customers

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

- loans to customers measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and

- net investments in finance leases.

g) Investment securities

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

- debt investment securities measured at amortised cost (see Note 4(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- debt securities measured at FVOCI (see Note 4(e)(i));

- equity investment securities designated as at FVOCI (see Note 4(e)(i)).

h) Deposits, debt securities issued and subordinated liabilities

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

i) Financial guarantees and loan commitments

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

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

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

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

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

j) Repurchase and reverse repurchase agreements

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

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

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

k) Property and equipment

i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

-	Buildings	40 years
-	computers and communication equipment	1 to 7 years
-	motor vehicles	8 years
-	other fixed asses	8 years

l) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

m) Repossessed assets

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

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of repossessed assets are recognised net in “other operating income” in profit or loss.

n) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

o) Provisions

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

p) Share capital

(i) Ordinary shares

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

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

q) Taxation

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

i) Current tax

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

ii) Deferred tax

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

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

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

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

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

r) Leases

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

i) As a lessee

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

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

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

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

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

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

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

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

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 December 2023 (reclassified)
Cash and cash equivalents	88,969,092	(17,584,770)	60,937,733
Loans and advances to banks and other financial institutions	2,850,926	19,626,860	40,764,775
Other assets	4,743,746	(2,042,090)	4,220,303

6 Interest and similar income and expenses

In thousand Armenian drams	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Loans to customers	18,789,551	14,983,091	5,213,169	4,021,550
Investment securities at FVOCI	2,239,634	997,431	765,342	157,406
Reverse repurchase transactions	2,873,836	2,168,633	769,857	630,005
Loans and advances to banks and other financial institutions	1,671,902	202,006	476,956	133,110
Investment securities at amortised cost	3,463,352	2,602,982	982,166	975,680
Other	8,985	3,095	4,123	1,221
Total interest and similar income	**29,047,260**	**20,957,238**	**8,211,613**	**5,918,972**
Current accounts and deposits from customers	9,530,210	7,699,024	2,708,636	2,028,774
Repurchase transactions	63,058	612,211	34,763	8,179
Subordinated debt	353,178	392,138	91,570	90,194
Other borrowings	2,642,848	1,868,616	791,097	535,059
Debt securities issued	1,157,491	659,420	351,321	185,876
Amounts due to banks	37,630	39,449	15,459	4,064
Interest expense on lease liabilities	103,786	92,279	21,663	29,157
Other	228	-	-	(74)
Total interest and similar expense	**13,888,429**	**11,363,137**	**4,014,509**	**2,881,229**

7 Fee and commission income and expense

In thousand Armenian drams	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Charges from cash and non-cash transactions	1,532,067	4,342,699	323,202	1,448,171
Plastic cards operations	5,250,213	2,394,126	1,569,047	900,815
Money transfers	531,965	558,802	124,784	200,030
Account service and distance system services	510,864	166,934	167,262	10,140
Other	52,506	39,338	11,189	11,366
Guarantees and letters of credit	90,294	63,324	28,944	17,366
Total fee and commission income	**7,967,909**	**7,565,223**	**2,224,428**	**2,587,888**
Plastic card operations	4,109,903	1,683,660	1,371,121	537,882
Charges from cash and non-cash transactions	1,299,511	2,127,428	264,541	684,498
Money transfers	247,324	283,527	58,372	112,486
Other	6,294	140,766	(4,148)	126,393
Total fee and commission expense	**5,663,032**	**4,235,381**	**1,689,886**	**1,461,259**

8 Net trading income

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Net gain on spot transactions	6,431,157	26,885,806	1,899,282	5,802,391
Net gain from revaluation of financial assets and liabilities	1,283,818	2,274,926	312,106	743,461
Total net foreign exchange gain	**7,714,975**	**29,160,732**	**2,211,388**	**6,545,852**

9 Other operating income

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Fines and penalties received	615,033	302,777	257,160	163,569
Net gain on disposal of other assets	216	79,252	136	79,252
Refund of court fees	31,186	40,188	7,701	11,528
Income from termination of right of use asset	20,161	-	5,629	-
Other	67,908	30,183	4,876	(144,257)
Total other operating income	**734,504**	**452,400**	**275,502**	**110,092**

10 Other operating expenses

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Deposit guarantee fund expenses	682,265	480,645	215,032	127,402
Return costs from early repayment of loans	22,964	316,985	4,531	1,992
Cash collection expenses	83,757	39,134	35,755	12,088
Financial mediator expenses	35,122	24,673	8,700	6,168
Cashback charges	89,505	24,445	24,360	13,844
Credit register, other operational systems and other platforms participation expenses	108,938	91,815	26,051	24,184
Cards embossing and delivery expenses	28,913	41,966	6,082	11,010
Loan forgiveness expenses	80,258	361	78,828	128
Fees for brokerage services	19,454	14,522	3,537	3,916
Depositary service expenses	27,045	21,250	8,114	5,342
Other	134,226	105,055	44,355	40,714
Total other operating expenses	**1,312,447**	**1,160,851**	**455,345**	**246,788**

11 Impairment losses

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Cash and cash equivalents	(17,637)	28,340	3,700	17,066
Amounts receivable under reverse repurchase agreements	(6,445)	3,986	(7,067)	2,478

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Loans and advances to banks and other financial institutions	85,506	33,067	(38,281)	24,529
Investment securities at FVOCI	19,508	(15,876)	19,981	33,192
Investment securities at amortised cost	39,897	43,435	(3,017)	(26,587)
Loans and advances to customers	597,530	2,006,561	(37,763)	21,839
Other assets	28,148	10,854	30,249	(16,471)
Financial guarantee contracts	(14,103)	64,977	46,253	(5,516)
Total impairment losses	**732,404**	**2,175,344**	**14,055**	**50,530**

12 Staff costs

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Compensation of employees, related taxes included	6,184,761	5,408,237	2,298,922	3,477,951
Staff training expenses	75,753	33,610	27,334	8,302
Other staff costs	160,049	138,435	109,115	69,207
Total staff costs	**6,420,563**	**5,580,282**	**2,435,371**	**3,555,460**

13 Other general administrative expenses

In thousand Armenian drams

	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Advertising and public relations	929,103	414,076	276,566	156,968
Communications	77,834	57,153	25,332	13,780
Fixed assets repair and maintenance	278,992	215,890	102,544	56,215
Expenses of short term and low value assets leases	70,151	70,331	20,145	16,922
Intangible assets maintenance	588,405	325,265	180,793	95,414
Security	108,359	102,402	28,185	23,342
Office supplies	87,547	88,221	24,740	26,601
Taxes, other than income tax, duties	168,480	111,778	79,204	41,718
Consulting and other services	334,586	98,323	231,523	22,899
Representative and organizational expenses	120,446	101,638	42,430	58,134
Insurance expenses	70,046	66,382	16,712	17,949
Loan recovery expenses	137,405	159,999	28,270	39,648
Other	72,092	49,020	18,035	21,348
Total other general administrative expenses	**3,043,446**	**1,860,478**	**1,074,479**	**590,938**

14 Income tax expense

In thousand Armenian drams	31 December 2023	31 December 2022	Three-Month Period Ended 31 December 2023	Three-Month Period Ended 31 December 2022
Current tax expense	2,013,567	4,800,638	118,384	952,270
Adjustments of income tax of previous years	84,024	-	229,884	-
Deferred tax	280,898	414,309	388,516	51,065
Total income tax expense	**2,378,489**	**5,214,947**	**736,784**	**1,003,335**

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2022: 18%).

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

In thousand Armenian drams	31 December 2023	Effective rate (%)	31 December 2022	Effective rate (%)
Profit before income tax	**13,414,469**		**30,939,346**	
Income tax at the rate of 18%	2,414,604	18.0	5,569,082	18.0
Adjustment of income tax of previous year	84,024	0.6	-	-
(Non-taxable income)/non-deductable expenses	110,530	0.8	61,977	0.2
Foreign exchange (gains)/losses	(230,669)	(1.7)	(416,112)	(1.3)
(Gains)/losses from revaluation of derivative instuments	-	-	-	-
Total income tax expense	**2,378,489**	**17.7**	**5,214,947**	**16.9**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2023 and 2022. Movements in temporary differences during the years ended 31 December 2023 and 2022 are presented as follows:

In thousand Armenian drams				31 December 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)	(4,096)	-	(10,421)	-	(10,421)
Amounts receivable under reverse repurchase agreements	(590)	1,163	-	573	573	-
Loans and advances to banks and other financial institutions	3,882	(6,927)	-	(3,045)	-	(3,045)
Investment securities	377,668	(3,799)	(200,724)	173,145	173,145	-
Loans and advances to customers	(584,252)	(122,676)	-	(706,928)	-	(706,928)
Property, equipment and intangible assets	(704,526)	(206,559)	-	(911,085)	-	(911,085)

In thousand Armenian drams	1 January 2023	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2023 Net	Deferred income tax assets	Deferred income tax liabilities
Other assets	(10,638)	14,615	-	3,977	3,977	-
Amounts due to customers	(8,603)	(5,617)	-	(14,220)	-	(14,220)
Other borrowings	(33,646)	(25,844)	-	(59,490)	-	(59,490)
Subordinated debt	-	-	-	-	-	-
Other liabilities	(3,400)	78,842	-	75,442	75,442	-
Deferred tax asset/(liability)	**(970,430)**	**(280,898)**	**(200,724)**	**(1,452,052)**	**253,137**	**(1,705,189)**

In thousand Armenian drams	1 January 2022	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2022 (audited) 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 December 2023	31 December 2022 (audited)
Nostro accounts with the Central Bank of Armenia	34,298,539	36,452,475
Cash on hand	20,752,867	27,822,349
Nostro accounts with other banks		
-rated A1 to A3	3,483,778	4,565,839
-rated from Ba1 to Ba3	617,412	193,542
-rated below B1	2,639	-
-not rated	1,797,512	2,382,768
Total nostro accounts with other banks	**5,901,341**	**7,142,149**
Total gross cash and cash equivalents	**60,952,747**	**71,416,973**
Credit loss allowance	(15,014)	(32,651)
Total net cash and cash equivalents	**60,937,733**	**71,384,322**

Ratings are based on Moody's rating system. No cash and cash equivalents are credit impaired or past due.

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

As of 31 December 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	31 December 2023	31 December 2022 (audited)
	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	15,014	32,651
Balance at 31 December	**15,014**	**32,651**

16 Amounts received under reverse repurchase agreements

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Reverse repurchase agreements with banks	411,943	7,060,265
Reverse repurchase agreements with other financial institutions	29,847,012	19,989,253
	30,258,955	**27,049,518**
Less loss allowance on amounts receivable under reverse repurchase agreements	(9,724)	(16,169)
Total amounts receivable under reverse repurchase agreements	**30,249,231**	**27,033,349**

As of 31 December 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.

When identifying the debt quality, the Bank uses the ratings of "Moody's" rating agency.

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

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
	Stage 1	Stage 1
ECL allowance as at 1 January	16,169	12,183
Net remeasurement of loss allowance inclusive repayments	(16,169)	(12,183)
New financial assets originated or purchased	9,724	16,169
Balance at 31 December	**9,724**	**16,169**

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

In thousand Armenian drams	31 December 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	31,735,112	30,258,955	28,865,885	27,049,518
Total assets pledged and loans under reverse repurchase agreements	**31,735,112**	**30,258,955**	**28,865,885**	**27,049,518**

As of 31 December 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 and other financial institutions

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Loans to banks	7,110,550	1,658,206
Deposits placed in banks	4,022,705	-
Deposited funds with the CBA	26,046,345	18,684,770
Deposited funds in other banks	93,338	124,086
Short-term claims on other financial institutions	3,615,293	2,042,090
Regular way purchase agreements – foreign exchange spot transactions	201	6,785
	40,888,432	**22,515,937**
Less loss allowance on loans and advances to banks and other financial institutions	(123,657)	(38,151)
Total loans and advances to banks and other financial institutions	**40,764,775**	**22,477,786**

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

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 4% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 6% is maintained in AMD and 12% in the respective currency of funds attracted. 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. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks.

Blocked deposits with financial institutions represent a blocked deposit for membership in Master Card payment system.

As of 31 December 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	31 December 2023	31 December 2022 (audited)
	Stage 1	Stage 1
ECL allowance as at 1 January	38,151	5,084
Net remeasurement of loss allowance inclusive repayments	1,433	11,282
New financial assets originated or purchased	84,073	21,785
Balance at 31 December	**123,657**	**38,151**

18 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Investment securities at amortised cost		
State bonds	45,197,751	25,811,381
Corporate bonds	4,034,302	963,624
Loss allowance	(90,912)	(51,015)
Total investment securities measured at amortised cost	**49,141,141**	**26,723,990**

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

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
	Stage 1	Stage 1
ECL allowance as at 1 January	51,015	7,580
Net remeasurement of loss allowance inclusive repayments	12,914	(515)
New financial assets originated or purchased	26,983	43,950
Balance at 31 December	**90,912**	**51,015**

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

In thousand Armenian drams	31 December 2023		31 December 2022 (audited)	
	%	Maturity	%	Maturity
Government bonds	5.4-12.0	20234-2031	6.8-12.0	2024-2031
Corporate bonds	9.0-11.5	2025-2026	9.0-9.5	2025

Debt securities measured at FVOCI

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Investment securities measured at FVOCI		
State bonds	30,190,240	24,552,968
Corporate bonds	320,080	477,773
Equity instruments	42,825	42,825
Total investment securities measured at FVOCI	**30,553,145**	**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	31 December 2023	31 December 2022 (audited)
	Stage 1	**Stage 1**
ECL allowance as at 1 January	56,044	71,920
Net remeasurement of loss allowance inclusive repayments	(23,471)	(33,808)
New financial assets originated or purchased	42,979	17,932
Balance at 31 December	**75,552**	**56,044**

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 December 2023		31 December 2022 (audited)	
	%	**Maturity**	**%**	**Maturity**
Government bonds	9.8-11.7	2024-2037	6.4-11.8	2023-2037
Corporate bonds	12.0	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 December 2023	31 December 2022 (audited	31 December 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 December 2023 and 31 December 2022.

19 Loans and advances to customers

	31 December 2023	31 December 2022 (audited)
Loans to legal entities		
Loans to large companies	43,829,383	37,442,004
Loans to small and medium size companies	59,356,138	41,854,700
Loans to credit and investment organizations	7,849,754	7,807,921
Total loans to legal entities	**111,035,275**	**87,104,625**
Loans to individuals		
Mortgage	72,730,593	56,576,391
Consumer lending	28,593,677	20,516,192
Total loans to individuals	**101,324,270**	**77,092,583**
Total gross loans and advances to customers at amortised cost	**212,359,545**	**164,197,208**
Receivables from finance lease	3,002,924	131,729
ECL allowance	(3,611,104)	(2,745,714)
Total net loans and advances to customers	**211,751,365**	**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 December 2023 the Bank has no borrowers and groups of related parties (31 December 2022: either), whose loan balances exceed 10% of equity.

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

In thousand Armenian drams				31 December 2023
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Balance at 1 January	80,417,120	2,871,051	3,816,454	87,104,625
New assets originated or purchased	133,472,428	-	-	133,472,428
Assets repaid	(107,104,642)	(484,993)	(779,081)	(108,368,716)
- Transfer to Stage 1	410,485	(406,442)	(4,043)	-
- Transfer to Stage 2	(1,825,557)	1,856,571	(31,014)	-
- Transfer to Stage 3	(26,837)	(2,430,171)	2,457,008	-
Net change in asset from interest and foreign exchange revaluation	(2,823,453)	368,764	1,257,715	(1,196,974)
Recoveries	-	-	335,277	335,277
Amounts written off during the year	-	-	(311,365)	(311,365)
Balance at 31 December	**102,519,544**	**1,774,780**	**6,740,951**	**111,035,275**

In thousand Armenian drams	31 December 2022 (audited)			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Balance at 1 January	74,971,418	217,983	430,402	75,619,803
New assets originated or purchased	88,521,067	-	-	88,521,067
Assets repaid	(37,429,072)	(4,546)	(201,346)	(37,634,964)
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(3,605,784)	3,605,784	-	-
- Transfer to Stage 3	(4,657,522)	(214,002)	4,871,524	-
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	**80,417,120**	**2,871,051**	**3,816,454**	**87,104,625**

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

In thousand Armenian drams	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Balance at 1 January	75,818,856	460,117	813,610	77,092,583
New assets originated or purchased	82,119,239	-		82,119,239
Assets repaid	(49,983,323)	(1,127,860)	(273,449)	(51,384,632)
- Transfer to Stage 1	244,018	(196,508)	(47,510)	-
- Transfer to Stage 2	(319,590)	351,967	(32,377)	-
- Transfer to Stage 3	(448,888)	(81,313)	530,201	-
Net change in asset from interest and foreign exchange revaluation	(6,952,580)	982,187	(776,475)	(6,746,868)
Recoveries	-	-	1,370,094	1,370,094
Amounts written off during the year	-	-	(1,126,146)	(1,126,146)
Balance at 31 December	**100,477,732**	**388,590**	**457,948**	**101,324,270**

In thousand Armenian drams	31 December 2022 (audited)			
	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Balance at 1 January	64,056,358	1,240,312	1,154,013	66,450,683
New assets originated 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	(16,088,980)	(123,609)	(172,415)	(16,385,004)
Recoveries	-	-	841,678	841,678
Amounts written off during the year	-	-	(1,876,772)	(1,876,772)

In thousand Armenian drams				31 December 2022 (audited)
	Stage 1	Stage 2	Stage 3	Total
Balance at 31 December	**75,818,856**	**460,117**	**813,610**	**77,092,583**

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

In thousand Armenian drams				31 December 2023
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
ECL allowance as at 1 January	312,536	242,688	1,284,491	1,840,044
Changes due to financial assets recognised in opening balance that have:				
- Transfer to Stage 1	9,604	(6,247)	(3,357)	-
- Transfer to Stage 2	(60,940)	60,940	-	-
- Transfer to Stage 3	(42)	(235,815)	235,857	-
Net remeasurement of loss allowance inclusive repayments	(59,811)	(41,102)	912,247	811,005
New financial assets originated or purchased	303,594	968	23,612	328,174
Recoveries	-	-	335,277	335,277
Amounts written off during the year	-	-	(311,365)	(311,365)
Balance at 31 December	**504,941**	**21,432**	**2,476,762**	**3,003,135**

In thousand Armenian drams				31 December 2022 (audited)
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
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	-	-	-	-
- Transfer to Stage 2	(33,111)	33,111	-	-
- Transfer to Stage 3	(34,744)	(60,471)	95,215	-
Net remeasurement of loss allowance inclusive repayments	(169,749)	208,984	1,427,577	1,466,812
New financial assets originated or purchased	161,917	298	2,410	164,625
Recoveries	-	-	75,432	75,432
Amounts written off during the year	-	-	(413,717)	(413,717)
Balance at 31 December	**312,536**	**242,688**	**1,284,491**	**1,839,715**

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

In thousand Armenian drams				31 December 2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
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	91,395	(68,500)	(22,895)	-
- Transfer to Stage 2	(3,870)	11,402	(7,532)	-
- Transfer to Stage 3	(6,783)	(33,372)	40,155	-
Net remeasurement of loss allowance inclusive repayments	(355,825)	14,766	(435,509)	(776,568)
New financial assets originated or purchased	184,555	20,071	22,887	227,513
Recoveries	-	-	1,370,094	1,370,094
Amounts written off during the year	-	-	(1,126,146)	(1,126,146)
Balance at 31 December	**341,010**	**84,025**	**175,528**	**600,563**

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

Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2023. Additional information about credit quality of corporate loans and advances to customers based on Internal Credit Rating model is disclosed in Note 37.1.2

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to large companies				
-not overdue	36,464,183	1,724,724	552,259	38,741,166
-overdue less than 30 days	-	-	-	-
-overdue more than 30 days and less than 90 days	-	-	2,042,779	2,042,779
-overdue more than 90 days	-	-	3,045,438	3,045,438
Gross carrying amount	**36,464,183**	**1,724,724**	**5,640,476**	**43,829,383**
ECL allowance	(246,811)	(12,233)	(2,347,412)	(2,606,456)
Net carrying amount	**36,217,372**	**1,712,491**	**3,293,064**	**41,222,927**
Loans to small and medium size companies				
-not overdue	58,198,344	22,892	-	58,221,236
-overdue less than 30 days	7,263	26,768	-	34,031
-overdue more than 30 days and less than 90 days	-	396	10,994	11,390
-overdue more than 90 days	-	-	1,089,481	1,089,481
Gross carrying amount	**58,205,607**	**50,056**	**1,100,475**	**59,356,138**
ECL allowance	(157,601)	(9,199)	(129,350)	(296,150)
Net carrying amount	**58,048,006**	**40,857**	**971,125**	**59,059,988**
Loans to credit and investment organizations				
-not overdue	7,849,754	-	-	7,849,754
Gross carrying amount	**7,849,754**	**-**	**-**	**7,849,754**
ECL allowance	(100,529)	-	-	(100,529)
Net carrying amount	**7,749,225**	**-**	**-**	**7,749,225**
Mortgage				
-not overdue	72,221,297	158,193	199,101	72,578,591
-overdue less than 30 days	11,315	23,017	13,678	48,010
-overdue more than 30 days and less than 90 days	-	41,403	-	41,403
-overdue more than 90 days	-	-	62,589	62,589
Gross carrying amount	**72,232,612**	**222,613**	**275,368**	**72,730,593**
ECL allowance	(39,537)	(26,080)	(57,247)	(122,864)
Net carrying amount	**72,193,075**	**196,533**	**218,121**	**72,607,729**
Consumer lending				
-not overdue	28,116,824	60,189	440	28,177,453
-overdue less than 30 days	128,296	10,281	-	138,577
-overdue more than 30 days and less than 90 days	-	95,238	751	95,989
-overdue more than 90 days	-	269	181,389	181,658
Gross carrying amount	**28,245,120**	**165,977**	**182,580**	**28,593,677**
ECL allowance	(301,473)	(57,945)	(118,281)	(477,699)
Net carrying amount	**27,943,647**	**108,032**	**64,299**	**28,115,978**

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Total gross loans and advances to customers	**202,997,276**	**2,163,370**	**7,198,899**	**212,359,545**
Total net loans and advances to customers	**202,151,325**	**2,057,913**	**4,546,609**	**208,755,847**

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

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to large companies				
-not overdue	31,839,255	2,369,913	837,903	35,047,071
-overdue more than 90 days	-	-	2,394,933	2,394,933
Gross carrying amount	**31,839,255**	**2,369,913**	**3,232,836**	**37,442,004**
ECL allowance	(115,900)	(234,571)	(1,214,124)	(1,564,595)
Net carrying amount	**31,723,355**	**2,135,342**	**2,018,712**	**35,877,409**
Loans to small and medium size companies				
-not overdue	40,763,138	458,303	46,522	41,267,963
-overdue less than 30 days	6,806	8,005	3,975	18,786
-overdue more than 30 days and less than 90 days	-	34,830	-	34,830
-overdue more than 90 days	-	-	533,121	533,121
Gross carrying amount	**40,769,944**	**501,138**	**583,618**	**41,854,700**
ECL allowance	(44,111)	(8,117)	(70,367)	(122,595)
Net carrying amount	**40,725,833**	**493,021**	**513,251**	**41,732,105**
Loans to credit and investment organizations				
-not overdue	7,807,921	-	-	7,807,921
Gross carrying amount	**7,807,921**	**-**	**-**	**7,807,921**
ECL allowance	(152,525)	-	-	(152,525)
Net carrying amount	**7,655,396**	**-**	**-**	**7,655,396**
Mortgage				
-not overdue	56,269,824	93,547	93,963	56,457,334
-overdue less than 30 days	52,359	-	-	52,359
-overdue more than 30 days and less than 90 days	-	-	3,020	3,020
-overdue more than 90 days	-	-	63,678	63,678
Gross carrying amount	**56,322,183**	**93,547**	**160,661**	**56,576,391**
ECL allowance	(109,598)	(11,260)	(37,944)	(158,802)
Net carrying amount	**56,212,585**	**82,287**	**122,717**	**56,417,589**
Consumer lending				
-not overdue	19,347,065	178,951	110,874	19,636,890
-overdue less than 30 days	149,438	29,025	32,381	210,844
-overdue more than 30 days and less than 90 days	170	158,594	35,486	194,250
-overdue more than 90 days	-	-	474,208	474,208

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount	**19,496,673**	**366,570**	**652,949**	**20,516,192**
ECL allowance	(321,939)	(128,398)	(296,531)	(746,868)
Net carrying amount	**19,174,734**	**238,172**	**356,418**	**19,769,324**
Total gross loans and advances to customers	**156,235,976**	**3,331,168**	**4,630,064**	**164,197,208**
Total net loans and advances to customers	**155,491,903**	**2,948,822**	**3,011,098**	**161,451,823**

Industry and geographical analysis of the loans to legal entities and individuals

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

	31 December 2023	31 December 2022 (audited)
Trade	27,048,229	24,021,708
Construction	24,585,775	19,083,819
Manufacturing	18,669,843	13,221,675
Finance and investment	7,849,754	7,807,921
Energy	6,847,592	4,917,789
Transportation and communication	6,400,752	1,226,256
Food and beverage	5,364,183	5,012,387
Hospitality and food service	6,289,663	3,547,616
Culture and leisure	4,256,944	5,026,014
Agriculture	1,786,846	1,368,697
Other	1,935,694	1,870,743
Loans to individuals	101,324,270	77,092,583
	212,359,545	**164,197,208**
ECL allowance	(3,603,698)	(2,745,385)
	208,755,847	**161,451,823**

As of 31 December 2023, loans to customers in amount of AMD 25,020,485 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 36.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 37. Information on related parties is disclosed in note 33.

20 Property and equipment

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
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	-	35,005	236,071	30,654	291,377	226,250	466,121	1,285,478
Reclassifications	(2,342)	-	-	-	2,342	-	-	-
Disposals	(170,500)	-	(342)	(9,428)	(10,829)	(17,685)	-	(208,784)
At 31 December 2022	**6,630,480**	**248,031**	**1,150,981**	**187,293**	**2,316,324**	**886,422**	**1,492,714**	**12,912,245**
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	607,016	22,734	226,827	95,538	421,725	245,524	448,307	2,067,671
Reclassifications	-	-	100	-	(100)	-	-	-
Disposals	-	(42,254)	(6,349)	-	(43,021)	(51,494)	(399,467)	(542,585)
Adjustment to ROU assets	-	-	-	-	-	-	64,290	64,290
At 31 December 2023	**7,237,496**	**228,511**	**1,371,559**	**282,831**	**2,694,928**	**1,080,452**	**1,605,844**	**14,501,621**
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	213,925	14,154	126,479	19,187	203,916	91,734	154,280	823,675
Reclassifications	(1,057)	-	-	-	1,057	-	-	-
Disposals	(8,525)	-	(342)	(9,426)	(1,533)	(17,685)	-	(37,511)
At 31 December 2022	**544,185**	**77,372**	**595,060**	**96,121**	**1,340,143**	**284,135**	**415,269**	**3,352,285**
At 1 January 2023 (audited)	544,185	77,372	595,060	96,121	1,340,143	284,135	415,269	3,352,285
Charge for the year	229,805	14,641	150,731	24,487	215,115	165,574	205,687	1,006,040
Reclassifications	-	-	2	-	(2)	-	-	-
Disposals	-	(4,899)	(6,349)	-	(41,355)	(51,494)	(57,532)	(161,629)
Adjustment to ROU assets	-	-	-	-	-	-	(12,680)	(12,680)
At 31 December 2023	**773,990**	**87,114**	**739,444**	**120,608**	**1,513,901**	**398,215**	**550,744**	**4,184,016**
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 December 2022	**6,086,295**	**170,659**	**555,921**	**91,172**	**976,181**	**602,287**	**1,077,445**	**9,559,960**
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 December 2023	**6,463,506**	**141,397**	**632,115**	**162,223**	**1,181,027**	**682,237**	**1,055,100**	**10,317,605**

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 December 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 December 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 December 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 December 2023	31 December 2022 (audited)
Cost	3,700,676	3,093,660
Accumulated depreciation	(1,227,219)	(1,128,843)
Carrying amount	**2,473,457**	**1,964,817**

21 Repossessed assets

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

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Real estate	1,518,724	1,477,944
Other repossessed assets	8,216	8,216
Total repossessed assets	**1,526,940**	**1,486,160**

During the period ended 31 December 2023 amount of AMD 198,862 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 December 2023	31 December 2022 (audited)
Receivables and other proceeds	1,712,671	1,518,273
Proceeds on cash transfers	599,091	493,553
Other financial assets	**2,311,762**	**2,011,826**
Less allowance for assets impairment	(3,738)	(13,790)
Total other financial assets	**2,308,024**	**1,998,036**
Prepayments	1,419,363	438,893
Materials	115,682	93,315
Tax prepayments	1,195	1,861
Other	376,039	169,551
Total non-financial assets	**1,912,279**	**703,620**
Total other assets	**4,220,303**	**2,701,656**

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

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
	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	41,938	16,989
Net amounts written off	(38,200)	(3,199)
Balance at 31 December	**3,738**	**13,790**

23 Amounts due to banks

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Time deposits from banks	6,720,267	-
Vostro accounts	1,987,393	14,211
Other payables to banks	2,874,009	260,483
Total amounts due to banks	**11,581,709**	**274,694**

Loans from financial institutions have fixed interest rates.

As of 31 December 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 payable under repurchase agreements

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Repurchase agreements with the CBA	6,007,733	-
Total amounts payable under repurchase agreements	**6,007,733**	**-**

25 Amounts due to customers

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Legal entities		
Current/Settlement accounts	82,007,289	59,516,233
Time deposits	33,900,900	22,163,351
	115,908,189	**81,679,584**
Individuals		
Current/Settlement accounts	49,085,302	44,214,161
Time deposits	115,828,100	103,369,235
	164,913,402	**147,583,396**
Total amounts due to customers	**280,821,591**	**229,262,980**

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

As of 31 December 2023 the Bank did not have group of related customers (31 December 2022: either), whose accounts balances exceed 10% of equity.

26 Debt securities issued

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Debt securities issued	21,296,245	10,895,281
Total debt securities issued	**21,296,245**	**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. On 25 September 2023, the Bank issued bonds with a public placement for a total of AMD 2 billion and USD 10 million. The bonds have been fully placed. The coupon annual yield of the bonds is 11% and 5%, the coupon payment frequency is quarterly, the turnover term is 30 months.

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

27 Other borrowings

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Loans from credit organizations	20,144,512	16,165,885
Borrowings received from individuals	-	3,515,893
Borrowings received from RA government and CBA	4,875,973	4,376,818
Borrowings from international financial institutions	18,332,942	9,037,740
Total other borrowings	**43,353,427**	**33,096,336**

As of 31 December 2023 the Bank has three group of related counterparties (31 December 2022: three group), the balances of which exceed 10% of equity. These borrowings as of 31 December 2023 amounted to 31,887,865 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 33).

28 Subordinated debt

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Subordinated debt from individuals	4,107,166	3,993,514
Total subordinated debt	**4,107,166**	**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).

29 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Lease liabilities	1,150,077	1,166,032
Due to personnel	461,388	267,037
Dividends to shareholders	646,000	620,110
Payables under Government assistance programs	-	29,483
Accounts payables	2,837,304	870,732
Total other financial liabilities	**5,094,769**	**2,953,394**
Tax payable, other than income tax	940,036	743,661
Grants related to assets	37,439	39,409
Expected loss allowance for financial guarantee contracts	66,457	80,560
Other	35,394	864
Total other non-financial liabilities	1,079,326	864,494
Total Other liabilities	**6,174,095**	**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 December 2023	31 December 2022 (audited)
As of 1 January	1,166,032	825,593
Additions	448,307	466,121
Termination	(355,431)	-
Accumulation of interest	103,786	92,279
Adjustment to ROU assets	76,970	-
Payments	(289,587)	(217,961)
Total lease liabilities as of the reporting period	**1,150,077**	**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 December 2022 and 31 December 2022 refer to note 36.

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	31 December 2023	31 December 2022
At 1 January	39,409	41,483
Recognition of income	(1,970)	(2,074)
At 31 December	**37,439**	**39,409**

30 Equity

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

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

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

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.

The amount of preference dividends recognized in the financial statements as at 31 December 2022 amounted of AMD 646,000 thousand (31 December 2022: AMD 620,110 thousand).

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

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.

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

In thousand Armenian drams	31 December 2023	31 December 2022 (audited)
Undrawn loan commitments	20,495,537	14,799,173
Guarantees	4,044,305	4,801,136
Letter of credit	-	-
Total commitments and contingent liabilities	**24,539,842**	**19,600,309**
Less loss allowances	(66,457)	(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	31 December 2023	31 December 2022 (audited)
	Stage 1	Stage 1
ECL allowance as at 1 January	80,560	15,583
Net remeasurement of loss allowance inclusive repayments	(24,527)	46,579
New financial assets originated or purchased	10,424	18,398
Net amounts written off	-	-
Balance at 31 December	**66,457**	**80,560**

32 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.

33 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

	31 December 2023		31 December 2022 (audited)	
	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	3,115,118	214,748	59,135	279,505
Loan repayments during the year	(145,182)	(224,389)	(1,347,310)	(181,640)
Loan balance at 31 December, gross	2,989,344	315,061	14,926	564,149
Less allowance for loan impairment	(53,906)	(1,282)	(1,671)	(2,952)
Loan balance at 31 December	2,935,438	313,779	13,255	561,197
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	19,531,520	105,442,053	20,538,696	2,560,285
Repayments during the year	(19,491,430)	(105,924,516)	(25,062,278)	(2,814,092)
Deposit and current account balance at 31 December	1,116,601	1,941,015	51,762	1,123,207
Subordinated debt	4,107,166	-	4,116,283	-
Other borrowings	-	-	3,443,085	-
Interim statement of profit or loss and other comprehensive income				
Interest income on loans	51,387	32,089	24,627	35,623
Impairment (losses)/recoveries	(52,110)	720	(1,165)	99
Interest expense on deposits	(129)	(57,313)	(69,496)	(48,778)
Interest expense on subordinated debt	(353,178)	-	(301,944)	-
Interest expense on other borrowings	(40,745)	-	(132,650)	-
Fee and commission expense	-	(2,973)	-	(1,750)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams

	31 December 2023	31 December 2022 (audited)
Salaries and bonuses	2,420,421	2,278,886
Total key management compensation	**2,420,421**	**2,278,886**

34 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).

34.1 Financial instruments that are not measured at fair value

As at 31 December 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.

34.2 Financial instruments that are measured at fair value

The table below analyses financial instruments measured at fair value at 31 December 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 December 2023
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial and non-financial bonds	320,080	30,190,240	-	30,510,320
Equity instruments	-	-	42,825	42,825
Securities pledged under repurchase agreements	-	6,181,126	-	6,181,126
Total	**320,080**	**36,371,366**	**42,825**	**36,734,271**
Net fair value	**320,080**	**36,371,366**	**42,825**	**36,734,271**

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.

34.3 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.

35 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 December 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)	30,258,955	-	30,258,955	-	31,735,112	(1,476,157)
Financial liabilities						
Repurchase agreements (note 18, 24)	6,007,733	-	6,007,733	-	-	6,007,733

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
Financial liabilities						

36 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 37.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 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	60,937,733	-	60,937,733	-	-	-	60,937,733
Amounts receivable under reverse repurchase agreements	30,249,231	-	30,249,231	-	-	-	30,249,231
Loans and advances to banks and other financial institutions	33,767,305	4,729,244	38,496,549	2,268,226	-	2,268,226	40,764,775
Investment securities at fair value through other comprehensive income including the pledged ones	-	6,152,413	6,152,413	22,906,470	7,675,388	30,581,858	36,734,271
Investment securities at amortized cost including the pledged ones	8,507,638	13,039,328	21,546,966	20,598,971	6,995,204	27,594,175	49,141,141
Loans and advances to customers	6,338,563	45,300,291	51,638,854	96,040,114	64,072,397	160,112,511	211,751,365
Other financial assets	2,308,024	-	2,308,024	-	-	-	2,308,024
	142,108,494	**69,221,276**	**211,329,770**	**141,813,781**	**78,742,989**	**220,556,770**	**431,886,540**
Liabilities							
Amounts due to banks	11,581,709	-	11,581,709	-	-	-	11,581,709
Amounts payable under repurchase agreements	6,007,733	-	6,007,733	-	-	-	6,007,733
Amounts due to customers	142,644,218	86,139,853	228,784,071	51,993,403	44,117	52,037,520	280,821,591
Debt securities issued	-	6,065,145	6,065,145	15,231,100	-	15,231,100	21,296,245
Other borrowings	462,114	12,600,786	13,062,900	19,653,537	10,636,990	30,290,527	43,353,427
Subordinated debt	18,164	41,320	59,484	-	4,047,682	4,047,682	4,107,166
Other financial liabilities	3,260,789	900,367	4,161,156	846,480	87,133	933,613	5,094,769
	163,974,727	**105,747,471**	**269,722,198**	**87,724,520**	**14,815,922**	**102,540,442**	**372,262,640**
Net position	**(21,866,233)**	**(36,526,195)**	**(58,392,428)**	**54,089,261**	**63,927,067**	**118,016,328**	**59,623,900**

In thousand Armenian drams	31 December 2022 (audited)						
	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	71,384,322	-	71,384,322	-	-	-	71,384,322
Amounts receivable under reverse repurchase agreements	27,033,349	-	27,033,349	-	-	-	27,033,349
Loans and advances to banks and other financial institutions	20,845,946	855,362	21,701,308	776,478	-	776,478	22,477,786
Derivative financial assets	-	-	-	-		-	-
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 due to customers	112,404,494	70,329,181	182,733,675	46,513,332	15,973	46,529,305	229,262,980
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**

37 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.

37.1 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.

37.1.1 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 December 2023**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	20,752,867	-	-	20,752,867
Standard	40,199,880	-	-	40,199,880
Gross carrying amount	**60,952,747**	**-**	**-**	**60,952,747**
Loss allowance	(15,014)	-	-	(15,014)
Net carrying amount	**60,937,733**	**-**	**-**	**60,937,733**
Amounts receivable under reverse repurchase agreements				
Standard	30,258,955	-	-	30,258,955
Gross carrying amount	**30,258,955**	**-**	**-**	**30,258,955**
Loss allowance	(9,724)	-	-	(9,724)
Net carrying amount	**30,249,231**	**-**	**-**	**30,249,231**
Loans and advances to banks and other financial institutions				
Standard	40,888,432	-	-	40,888,432
Gross carrying amount	**40,888,432**	**-**	**-**	**40,888,432**
Loss allowance	(123,657)	-	-	(123,657)
Net carrying amount	**40,764,775**	**-**	**-**	**40,764,775**
Investment securities at amortized cost including the pledged ones				
High	-	-	-	-
Standard	49,232,053	-	-	49,232,053
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	**49,232,053**	**-**	**-**	**49,232,053**

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loss allowance	(90,912)	-	-	(90,912)
Net carrying amount	**49,141,141**	**-**	**-**	**49,141,141**
Debt *investment securities at FVOCI including the pledged securities*				
High	-	-	-	-
Standard	36,691,446	-	-	36,691,446
Gross carrying amount-fair value	**36,691,446**	**-**	**-**	**36,691,446**
Other financial assets				
Standard	2,311,762	-	-	2,311,762
Gross carrying amount	**2,311,762**	**-**	**-**	**2,311,762**
Loss allowance	(3,738)	-	-	(3,738)
Net carrying amount	**2,308,024**	**-**	**-**	**2,308,024**
Loan commitments and financial guarantee				
High	24,539,842	-	-	24,539,842
Gross carrying amount	**24,539,842**	**-**	**-**	**24,539,842**
Loss allowance	(66,457)	-	-	(66,457)
Net carrying amount	**24,473,385**	**-**	**-**	**24,473,385**

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**
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**
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**

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

37.1.2 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).

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 4 (ei).

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 (eiv), 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)

37.1.3 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.

37.1.4 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 December 2023	31 December 2022 (audited)
Real estate	161,845,204	121,547,345
Movable property and other fixed assets	7,967,117	4,088,253
Current accounts and deposits	3,403,289	2,189,492
Inventories	-	2,318,785
Guarantees	11,342,408	12,867,267
Precious metals, gold	1,456,745	1,602,478
Other	1,526,381	1,269,865
Unsecured	24,818,401	18,445,452
Total loans and advances, gross	**212,359,545**	**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.

37.2 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.

37.2.1 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 December 2023 and 31 December 2022. The sensitivity of equity is calculated by revaluating fixed rate FVOCI financial assets at 31 December 2023 and 31 December 2022 for the effects of the assumed changes in interest rates.

In thousand Armenian drams

		31 December 2023	31 December 2022 (audited)	31 December 2023	31 December 2022 (audited)
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of net interest income	Sensitivity of equity	Sensitivity of equity
AMD	+1	145,484	56,601	(916,764)	(501,782)
AMD	-1	(145,484)	(56,601)	916,764	501,782

Average effective interest rates

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

In thousand Armenian drams	31 December 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	10.40	4.30	-	12.0	2.7	-
Loans to banks	-	6.90	-	-	8.0	-
Deposits placed in banks	-	5.10	21.00	-	-	-
Investment securities	10.80	2.60	-	10.3	8.5	-
Loans and advances to customers	13.20	8.40	10.40	13.4	8.7	8.5
Interest earning liabilities						
Amounts payable under repurchase agreements	9.9	-	-	-	-	-
Amounts due to customers	10.6	4.4	5.4	10.0	4.3	5.6
Debt securities issued	11.4	4.9	-	10.7	5.3	-
Other borrowings	6.9	10.9	-	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 December 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 December 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	25,847	+5	72,815
Non-freely convertible currencies	+5	30,797	+5	(60,343)

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

In thousand Armenian drams				31 December 2023
	AMD	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	24,927,453	34,804,505	1,205,775	60,937,733
Amounts receivable under reverse repurchase agreements	27,487,145	2,762,086	-	30,249,231
Loans and advances to banks and other financial institutions	3,801,381	31,645,532	5,317,862	40,764,775
Investment securities	65,393,438	20,481,974	-	85,875,412
Loans and advances to customers	100,381,215	110,914,414	455,736	211,751,365
Other financial assets	1,626,515	480,428	201,081	2,308,024
Total	**223,617,147**	**201,088,939**	**7,180,454**	**431,886,540**
Liabilities				
Amounts due to banks	12,460	11,561,548	7,701	11,581,709
Amounts payable under repurchase agreements	6,007,733	-	-	6,007,733
Amounts due to customers	123,151,191	151,526,628	6,143,772	280,821,591
Debt securities issued	6,007,965	15,288,280	-	21,296,245
Other borrowings	25,656,867	17,696,560	-	43,353,427
Subordinated debt	-	4,107,166	-	4,107,166
Other financial liabilities	4,284,908	772,546	37,314	5,094,769
Total	**165,121,124**	**200,952,728**	**6,188,788**	**372,262,640**
Regular way purchase agreements – foreign exchange spot transactions effect	(5,000)	380,730	(375,730)	-
Net position	**58,491,023**	**516,941**	**615,936**	**59,623,900**
Commitments and contingent liabilities	**12,344,449**	**12,195,393**	**-**	**24,539,842**

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	52,702,581	3,316,713	71,384,322
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	21,306,649	60,782	22,477,786
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.

37.3 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 December 2023 and 31 December 2022 are as follows:

	31 December 2023, %	31 December 2022, %
S2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	39.75	42.40
S2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	128.77	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 December 2023 and 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 36 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 December 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	11,581,709	-	-	-	11,581,709	11,581,709
Amounts payable under repurchase agreements	6,012,374	-	-	-	6,012,374	6,007,733
Amounts due to customers	142,872,717	90,546,134	56,067,147	70,016	289,556,014	280,821,591
Debt securities issued	-	7,345,018	16,430,984	-	23,776,002	21,296,245
Other borrowings	519,869	11,929,297	21,903,336	12,384,455	46,736,957	43,353,427
Subordinated debt	18,564	347,142	1,457,843	5,103,086	6,926,635	4,107,166
Other financial liabilities	3,284,293	996,284	1,037,559	91,726	5,409,862	5,094,769
Total undiscounted non-derivative financial liabilities	**164,289,526**	**111,163,875**	**96,896,869**	**17,649,283**	**389,999,553**	**372,262,640**
Commitments and contingent liabilities	**469,735**	**5,401,802**	**16,213,630**	**2,454,675**	**24,539,842**	**24,539,842**

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**
Commitments and contingent liabilities	**494,010**	**6,414,636**	**11,691,501**	**1,000,162**	**19,600,309**	**19,600,309**

37.4 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.

38 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	**9,607,114**	**-**	**(289,587)**	**9,802,254**	**(3,420,110)**	**15,699,671**
Repayments	(7,324,067)	-	(289,587)	-	(3,420,110)	(11,033,764)
Amounts received	16,931,181	-	-	9,802,254	-	26,733,435
Non-cash	**649,977**	**113,652**	**273,632**	**598,710**	**3,446,000**	**1,466,125**
Adjustment on lease liabilities	-	-	76,970	-	-	76,970
Additions on lease liabilities	-	-	448,307	-	-	448,307
Disposal of lease liability	-	-	(355,431)	-	-	(355,431)
Foreign exchange gains	373,706	113,566	-	603,904	-	1,091,176
Interest expense	2,642,848	353,178	103,786	1,157,491	-	4,257,303
Interest paid	(2,366,577)	(353,092)	-	(1,162,685)	-	(3,882,354)
Accrued dividend	-	-	-		3,446,000	3,446,000
At 31 December 2023	**43,353,427**	**4,107,166**	**1,150,077**	**21,296,245**	**646,000**	**70,552,915**

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	**7,955,945**	**-**	**(217,961)**	**6,802,140**	**(571,000)**	**13,969,124**
Repayments	(7,063,900)	-	(217,961)	-	(571,000)	(7,852,861)
Amounts received	15,019,845	-	-	6,802,140	-	21,821,985
Non-cash	**(2,466,970)**	**(879,367)**	**558,400**	**(1,728,956)**	**620,110**	**(3,896,783)**
Additions on lease liabilities	-	-	466,121	-	-	466,121
Disposal of lease liability	-	-	-	-	-	-
Foreign exchange gains	(2,660,976)	(877,995)	-	(1,742,458)	-	(5,281,429)
Interest expense	1,868,616	392,138	92,279	659,420	-	3,012,453
Interest paid	(1,674,610)	(393,510)	-	(645,918)	-	(2,714,038)
Accrued dividend	-	-	-	-	620,110	620,110
At 31 December 2022	**33,096,336**	**3,993,514**	**1,166,032**	**10,895,281**	**620,110**	**49,771,273**

39 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 December 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 December 2023	31 December 2022
Total regulatory capital	70,878,103	64,775,776
Risk-weighted assets	374,673,944	249,827,345
Capital adequacy ratio	18.92%	25.93%