Financial Statements and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2023

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Independent auditor's report

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To the shareholders of "UNIBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "UNIBANK" OPEN JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

- *Allowance for expected credit loss*

Refer to note 4.4.6 of the financial statements for a description of the material accounting policies and to note 36.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2023. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and other).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2023, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement manager on the audit resulting in this independent auditor's report is Naira Ulunts.

Armen Hovhannisyan

Chief Executive Officer of
"Grant Thornton" CJSC

Naira Ulunts

Audit Manager

25 April 2024

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	**2023**	**2022**
Interest income calculated using effective interest rate	6	25,242,783	19,984,152
Other interest income	6	2,692	3,591
Interest expense	6	(9,302,421)	(10,072,314)
Net interest income		15,943,054	9,915,429
Fee and commission income	7	5,665,379	11,843,885
Fee and commission expense	7	(1,924,180)	(2,685,090)
Net fee and commission income		3,741,199	9,158,795
Net trading income	8	7,741,691	14,476,869
Other income	9	830,414	966,177
Credit loss expense	10	(3,216,147)	(17,241,935)
Loss from credit concession	11	(2,407,241)	-
Loss from initial recognition of investment securities	20	(303,964)	-
Staff costs	12	(7,479,231)	(5,593,768)
Depreciation of property and equipment	21	(1,450,435)	(1,203,950)
Amortization of intangible assets	22	(679,425)	(201,995)
Other expenses	13	(6,331,998)	(4,607,873)
Profit before income tax		6,387,917	5,667,749
Income tax expense	14	(1,933,719)	(1,270,724)
Profit for the year		4,454,198	4,397,025
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)		47,342	(83,368)
Changes in allowance for expected credit losses		(4,980)	(3,034)
Income tax relating to items reclassified		(6,935)	15,552
Gains/(loss) on investment securities at fair value through other comprehensive income		35,427	(70,850)
Other comprehensive income for the year, net of tax		35,427	(70,850)
Total comprehensive result for the year		4,489,625	4,326,175
Earnings per share	15	0,0217275	0,0197624

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 74.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	16	55,669,030	100,012,097
Derivative financial assets	17	11,236	-
Amounts due from financial institutions	18	26,183,579	31,943,460
Loans to customers	19	149,364,985	119,828,158
Investment securities	20	27,074,022	44,730,472
Securities pledged under sale and repurchase agreements	20	9,387,266	5,175,583
Property and equipment	21	10,285,957	10,896,975
Intangible assets	22	3,355,572	3,687,879
Other assets	23	7,538,337	3,791,168
Total assets		288,869,984	320,065,792
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	18,720,835	16,603,170
Amounts due to customers	25	211,193,170	252,805,069
Derivative financial liabilities	17	1,055	5,246
Borrowings	26	4,914,586	4,278,478
Debt securities issued	27	9,347,121	9,147,395
Current income tax liability		726,560	311,014
Deferred income tax liabilities	14	539,849	281,440
Other liabilities	28	2,825,940	2,517,120
Total liabilities		248,269,116	285,948,932

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Equity			
Share capital	29	22,425,447	21,588,653
Share premium		11,279,227	9,605,638
Statutory general reserve		686,316	641,779
Other reserves		1,440,850	1,484,830
Retained earnings		4,769,028	795,960
Total equity		40,600,868	34,116,860
Total liabilities and equity		288,869,984	320,065,792

The financial statements were approved on 04 April 2024 by:

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 74.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve for investment securities	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2023	21,588,653	9,605,638	641,779	(24,983)	1,509,813	795,960	34,116,860
Profit for the year	-	-	-	-	-	4,454,198	4,454,198
Other comprehensive income:							
Adjustment to reserve on sale of property and equipment	-	-	-	-	(79,407)	79,407	-
Net change in fair value of investment securities at FVOCI	-	-	-	47,342	-	-	47,342
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	-	(4,980)	-	-	(4,980)
Income tax relating to components of other comprehensive income	-	-	-	(6,935)	-	-	(6,935)
Total comprehensive income for the year	-	-	-	35,427	(79,407)	4,533,605	4,489,625
Increase in share capital	836,794	1,673,589	-	-	-	-	2,510,383
Distribution to reserve	-	-	44,537	-	-	(44,537)	-
Dividends to shareholders	-	-	-	-	-	(516,000)	(516,000)
Total transactions with owners	836,794	1,673,589	44,537	-	-	(560,537)	1,994,383
Balance as of 31 December 2023	22,425,447	11,279,227	686,316	10,444	1,430,406	4,769,028	40,600,868

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve for investment securities	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2022	21,588,653	9,605,638	641,779	45,867	1,686,412	(2,797,297)	30,771,052
Profit for the year	-	-	-	-	-	4,397,025	4,397,025
Other comprehensive income:							
Adjustment to reserve on sale of property and equipment	-	-	-	-	(176,599)	176,599	-
Net change in fair value of investment securities at FVOCI	-	-	-	(83,368)	-	-	(83,368)
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	-	(3,034)	-	-	(3,034)
Income tax relating to components of other comprehensive income	-	-	-	15,552	-	-	15,552
Total comprehensive income for the year	-	-	-	(70,850)	(176,599)	4,573,624	4,326,175
Dividends to shareholders	-		-	-	-	(980,367)	(980,367)
Total transactions with owners	-	-	-	-	-	(980,367)	(980,367)
Balance as of 31 December 2022	21,588,653	9,605,638	641,779	(24,983)	1,509,813	795,960	34,116,860

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 74.

Statement of cash flows

In thousand Armenian drams

	2023	2022
Cash flows from operating activities		
Profit before tax	6,387,917	5,667,749
Adjustments for		
Credit loss expense	3,216,146	17,241,935
Loss from sale of other assets	489,531	34,468
Amortization and depreciation allowances	2,129,860	1,405,945
Net loss from disposal of property and equipment	366,872	26,546
Loss from credit concession	2,407,241	-
Loss fron initial recognition of investment securities	303,964	-
Interest receivable	(14,098)	(19,581)
Interest payable	81,318	108,607
Revaluation of derivative financial instruments	(15,427)	(382)
Other accruals	91,639	-
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	169,905	(150,124)
Cash flows from operating activities before changes in operating assets and liabilities	15,614,868	24,315,163
(Increase)/decrease in operating assets		
Amounts due from financial institutions	4,864,598	(19,625,210)
Loans to customers	(31,132,594)	(13,790,008)
Other assets	(7,209,847)	3,188,011
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	(1,224,663)	12,198,555
Amounts due to customers	(43,880,609)	90,486,543
Other liabilities	616,834	275,647
Net cash flow from/(used in) operating activities before income tax	(62,351,413)	97,048,701
Income tax	(1,266,699)	-
Net cash from/(used in) operating activities	(63,618,112)	97,048,701
Cash flows from investing activities		
(Purchase)/proceeds from sale of investment securities	14,414,725	(34,939,608)
Purchase of property and equipment	(1,201,041)	(950,260)
Proceeds from sale of property and equipment	549,616	494,620
Purchase of intangible assets	(356,870)	(1,161,125)
Net cash from/(used in) investing activities	13,406,430	(36,556,373)

Statement of cash flows (continued)

In thousand Armenian drams

	2023	2022
Cash flow from financing activities		
Increase in share capital	2,510,383	-
Dividends paid	(516,000)	(543,224)
Loans attracted/(repaid) from financial institutions	3,609,202	(4,914,832)
Repayment of debt securities	-	(1,433,631)
Payment of lease liabilities	(898,617)	(799,130)
Attraction of other long-term loans and borrowings	627,092	1,518,594
Net cash from/(used in) financing activities	5,332,060	(6,172,223)
Net increase/(decrease) in cash and cash equivalents	(44,879,622)	54,320,105
Cash and cash equivalents at the beginning of the year	100,012,097	63,239,222
Exchange differences on cash and cash equivalents	536,555	(17,547,230)
Cash and cash equivalents at the end of the year (note 16)	55,669,030	100,012,097
Supplementary information:		
Interest received	25,228,685	19,964,571
Interest paid	(9,332,355)	(9,963,707)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 74.

Notes to the financial statements

1 Principal activities

“Unibank” CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the “CBA”).

On 23 June 2015 according to the Bank’s license registered under number 0373, “UNIBANK” CJSC was reorganized to “UNIBANK” OJSC issuing 14,500,000 shares.

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, Visa International payment systems.

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

It has 50 branches in the RA and one representative office in Moscow, the Russian Federation through which it carries out its activities. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

As of 31 December 2023 the number of the Bank employees was 823 (2022: 819).

2 Armenian business environment

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

The continuous Russian-ukrainian war since February 2023 has had a significant impact on both the conflicting countries and on the world economy. Many leading countries and economic unions have announced severe economic sanctions against Russia, including Russian banks, other organizations and individuals. The war is still ongoing, but it has already led to a humanitarian crisis and huge economic losses in Ukraine, Russia and other countries.

Despite the complex challenges, the Armenian economy has shown and continues to show quite high sustainability due to the effective macroeconomic policy and adequate actions constantly implemented by the Government of Armenia and the Central Bank of Armenia. The rates of economic growth and activity remain high, also due to the large inflow of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022-2023, Armenian banks recorded a significant increase in income from intermediary activities.

On 25 August 2023, Standard & Poor's raised Armenia's credit rating to "BB-" with a stable outlook. Moody's Armenia's credit rating was last set at the "Ba3" level with a stable outlook on 22 June 2023. Fitch Ratings upgraded Armenia's issuer default rating from "B+" to "BB-" in July 2023 with a stable outlook. The rating upgrade by international rating agencies reflects the strong economic growth prospects, the stabilization of state debt at below-average levels, the outlook for sustainable fiscal performance and the improvement of the external balance.

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

3 Basis of preparation

3.1 Statement of compliance

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

The financial statements are prepared on a going concern basis, as management is satisfied that the Bank has adequate resources to continue as a going concern for the foreseeable future. In making this assessment, management has considered a wide range of information including projection of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Bank.

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

New standards and amendments described below and applied for the first time in 2023, did not have a material impact on the annual financial statements of the Bank.

- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *International Tax Reform-Pillar Two Model Rules (Amendments to IAS 16).*

3.5 Standards and interpretations not yet applied by the Bank

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

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

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*

- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Lack of Exchangeability (Amendments to IAS 21)*
- *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.*

4 Summary of material accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

Interest income 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 (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

For information on when financial assets are credit-impaired, see note 4.4.6.

Other interest income

In calculating other interest income, the nominal interest rate is applied to the gross asset value on a straight-line basis.

Fee and commission income

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.

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 expensed as the services are received.

Dividend income

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

Net trading income

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

4.2 Foreign currency

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

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

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

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

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

	31 December 2023	31 December 2022
AMD/1 US Dollar	404.79	393.57
AMD/1 EUR	447.90	420.06
AMD/1 RUB	4.50	5.59

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

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

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see note 4.4.3) and a new financial asset is recognised at fair value.

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

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 36.1.2.

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

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

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

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

The PD, the EAD and the LGD are further explained in note 36.1.2.

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 4.4.4) and ECL are measured as follows.

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

Credit-impaired financial assets

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

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs the shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Bank enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans to customers

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

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

4.9 Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

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

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced in note 20. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.11 Leases

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

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

Measurement and recognition of leases

Bank as a lessee

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

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

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

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

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

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

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

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

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

4.12 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.13 Property and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	25	4
Computers	5	20
Communication	5	20
Vehicles	10	10
ATMs	10	10
Other property and equipment	8	12.5

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

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

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

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

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

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

Computer software development costs are recognized as an expense as incurred.

4.15 Repossessed assets

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

4.16 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 air 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.

4.17 Borrowings

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

4.18 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 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Non-financial guarantee agreements issued by the Bank meet the definition of a loan commitment, therefore the Bank applies IFRS 9.

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

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note 4.19.

4.20 Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

In terms of IFRS 8 the Bank's operations are not separated to operating segments and are a complete business unit. The Bank's chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Bank's assets are mainly distributed in the territory of the Republic of Armenia. The Bank's income is derived from the Armenian sources.

5 Critical accounting estimates and judgements

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

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

5.1 Judgements

Classification of financial assets:

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

Establish criteria for calculating ECL

The Bank establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward- looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 33).

Useful life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Bank expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Impairment of financial instruments

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 31.

6 Net interest income

In thousand Armenian drams	2023	2022
Interest income calculated using effective interest rate		
Loans to customers	20,910,808	17,376,277
Investment securities at FVOCI	82,146	71,638
Investment securities at amortised cost	2,984,250	1,691,510
Amounts due from financial institutions	1,263,760	801,147
Income from guarantee agreements	-	408
Reverse repurchase transactions	1,819	43,172
	25,242,783	19,984,152
Other interest income		
Amounts receivable on finance lease	2,692	3,591
Total interest income	25,245,475	19,987,743

Amounts due to customers	7,296,056	8,021,034
Amounts due to financial institutions	234,039	222,286
Government loans	79,302	97,363
Repurchase transactions	810,458	613,632
Borrowings	168,746	223,003
Lease liabilities	177,668	180,991
Debt securities issued	536,152	703,800
Other interest expense	-	10,205
Total interest expense	9,302,421	10,072,314
Total net interest income	15,943,054	9,915,429

7 Fee and commission income and expense

In thousand Armenian drams	2023	2022
Cash operations	1,316,796	7,232,521
Plastic cards operations	2,652,646	3,287,724
Guarantees and letters of credit	26,396	17,585
Foreign currency translation operations	1,377,121	1,059,868
Other fees and commissions	292,420	246,187
Total fee and commission income	5,665,379	11,843,885

In thousand Armenian drams	2023	2022
Transactions/wire transfer fees	376,502	493,198
Plastic cards operations	1,187,677	925,213
Foreign currency exchange operations	42,691	1,224,468
Stock exchange services	50,077	31,379
Customer attraction costs	249,894	-
Other expenses	17,339	10,832
Total fee and commission expense	1,924,180	2,685,090

8 Net trading income

In thousand Armenian drams	2023	2022
Net income from transactions in foreign currency	7,850,398	15,574,604
Loss from derivatives	(108,707)	(1,097,735)
Total net trading income	7,741,691	14,476,869

9 Other income

In thousand Armenian drams	2023	2022
Fines and penalties received	758,709	736,544
Foreign currency translation net gains of non-trading assets and liabilities	-	150,124
Income from operations in precious metals	20,435	-
Gain from financial guarantees	-	563
Other income	51,270	78,946
Total other income	830,414	966,177

10 Credit loss expense /(reversal of credit loss expense)

					2023
In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from financial institutions	18	(10,656)	-	-	(10,656)
Loans to customers	19	80,591	(589,241)	3,283,592	2,774,942
Investment securities measured at FVOCI	20	(2,140)	-	-	(2,140)
Investment securities measured at amortised cost	20	(106,276)	-	-	(106,276)
Other assets	23	616,667	-	-	616,667
Financial guarantees	30	(56,390)	-	-	(56,390)
Total credit loss expense/(reversal of credit loss expense)		521,796	(589,241)	3,283,592	3,216,147

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from financial institutions	18	(47,133)	-	-	(47,133)
Loans to customers	19	(63,082)	56,015	17,168,612	17,161,545
Investment securities measured at FVOCI	20	(3,034)	-	-	(3,034)
Investment securities measured at amortised cost	20	65,340	-	-	65,340
Other assets	23	34,498	-	-	34,498
Financial guarantees	30	30,719	-	-	30,719
Total credit loss expense /(reversal of credit loss expense)		17,308	56,015	17,168,612	17,241,935

11 Loss from credit concession

On 19 September 2023, Azerbaijan initiated renewed military operations in the territory of Nagorno Karabagh, leading to the displacement of its population from their residences. In response to the escalating situation, the President of Nagorno Karabagh issued a decree for the dissolution of all state institutions and organizations under departmental subordination, effective until 1 January 2024.

Financial organizations operating in the Republic of Armenia, including "Unibank" OJSC, had the following investments:

- Investments in securities issued by the government of Nagorno-Karabakh and its foundations,
- loans to individuals.

Recognizing the significance of recovering the losses incurred by the impacted financial institutions and their consequential impact on economic development, the Government of the Republic of Armenia initiated measures to support financial organizations affected by the armed conflict.

In December 2023, the Government of the Republic of Armenia made a decision to issue long-term state treasury bonds with a coupon yield of 9.6% in exchange for the concession of financial claims (property rights) held by financial organizations of the Republic of Armenia against the Government of Nagorno-Karabakh, its foundations, individual legal entities, and individuals, for the purpose of placement.

According to the above decision as of 31 December 2023 the Company assigned to the Government of the Republic of Armenia the right of claim for investments in securities issued by the Government of Nagorno-Karabakh and its funds with a carrying amount of AMD 7,876,602 thousand and loans of AMD 147,537 thousand to individuals (refer to notes 19, 20), in exchange for which it received from the Government of the Republic of Armenia government bonds issued for a total amount of AMD 5,616,898 thousand nominal value. The nominal value of the received bonds at the time of exchange corresponded to 70% of the assigned claim, as a result of which the Company incurred a loss of AMD 2,407,241 thousand from the assignment of debt as at the date of the transaction.

12 Staff costs

In thousand Armenian drams	2023	2022
Compensations of employees, related taxes included	7,411,376	5,574,196
Staff training and other costs	67,855	19,572
Total staff costs	7,479,231	5,593,768

13 Other expenses

In thousand Armenian drams	2023	2022
Property and equipment repair and maintenance	553,024	708,236
Expenses of short term and low value assets leases	191,951	100,978
Advertising costs	438,901	298,146
Business trip expenses	76,618	54,311
Communications	431,553	307,466
Taxes, other than income tax, duties	633,287	950,689
Foreign currency translation net losses of non-trading assets and liabilities	169,905	-
Net loss from sale of other assets	489,531	34,468
Consulting and other services	183,989	173,886
Security	207,961	235,029
Representative expenses	240,645	264,619
Office supplies	169,555	199,559
Penalties paid	120,000	62,353
Deposit insurance	490,704	365,846
Computer software maintenance	692,891	52,884
Cash collection services	98,143	89,880
Net loss from disposal of property and equipment	366,872	26,546
Costs of operations of precious metals	4,931	37,509
Charitable donations	180,826	168,317
Other expenses	590,711	477,151
Total other expense	6,331,998	4,607,873

14 Income tax expense

In thousand Armenian drams	2023	2022
Current tax expense	1,682,245	534,753
Adjustments for prior years	-	(41,356)
Deferred tax	251,474	777,327
Total income tax expense	1,933,719	1,270,724

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

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

In thousand Armenian drams	2023	Effective rate (%)	2022	Effective rate (%)
Profit before tax	6,387,917		5,667,749	-
Income tax	1,149,825	18	1,020,195	18
Net non-deductible expenses	753,311	12	318,907	5
Adjustments for prior years	-	-	(41,356)	-
Foreign exchange (gains)/losses	30,583	-	(27,022)	-
Income tax expense	1,933,719	30	1,270,724	23

Deferred tax calculation in respect of temporary differences:

	01 January 2023			31 December 2023		
In thousand Armenian drams	Net	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	(33,170)	8,929	-	(24,241)	-	(24,241)
Investments in securities	42,871	36,095	(6,935)	72,031	72,031	-
Loans to customers	(26,378)	(353,391)	-	(379,769)	-	(379,769)
Property and equipment	(299,676)	33,647	-	(266,029)	-	(266,029)
Other liabilities	34,913	23,246	-	58,159	58,159	-
Deferred tax asset/(liability)	(281,440)	(251,474)	(6,935)	(539,849)	130,190	(670,039)

	01 January 2022			31 December 2022		
In thousand Armenian drams	Net	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	-	(33,170)	-	(33,170)	-	(33,170)
Investments in securities	18,983	8,336	15,552	42,871	42,871	-
Loans to customers	589,322	(615,700)	-	(26,378)	-	(26,378)
Property and equipment	(343,136)	43,460	-	(299,676)	-	(299,676)
Other assets	170,909	(170,909)	-	-	-	-
Other liabilities	44,257	(9,344)	-	34,913	34,913	-
Deferred tax asset/(liability)	480,335	(777,327)	15,552	(281,440)	77,784	(359,224)

15 Earnings per share

In thousand Armenian drams	2023	2022
Profit for the year	4,454,198	4,397,653
Dividends on preference shares	(516,000)	(980,997)
Net earnings from ordinary shares of owners	3,938,198	3,416,656
Weighted average number of ordinary shares (number of shares)	181,254,472	172,886,525
Earnings per share – basic	0,0217275	0,0197624

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2023	31 December 2022
Cash on hand	16,113,644	16,728,190
Correspondent accounts with CBA	36,948,806	71,446,838
Nostro accounts with other banks	2,606,580	11,837,069
Total cash and cash equivalents	55,669,030	100,012,097

As of 31 December 2023 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 4% of the Bank obligations denominated in Armenian drams and 18% of the Bank obligations, denominated in foreign currency. The banks are required to maintain 12% of amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 6% - in the foreign currency.

There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. As of 31 December 2023 reserves amounted to AMD 28,051,811 thousand (2022: AMD 37,090,829 thousand).

As of 31 December 2023 the correspondent accounts in amount of AMD 1,062,122 thousand (41%) (2022: AMD 4,541,050 thousand (40%), one bank) were due from two commercial banks, which represent significant concentration.

In 2023 loan obligations in amount of AMD 1,069,605 thousand was repaid by repossessing the collateral (2022: AMD 1,269,391 thousand).

17 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

Whether aggregate contractual or notional amount of derivative financial instruments are favourable or not, the fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below.

In thousand Armenian drams	31 December 2023		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	2,013,980	11,025	1,055
Foreign exchange forward contracts	268,529	211	-
Total derivative financial instruments		11,236	1,055

In thousand Armenian drams	31 December 2022		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	1,973,097	-	5,246
Total derivative financial instruments		-	5,246

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2023	31 December 2022
Deposited funds with the CBA	790,000	785,000
Deposited funds with other banks	2,480,385	2,324,109
Deposits in banks	3,331,913	5,131,505
Loans to banks	17,094,524	23,535,582
Loans to other financial institutions	2,580,975	272,138
	26,277,797	32,048,334
Credit loss allowance	(94,218)	(104,874)
Total amounts due from financial institutions	26,183,579	31,943,460

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

Deposited funds with other banks include guaranteed deposits for settlements via VISA and Master Card payment systems transactions.

As of 31 December 2023 the Bank has loans and deposits provided to three banks, the balances of which exceed 10% of the equity. The total value of these balances as of 31 December 2023 is AMD 14,092,730 thousand (2022: AMD 16,305,228 thousand, which was provided to four banks).

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	31 December 2023	31 December 2022
	Stage 1	Stage 1
ECL allowance as at 1 January	104,874	152,007
Net remeasurement of loss allowance	(10,656)	(47,133)
Balance as at 31 December	94,218	104,874

19 Loans to customers

In thousand Armenian drams	31 December 2023			31 December 2022		
	Gross carrying amount	Impairment allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	32,367,317	(230,792)	32,136,525	12,103,050	(120,188)	11,982,862
Consumer	79,520,227	(3,505,704)	76,014,523	75,012,752	(3,775,220)	71,237,532
	111,887,544	(3,736,496)	108,151,048	87,115,802	(3,895,408)	83,220,394
Commercial lending						
Manufacture	7,405,037	(1,186,776)	6,218,261	7,897,064	(2,310,543)	5,586,521
Agriculture	2,897,358	(54,365)	2,842,993	819,797	(55,603)	764,194
Construction	7,815,868	(138,931)	7,676,937	3,793,590	(108,374)	3,685,216
Transportation	581,118	(13,141)	567,977	6,399,454	(2,751,468)	3,647,986
Trade	7,946,239	(233,823)	7,712,416	7,156,386	(229,219)	6,927,167
Services	8,654,049	(158,443)	8,495,606	6,709,463	(316,360)	6,393,103
Other	7,904,942	(205,195)	7,699,747	10,524,505	(920,928)	9,603,577
	43,204,611	(1,990,674)	41,213,937	43,300,259	(6,692,495)	36,607,764
Total	155,092,155	(5,727,170)	149,364,985	130,416,061	(10,587,903)	119,828,158

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.

During the year ended 31 December 2023 the Bank obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 1,069,605 thousand (2022: AMD 1,269,391 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2023 the Bank had one borrower and groups of related parties, whose loan balances exceed 10% of equity. The gross value of these loans as of December 2023 amounts to AMD 4,384,708 thousand (2022: AMD 10,870,879 thousand, gross loan portfolio provided to seven borrowers and groups of related parties). The credit loss allowance for these loans amounts to AMD 21,051 thousand (2022: AMD 3,584,168 thousand).

As of 31 December 2023 the Bank assigned to the Government of the Republic of Armenia the right to claim loans to individuals in the total amount of AMD 147,537 thousand based on the RA Government's decision, in exchange for which it received state bonds issued by the Government of the Republic of Armenia with a nominal value of AMD 103,276 thousand (refer to note 11). The incurred loss of this transaction amounted to AMD 44,261 thousand.

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

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance as of 1 January	78,562,744	1,542,293	7,010,765	87,115,802
New assets originated	75,266,721	664,282	1,804,647	77,735,650
Assets repaid	(46,759,247)	(819,395)	(4,410,343)	(51,988,985)
- Transfer to stage 1	878,632	(216,144)	(662,488)	-
- Transfer to stage 2	(1,039,289)	1,100,082	(60,793)	-
- Transfer to stage 3	(3,324,858)	(880,149)	4,205,007	-
Change in balance of asset from interest and foreign exchange	526,899	8,595	60,309	595,803
Recoveries	-	-	3,044,882	3,044,882
Amounts written off during the year	-	-	(4,615,608)	(4,615,608)
Balance at 31 December	104,111,602	1,399,564	6,376,378	111,887,544

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance as of 1 January	25,522,146	161,322	17,616,791	43,300,259
New assets originated or purchased	33,750,194	-	48,496	33,798,690
Assets repaid	(21,647,153)	(51,523)	(6,667,559)	(28,366,235)
- Transfer to stage 1	132,614	(18,245)	(114,369)	-
- Transfer to stage 2	(446,371)	3,074,868	(2,628,497)	-
- Transfer to stage 3	(1,917,098)	(115,579)	2,032,677	-
Change in balance of asset from interest and foreign exchange	398,318	1,989	136,539	536,846
Recoveries	-	-	1,533,823	1,533,823
Amounts written off during the year	-	-	(7,598,772)	(7,598,772)
Balance at 31 December	35,792,650	3,052,832	4,359,129	43,204,611

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance as of 1 January	71,459,875	1,315,156	10,138,209	82,913,240
New assets originated or purchased	73,841,074	944,115	3,453,346	78,238,535
Assets repaid	(60,433,762)	(896,646)	(5,015,039)	(66,345,447)
- Transfer to stage 1	959,967	(291,816)	(668,151)	-
- Transfer to stage 2	(981,558)	1,067,571	(86,013)	-
- Transfer to stage 3	(3,168,742)	(555,621)	3,724,363	-
Change in balance of asset from interest and foreign exchange	(3,114,110)	(40,466)	(718,124)	(3,872,700)
Recoveries	-	-	2,547,509	2,547,509
Amounts written off during the year	-	-	(6,365,335)	(6,365,335)
Balance at 31 December	78,562,744	1,542,293	7,010,765	87,115,802

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance as of 1 January	49,339,112	203,686	13,460,610	63,003,408
New assets originated or purchased	21,647,960	54,366	62,183	21,764,509
Assets repaid	(18,353,970)	(56,601)	(2,668,191)	(21,078,762)
- Transfer to stage 1	284,643	(50,750)	(233,893)	-
- Transfer to stage 2	(128,513)	153,146	(24,633)	-
- Transfer to stage 3	(21,618,806)	(119,544)	21,738,350	-
Change in balance of asset from interest and foreign exchange	(5,648,280)	(22,981)	(1,458,224)	(7,129,485)
Recoveries	-	-	1,090,788	1,090,788
Amounts written off during the year	-	-	(14,350,199)	(14,350,199)
Balance at 31 December	25,522,146	161,322	17,616,791	43,300,259

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

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
ECL allowance as of 1 January	974,832	124,987	2,795,589	3,895,408
Transfer to Stage 1	257,192	(15,080)	(242,112)	-
Transfer to Stage 2	(17,969)	40,279	(22,310)	-
Transfer to Stage 3	(56,017)	(86,026)	142,043	-
Net remeasurement of loss allowance	(792,564)	(24,988)	787,058	(30,494)
New loans originated	749,972	70,161	622,175	1,442,308
Recoveries	-	-	3,044,882	3,044,882
Amounts written off during the year	-	-	(4,615,608)	(4,615,608)
Balance as of 31 December	1,115,446	109,333	2,511,717	3,736,496

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
ECL allowance as of 1 January	211,851	7,395	6,473,249	6,692,495
Transfer to Stage 1	35,138	(453)	(34,685)	-
Transfer to Stage 2	(1,439)	1,035,628	(1,034,189)	-
Transfer to Stage 3	(17,454)	(6,653)	24,107	-
Net remeasurement of loss allowance	(103,271)	(634,414)	1,861,917	1,124,232
New loans originated	226,454	-	12,442	238,896
Recoveries	-	-	1,533,823	1,533,823
Amounts written off during the year	-	-	(7,598,772)	(7,598,772)
Balance as of 31 December	351,279	401,503	1,237,892	1,990,674

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	944,281	97,683	3,462,884	4,504,848
Transfer to Stage 1	287,606	(17,433)	(270,173)	-
Transfer to Stage 2	(14,926)	51,359	(36,433)	-
Transfer to Stage 3	(52,593)	(55,662)	108,255	-
Net remeasurement of loss allowance	(858,854)	(32,131)	2,747,204	1,856,219
New loans originated	669,318	81,171	601,678	1,352,167
Recoveries	-	-	2,547,509	2,547,509
Amounts written off during the year	-	-	(6,365,335)	(6,365,335)
Balance as of 31 December	974,832	124,987	2,795,589	3,895,408

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	168,515	3,900	5,826,332	5,998,747
Transfer to Stage 1	11,337	(1,261)	(10,076)	-
Transfer to Stage 2	(261)	261	-	-
Transfer to Stage 3	(94,194)	(2,480)	96,674	-
Net remeasurement of loss allowance	(3,475)	2,351	13,799,899	13,798,775
New loans originated	129,929	4,624	19,831	154,384
Recoveries	-	-	1,090,788	1,090,788
Amounts written off during the year	-	-	(14,350,199)	(14,350,199)
Balance as of 31 December	211,851	7,395	6,473,249	6,692,495

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in note 36.1.2.

As of 31 December 2023, the loans to customers with a carrying amount of AMD 4,914,274 thousand (2022: AMD 890,132 thousand) were the transfer of rights to loans from financial institutions, and AMD 745,480 thousand (2022: AMD 1,317,314 thousand) were the transfer of rights to loans from the RA Government (refer to notes 24, 26).

As of 31 December 2023 and 2022 the estimated fair value of loans to customers approximates it carrying amount (refer to note 33).

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

Credit, currency and interest rate analyses of loans to customers are disclosed in note 36. The information on transactions with related party balances is disclosed in note 32.

20 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2023	31 December 2022
Investment securities measured at amortised cost		
State bonds	22,783,607	35,171,110
RA corporate bonds	2,793,618	8,712,976
Credit loss allowance	(75,816)	(181,791)
Total investment securities at amortised cost	25,501,409	43,702,295
Investment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	9,412,880	5,201,498
Credit loss allowance	(25,614)	(25,915)
Total investment securities at amortised cost pledged under repurchase agreements	9,387,266	5,175,583
Total investment securities at amortised cost	34,888,675	48,877,878

As of 31 December 2023 the Company assigned to the Government of the Republic of Armenia the right to claim investments in securities in amount of AMD 7,876,602 thousand issued by the Nagorno Karabagh and its foundations (refer to note 11), in exchange for which it received government bonds issued by the Government of the Republic of Armenia with a nominal value of AMD 5,513,622 thousand. The incurred loss of this transaction amounted to AMD 2,362,980 thousand.

The received securities were classified as investment securities measured at amortized cost. As a result of determining the initial value of securities, the Bank incurred a loss of AMD 303,964 thousand as at the date of transaction.

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as at 1 January	207,706	142,366
Net remeasurement of loss allowance	(106,276)	65,340
Balance as at 31 December	101,430	207,706

Investment securities measured at amortised cost upon profitability and maturity terms:

In thousand Armenian drams	31 December 2023		31 December 2022	
	%	Maturity	%	Maturity
Sate bonds	6.25-11	2024-2033	1.50-11	2023-2025
RA corporate bonds	3.75-5	2024-2025	3.75-11.75	2023-2029

Investment securities measured at FVOCI

In thousand Armenian drams	31 December 2023	31 December 2022
Investment securities measured at FVOCI		
RA state bonds	1,043,802	999,534
RA equity investments	528,811	28,643
Total investment securities measured at FVOCI	1,572,613	1,028,177

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as at 1 January	4,980	8,014
Net remeasurement of credit loss allowance	(2,140)	(3,034)
Balance at 31 December	2,840	4,980

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI and debt investment securities measured at FVOCI pledged under repurchase agreements is their fair value.

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2022: either).

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

In thousand Armenian drams	31 December 2023		31 December 2022	
	%	Maturity	%	Maturity
RA state bonds	11	2028	11	2028

Equity instruments included in investment securities measured at FVOCI are unquoted equity securities as follows;

Name	Country of incorporation	% controlled		In thousand Armenian drams	
		2023	2022	2023	2022
ArCa	Republic of Armenia	1.25	1.25	16,500	16,500
ACRA Credit Reporting CJSC	Republic of Armenia	2.54	2.54	12,143	12,143
				28,643	28,643

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

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. Refer to note 24 about borrowing with repurchase agreements.

21 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improvement	Machinery and equipment	Vehicles	Fixtures and fittings	Right-of-use assets Land and buildings	Total
Cost or revalued amount							
Balance 1 January 2022	6,311,465	435,962	1,364,497	234,852	4,954,965	2,303,649	15,605,390
Additions	-	23,232	201,443	301,993	423,592	560,769	1,511,029
Remeasurement	-	-	-	-	-	343,685	343,685
Disposals	(369,853)	(3,246)	(5,984)	(132,615)	(155,838)	(41,859)	(709,395)
As of 31 December 2022	5,941,612	455,948	1,559,956	404,230	5,222,719	3,166,244	16,750,709
Additions	670,779	5,268	169,524	90,251	265,219	554,863	1,755,904
Remeasurment	-	-	-	-	-	309,247	309,247
Disposals	(1,130,846)	(14,867)	(43,870)	(31,653)	(138,859)	(155,416)	(1,515,511)
As of 31 December 2023	5,481,545	446,349	1,685,610	462,828	5,349,079	3,874,938	17,300,349
Accumulated depreciation							
As of 1 January 2022	79,962	60,107	857,080	79,341	2,916,953	844,570	4,838,013
Expenses for the year	79,068	11,393	154,712	26,925	425,724	506,128	1,203,950
Disposals	(8,481)	(3,246)	(5,984)	(76,602)	(52,417)	(41,499)	(188,229)
As of 31 December 2022	150,549	68,254	1,005,808	29,664	3,290,260	1,309,199	5,853,734
Expenses for the year	307,670	9,623	133,838	42,586	429,815	526,903	1,450,435
Disposals	(70,297)	(7,719)	(42,244)	(11,573)	(94,592)	(63,352)	(289,777)
As of 31 December 2023	387,922	70,158	1,097,402	60,677	3,625,483	1,772,750	7,014,392
Carrying amount							
As of 31 December 2022	5,791,063	387,694	554,148	374,566	1,932,459	1,857,045	10,896,975
As of 31 December 2023	5,093,623	376,191	588,208	402,151	1,723,596	2,102,188	10,285,957

Revaluation of assets

The land and buildings and computer and communication technologies of the Bank are represented at the revalued amount. The land and buildings owned by the Bank were revaluated by an independent appraiser in December 2020 using the comparative methods resulting in a net increase in amount of AMD 408,411 thousand. Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 4,293,225 thousand as at 31 December 2023 (2022: AMD 5,028,264 thousand).

The computer and communication technologies owned by the Bank were revaluated in December 2018 using the comparative methods resulting in a net increase in amount of AMD 32,831 thousand.

Right-of-use assets

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.

Lease liabilities are presented in the statement of financial position in the line of other liabilities (refer to note 28). The Bank classifies its right-of-use assets in line with the classification of its own fixed assets.

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. 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.

Fully depreciated items

As at 31 December 2023 property and equipment included fully depreciated assets in cost of AMD 1,350,908 thousand (2022: AMD 1,247,459 thousand).

Fixed assets in the phase of installation

As at 31 December 2023 fixed assets included assets in the phase of installation amounting AMD 658,142 thousand (2022: AMD 580,965 thousand).

Restrictions on title of fixed assets

As of 31 December 2023 the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2022: either).

Contractual commitments

As of 31 December 2023, the Bank had no contractual commitment in respect of investments in fixed assets (2022: either).

22 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
Cost				
At 1 January 2022	1,064,052	2,656,479	101,021	3,821,552
Additions	28,660	1,132,465	-	1,161,125
At 31 December 2022	1,092,712	3,788,944	101,021	4,982,677
Additions	88,600	268,270	-	356,870
Disposal	(46,354)	(87,945)	-	(134,299)
At 31 December 2023	1,134,958	3,969,269	101,021	5,205,248
Accumulated depreciation				
At 1 January 2022	516,655	502,286	73,862	1,092,803
Amortisation charge	62,344	137,254	2,397	201,995
At 31 December 2022	578,999	639,540	76,259	1,294,798
Disposal	(36,602)	(87,945)	-	(124,547)
Amortisation charge	220,229	450,440	8,756	679,425
At 31 December 2023	762,626	1,002,035	85,015	1,849,676
Carrying amount				
At 31 December 2022	513,713	3,149,404	24,762	3,687,879
At 31 December 2023	372,332	2,967,234	16,006	3,355,572

As of 31 December 2023, the Bank did not have contractual commitments in respect of investments in intangible assets (2022: either).

As of 31 December 2023, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted (2022: either).

As of 31 December 2023, the computer software includes automated lending program ProtoCRM with a carrying amount of AMD 1,983,225 thousand (2022: AMD 2,042,864 thousand).

As of 31 December 2023 intangible assets included fully amortized assets in cost of AMD 202,294 thousand (2022: AMD 35,098 thousand).

23 Other assets

In thousand Armenian drams	31 December 2023	31 December 2022
Accounts receivable	1,402,286	319,867
Credit loss allowance	(151,799)	(35,462)
Total other financial assets	1,250,487	284,405
Prepayments and other debtors	1,717,646	1,040,858
Repossessed assets	4,022,113	1,751,007
Materials	128,403	171,284
Precious metals	145,658	117,232
Other assets	274,030	426,382
Total non-financial assets	6,287,850	3,506,763
Total other assets	7,538,337	3,791,168

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as at 1 January	35,462	5,799
Net remeasurement of loss allowance	616,667	34,498
Net amounts written off	(500,330)	(4,835)
Balance as at 31 December	151,799	35,462

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank’s policy is to pursue timely realization of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

24 Amounts due to financial institutions

In thousand Armenian drams	31 December 2023	31 December 2022
Correspondent accounts of other banks	3,018,649	9,083,003
Current accounts of other financial institutions	1,146,549	440,992
Loans from financial institutions	4,667,439	1,746,361
Deposits from financial institutions	876,109	302,242
Loans from banks under repurchase agreements	9,012,089	5,030,572
Total amounts due to financial institutions	18,720,835	16,603,170

As of 31 December 2023 loans from financial institutions are secured with the right to claim loans from customers in gross amount of AMD 4,914,274 thousand (2022: AMD 890,132 thousand) (refer to note 19).

As of 31 December 2023 loans from one bank under repurchase agreements are secured by investment securities measured at amortised cost in the gross amount of AMD 9,412,880 thousand (2022: AMD 5,201,498 thousand (refer to note 20)).

As of 31 December 2023 the balance of one bank's correspondent accounts exceeds 10% of the Bank's equity, which amounts to AMD 7,000,340 thousand (2022: AMD 3,507,682 thousand).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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

25 Amounts due to customers

In thousand Armenian drams	31 December 2023	31 December 2022
Corporate customers		
Current/Settlement accounts	34,274,763	51,174,850
Time deposits	4,740,434	11,437,986
	39,015,197	62,612,836
Retail customers		
Current/Demand accounts	84,434,229	86,364,521
Time deposits	87,743,744	103,827,712
	172,177,973	190,192,233
Total amounts due to customers	211,193,170	252,805,069

Deposits from corporate and retail customers carry fixed interest rates.

As of 31 December 2023 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 2,968,212 thousand (2022: AMD 10,427,371 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

As of 31 December 2023 the Bank didn't have accounts and deposit balances of retail and corporate customers, including the Bank's related party and parties related to him (note 32), which exceed 10% of the equity capital (2022: AMD 12,063,623 thousand, two customers).

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

26 Borrowings

In thousand Armenian drams	31 December 2023	31 December 2022
Subordinated debt provided by non-financial organizations	1,619,470	1,574,797
Loans from RA Government	844,143	1,451,236
Other borrowing	2,450,973	1,252,445
Total borrowings	4,914,586	4,278,478

The amounts due to Government of the RA represent loans received from EIB within the scope of “Small, Medium Business Development” loan program, KFW within the scope of “Development of the Renewable Energies” and “Micro, Small and Medium Business Energy Efficiency Support” loan programs. Loans carry fixed interest rates.

As of 31 December 2023 loans from RA Government are secured with the right to claim loans from customers in gross amount of AMD 745,480 thousand (2022: AMD 1,317,314 thousand) (refer to note 19).

The Bank has borrowed long-term subordinated debt from the organization related to Bank (see note 32).

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

27 Debt securities issued

As of 31 December 2023, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
05.02.2021	USD	100	33,478	5.30	05.02.2024	3,347,800
20.05.2021	USD	100	40,000	5.25	20.05.2024	4,000,000
26.11.2021	USD	100	50,000	4.80	26.11.2024	5,000,000
05.09.2023	USD	100	50,000	5.00	05.09.2026	5,000,000
26.11.2021	AMD	10,000	25,000	9.80	26.02.2024	250,000,000
05.09.2023	AMD	10,000	100,000	11.00	05.09.2026	1,000,000,000
02.10.2023	AMD	10,000	100,000	10.75	02.10.2026	1,000,000,000

The bonds of the Bank are listed at “NASDAQ OMX Armenia” stock exchange.

The Bank has not repurchased any of its own debt during the year (2022: either).

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

28 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022
Accounts payables	370,804	171,560
Lease liabilities	1,710,224	1,648,614
Due to personnel	310,243	218,605
Total other financial liabilities	2,391,271	2,038,779

In thousand Armenian drams	31 December 2023	31 December 2022
Tax payable, other than income tax	351,754	355,658
Revenues of future periods	70,452	53,830
ECL for financial guarantees	12,463	68,853
Total other non-financial liabilities	434,669	478,341
Total other liabilities	2,825,940	2,517,120

Lease liabilities

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets (refer to note 13), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are presented in the statement of financial position in the line of property and equipment (refer to note 21):

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option [to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term.

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

In thousand Armenian drams	31 December 2023	31 December 2022
As of 1 January	1,648,614	1,362,299
Additions	554,863	560,769
Termination	(81,551)	-
Remeasurment	309,247	343,685
Accretion of interest	177,668	180,991
Payments	(898,617)	(799,130)
Total lease liabilities as of 31 December	1,710,224	1,648,614

In 2023 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10% (2022: 10.5%).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2023 (refer to note 36.3).

29 Equity

As of 31 December 2023 the Bank’s registered and paid-in share capital was AMD 22,425,447 thousand. In accordance with the Bank’s statute, the share capital consists of 181,254,472 ordinary shares, all of which have a par value of AMD 100 each and 36,788,261 preference shares, all of which have a par value of AMD 100 each and 36,788,261 preferred shares from which 32,010,000 shares have a par value of AMD 100 each and 4,778,261 shares have a par value of AMD 230 each.

The respective shareholdings as at 31 December 2023 and 2022 may be specified as follow:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Uniholding GG Ltd	18,758,224	83.6	17,981,523	83.3
Sfikaro Investments Ltd	1,211,900	5.4	1,350,900	6.3
Arolova Enterprises Ltd	-	-	776,701	3.6
Vahe Karapetyan	745,890	3.3	745,890	3.4
Gagik Zakaryan	255,951	1.2	-	-
Other	1,453,482	6.5	733,639	3.4
	22,425,447	100	21,588,653	100

As at 31 December 2023 the Bank did not possess any of its own shares (2022: either).

In 2022 the shareholders of the Bank increased its charter capital by issuing ordinary shares in the amount of AMD 836,794 thousand and as a result of the placement received share premium of AMD 1,673,589 thousand.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2023 the declared and paid dividends for preference shareholders recognized in the financial statements amounted to AMD 516,000 thousand (2022: AMD 980,367 thousand, of which AMD 464,367 thousand was provided as an advance payment in 2021).

Distributable among shareholders reserves equal the amount of retained earnings, calculated in accordance with the RA 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 15% of the Bank's share capital reported in statutory book.

30 Loan commitment and financial guarantee

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 the contract amounts were:

In thousand Armenian drams	31 December 2023	31 December 2022
Undrawn loan and credit line commitments	15,608,585	4,184,146
Guarantees	600,823	373,246
Total commitments and contingent liabilities	16,209,408	4,557,392

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

An analysis of changes in the ECLs on financial guarantee as follow:

In thousand Armenian drams	31 December 2023	31 December 2022
	Stage 1	Stage 1
Financial guarantees		
ECL allowance as at 1 January	68,853	38,134
Net remeasurement of loss allowance	(56,390)	30,719
Balance as at 31 December	12,463	68,853

ECLs on guarantees are included in "Other liabilities" (refer to note 28).

31 Contingencies

Tax and legal matters

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

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

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

Management 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 anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 Transactions with related parties

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

The Banks' significant shareholders are businessmen G. Zaqaryan and G. Piskov who indirectly own 84.8% of voting shares.

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

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	2023		2022	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans to customers				
Loans outstanding at January 1, gross	6,297,013	1,107,869	11,791,629	3,351,868
Loans issued during the year	51,977	357,819	20,708	134,564
Loans repaid during the year	(6,152,989)	(826,719)	(5,515,324)	(2,378,563)
Loans outstanding at 31 December gross	196,001	638,969	6,297,013	1,107,869
Credit loss allowance	(67,951)	(1,261)	(2,733,831)	(4,947)
Loans outstanding at December 31	128,050	637,708	3,563,182	1,102,922
Cash and cash equivalents				
At January 1	873,160	-	293,798	-
Issued during the year	145,852,257	-	585,182,409	-
Repaid during the year	(145,621,110)	-	(584,603,047)	-
At December 31	1,104,307	-	873,160	-
Amounts due from financial institutions				
At January 1	3,457,139	-	1,615,586	-
Received during the year	75,293,613	-	198,370,979	-
Paid during the year	(76,539,749)	-	(196,529,426)	-
At December 31	2,211,003	-	3,457,139	-
Amounts due to customers				
At January 1	5,876,898	346,399	671,440	115,301
Deposits received during the year	68,818,876	12,542,137	7,945,608	2,720,737
Deposits repaid during the year	(72,350,688)	(12,747,996)	(2,740,150)	(2,489,639)
At December 31	2,345,086	140,540	5,876,898	346,399
Subordinated debt	1,619,470	-	1,574,797	-
Debt securities issued	-	69,063	-	58,232
Purchase of intangible assets	205,920	-	995,760	-
Statement of profit or loss or other comprehensive income				
Interest and similar income	14,889	46,296	177,587	62,019
Interest and similar expense	(108,462)	(58,082)	(176,644)	(8,335)
(Credit loss expense)/ credit loss reversal	2,669,535	3,686	(2,715,938)	40,418
Insurance expenses	(82,699)	-	(63,772)	-
Computer software maintenance costs	643,920	-	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2023	2022
Salaries and bonuses	1,929,187	1,557,216
Total key management compensation	1,929,187	1,557,216

33 Fair value measurement

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

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

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

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

33.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	31 December 2023				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	55,669,030	-	55,669,030	55,669,030
Amounts due from financial institutions	-	26,183,579	-	26,183,579	26,183,579
Loans to customers	-	148,206,576	-	148,206,576	149,364,985
Investments securities measured at amortised cost including pledged securities	2,660,185	32,204,122	-	34,864,307	34,888,675
Other financial assets	-	1,250,487	-	1,250,487	1,250,487
Financial liabilities					
Amounts due to financial institutions	-	18,720,835	-	18,720,835	18,720,835
Amounts due to customers	-	211,188,579	-	211,188,579	211,193,170
Borrowings	-	4,812,074	-	4,812,074	4,914,586
Issued debt securities	-	9,326,016	-	9,326,016	9,347,121
Other financial liabilities	-	2,391,272	-	2,391,272	2,391,272

In thousand Armenian drams	31 December 2022				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	100,012,097	-	100,012,097	100,012,097
Amounts due from financial institutions	-	31,943,460	-	31,943,460	31,943,460
Loans to customers	-	118,522,313	-	118,522,313	119,828,158
Investments securities measured at amortised cost including pledged securities	2,175,430	46,055,065	-	48,230,495	48,877,878
Other financial assets	-	284,405	-	284,405	284,405
Financial liabilities					
Amounts due to financial institutions	-	16,603,170	-	16,603,170	16,603,170
Amounts due to customers	-	251,565,031	-	251,565,031	252,805,069
Borrowings	-	4,247,607	-	4,247,607	4,278,478
Issued debt securities	-	9,153,166	-	9,153,166	9,147,395
Other financial liabilities	-	2,038,779	-	2,038,779	2,038,779

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. Discount rates used depend on credit risk of the counterparty and ranged from 11% to 24% per annum (2022: 5% to 24% per annum).

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.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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.

Debt securities issued

The estimated fair value of the issued debt securities is determined based on the estimated future cash flows discounted at the relevant interest rates at the end of the year, which mainly coincides with the current interest rates.

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments securities at FVOCI, including securities pledged with repurchase agreements	-	1,572,613	-	1,572,613
Derivative financial aseets	-	11,236	-	11,236
Total	-	1,583,849	-	1,583,849
Financial liabilities				
Derivative financial liabilities	-	1,055	-	1,055
Total	-	1,055	-	1,055
Net fair value	-	1,582,794	-	1,582,794

In thousand Armenian drams	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments securities at FVOCI	-	1,028,177	-	1,028,177
Total	-	1,028,177	-	1,028,177
Financial liabilities				
Derivative financial liabilities	-	5,246	-	5,246
Total	-	5,246	-	5,246
Net fair value	-	1,022,931	-	1,022,931

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

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.

Unquoted 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.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs. Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

33.3 Fair value measurement of non-financial assets

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

The appraisal was carried out using a comparative approach 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 buildings was revalued in December 2020.

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

34 Offsetting of financial assets and financial liabilities

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

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	31 December 2023					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Bank loans under repurchase agreements (notes 20, 24)	9,012,089	-	9,012,089	(9,387,266)	-	(375,177)
Total	9,012,089	-	9,012,089	(9,387,266)	-	(375,177)

In thousand Armenian drams	31 December 2022					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Bank loans under repurchase agreements (notes 20, 24)	5,030,572	-	5,030,572	(5,175,583)	-	(145,011)
Total	5,030,572	-	5,030,572	(5,175,583)	-	(145,011)

35 Maturity analysis of assets and liabilities

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

In thousand Armenian drams	31 December 2023							
	Demand and less than 1 month	From 1 to 3 months	From 3 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	55,669,030	-	-	55,669,030	-	-	-	55,669,030
Amounts due from financial institutions	9,895,678	-	9,673,472	19,569,150	6,614,429	-	6,614,429	26,183,579
Derivative financial assets	11,236	-	-	11,236	-	-	-	11,236
Loans to customers	13,246,111	5,067,876	24,185,978	42,499,965	52,448,885	54,416,135	106,865,020	149,364,985
Investment securities								
- Investment securities at FVOCI	-	-	-	-	528,811	1,043,802	1,572,613	1,572,613
- Investments securities at amortised cost	951,612	361,244	1,151,599	2,464,455	27,122,151	5,302,069	32,424,220	34,888,675
Other financial assets	1,250,487	-	-	1,250,487	-	-	-	1,250,487
	81,024,154	5,429,120	35,011,049	121,464,323	86,714,276	61,762,006	147,476,282	268,940,605
Liabilities								
Amounts due to financial institutions	13,323,450	91,444	629,286	14,044,180	368,968	4,307,687	4,676,655	18,720,835
Amounts due to customers	128,763,420	16,646,224	55,623,877	201,033,521	10,113,257	46,392	10,159,649	211,193,170
Derivative financial liabilities	1,055	-	-	1,055	-	-	-	1,055
Borrowings	9,345	-	2,490,847	2,500,192	789,352	1,625,042	2,414,394	4,914,586
Debt securities issued	74,905	1,605,156	3,643,110	5,323,171	4,023,950	-	4,023,950	9,347,121
Lease liabilities	35,139	70,279	305,728	411,146	982,828	316,250	1,299,078	1,710,224
Other financial liabilities	370,804	310,243	-	681,047	-	-	-	681,047
	142,578,114	18,723,346	62,692,848	223,994,312	16,278,355	6,295,371	22,573,726	246,568,038
Net position	(61,553,965)	(13,294,226)	(27,681,799)	(102,529,990)	70,435,921	54,466,635	124,902,556	22,372,566
Accumulated gap	(61,553,965)	(74,848,191)	(102,529,990)		(32,094,069)	22,372,566		

In thousand Armenian drams								31 December 2022
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 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	100,012,097	-	-	100,012,097	-	-	-	100,012,097
Amounts due from financial institutions	9,877,864	9,679,291	9,287,370	28,844,525	3,098,935	-	3,098,935	31,943,460
Loans to customers	18,856,305	4,945,199	25,439,357	49,240,861	42,222,683	28,364,614	70,587,297	119,828,158
Investment securities								
- Investment securities at fair value through other comprehensive income	-	-	-	-	28,643	999,534	1,028,177	1,028,177
- Investments securities at amortised cost	-	8,566,325	10,386,113	18,952,438	27,589,523	2,335,917	29,925,440	48,877,878
Other financial assets	284,405	-	-	284,405	-	-	-	284,405
	129,030,671	23,190,815	45,112,840	197,334,326	72,939,784	31,700,065	104,639,849	301,974,175
Liabilities								
Amounts due to financial institutions	14,556,539	84,192	1,132,455	15,773,186	374,050	455,934	829,984	16,603,170
Amounts due to customers	147,803,335	18,928,229	67,628,555	234,360,119	18,400,873	44,077	18,444,950	252,805,069
Derivative financial liabilities	5,246	-	-	5,246	-	-	-	5,246
Borrowings	8,811	-	894,312	903,123	2,180,258	1,195,097	3,375,355	4,278,478
Debt securities issued	-	69,822	3,967,850	4,037,672	5,109,723	-	5,109,723	9,147,395
Lease liabilities	38,739	77,476	311,100	427,315	999,097	222,202	1,221,299	1,648,614
Other financial liabilities	171,560	218,605	-	390,165	-	-	-	390,165
	162,584,230	19,378,324	73,934,272	255,896,826	27,064,001	1,917,310	28,981,311	284,878,137
Net position	(33,553,559)	3,812,491	(28,821,432)	(58,562,500)	45,875,783	29,782,755	75,658,538	17,096,038
Accumulated gap	(33,553,559)	(29,741,068)	(58,562,500)		(12,686,717)	17,096,038		

36 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. 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.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank’s risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity 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 Audit Committee.

Risk measurement and reporting systems

The Bank also runs "worst case" scenarios that would arise in the event that extreme events which are 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.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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 managed accordingly.

36.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

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

36.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. 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.

Explanation of internal rating grades is included in note 36.1.2.

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (excluding cash on hand)				
Standard	39,555,386	-	-	39,555,386
Gross carrying amount	39,555,386	-	-	39,555,386
Credit loss allowance	-	-	-	-
Net carrying amount	39,555,386	-	-	39,555,386
Amounts due from banks and other financial institutions				
Standard	26,277,797	-	-	26,277,797
Gross carrying amount	26,277,797	-	-	26,277,797
Credit loss allowance	(94,218)	-	-	(94,218)
Net carrying amount	26,183,579	-	-	26,183,579
Loans to mortgage and consumer customers				
High grade	103,011,031	-	-	103,011,031
Standard grade	1,100,571	666,499	-	1,767,070
Low grade	-	733,065	-	733,065
Non-performing grade	-	-	6,376,378	6,376,378
Gross carrying amount	104,111,602	1,399,564	6,376,378	111,887,544
Credit loss allowance	(1,115,446)	(109,333)	(2,511,717)	(3,736,496)
Net carrying amount	102,996,156	1,290,231	3,864,661	108,151,048
Loans to commercial customers				
High grade	35,777,108	-	-	35,777,108
Standard grade	15,542	2,974,250	-	2,989,792
Low grade	-	78,582	-	78,582
Non-performing grade	-	-	4,359,129	4,359,129
Gross carrying amount	35,792,650	3,052,832	4,359,129	43,204,611
Credit loss allowance	(351,279)	(401,503)	(1,237,892)	(1,990,674)
Net carrying amount	35,441,371	2,651,329	3,121,237	41,213,937
Debt investment securities at amortised cost including pledged securities				
High	1,312,856	-	-	1,312,856
Standard	33,677,249	-	-	33,677,249
Gross carrying amount	34,990,105	-	-	34,990,105
Credit loss allowance	(101,430)	-	-	(101,430)
Net carrying amount	34,888,675	-	-	34,888,675
Debt investment securities at FVOCI, including those pledged				
Standard grade	1,572,613	-	-	1,572,613
Carrying amount-fair value	1,572,613	-	-	1,572,613
Credit loss allowance	(2,840)	-	-	(2,840)

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Standard grade	1,402,286	-	-	1,402,286
Gross carrying amount	1,402,286	-	-	1,402,286
Credit loss allowance	(151,799)	-	-	(151,799)
Net carrying amount	1,250,487	-	-	1,250,487
Loan commitments and financial guarantee				
Standard grade	16,209,408	-	-	16,209,408
		-	-	
Credit loss allowance	(12,463)	-	-	(12,463)

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (excluding cash on hand)				
Standard	83,283,907	-	-	83,283,907
Gross carrying amount	83,283,907	-	-	83,283,907
Credit loss allowance	-	-	-	-
Net carrying amount	83,283,907	-	-	83,283,907
Amounts due from banks and other financial institutions				
Standard	32,048,334	-	-	32,048,334
Gross carrying amount	32,048,334	-	-	32,048,334
Credit loss allowance	(104,874)	-	-	(104,874)
Net carrying amount	31,943,460	-	-	31,943,460
Loans to mortgage and consumer customers				
High grade	77,743,525	-	-	77,743,525
Standard grade	819,219	665,186	-	1,484,405
Low grade	-	877,107	-	877,107
Non-performing grade	-	-	7,010,765	7,010,765
Gross carrying amount	78,562,744	1,542,293	7,010,765	87,115,802
Credit loss allowance	(974,832)	(124,987)	(2,795,589)	(3,895,408)
Net carrying amount	77,587,912	1,417,306	4,215,176	83,220,394
Loans to commercial customers				
High grade	25,405,990	-	-	25,405,990
Standard grade	116,156	128,991	-	245,147
Low grade	-	32,331	-	32,331
Non-performing grade	-	-	17,616,791	17,616,791
Gross carrying amount	25,522,146	161,322	17,616,791	43,300,259
Credit loss allowance	(211,851)	(7,395)	(6,473,249)	(6,692,495)
Net carrying amount	25,310,295	153,927	11,143,542	36,607,764

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortised cost including pledged securities				
High	15,416,113	-	-	15,416,113
Standard	33,669,471	-	-	33,669,471
Gross carrying amount	49,085,584	-	-	49,085,584
Credit loss allowance	(207,706)	-	-	(207,706)
Net carrying amount	48,877,878	-	-	48,877,878
Debt securities at FVOCI				
Standard	1,028,177	-	-	1,028,177
Carrying amount-fair value	1,028,177	-	-	1,028,177
Credit loss allowance	(4,980)	-	-	(4,980)
Other financial assets				
Standard grade	319,867	-	-	319,867
Gross carrying amount	319,867	-	-	319,867
Credit loss allowance	(35,462)	-	-	(35,462)
Net carrying amount	284,405	-	-	284,405
Loan commitments and financial guarantee				
Standard grade	4,557,392	-	-	4,557,392
	4,557,392	-	-	4,557,392
Credit loss allowance*	(68,853)	-	-	(68,853)

* Credit loss allowances represent the ECL allowances on financial guarantees. ECL allowances on loans to customers include ECL allowances on loan commitments.

Credit exposures arising from derivative transactions see note 17.

36.1.2 Impairment assessment

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

Significant increase in credit risk

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

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

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

Criteria for loans to customers

The criteria for Loans 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 B2 (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 B2 (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: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below shows the mapping of Bank's grading system and external ratings of the counterparties.

		2023	2022
International external rating agency (S&P) rating	**Grade**	**12 month PD**	**12 month PD**
AAA to A-	Hight	0.001-0.028%	0.001-0.026%
BBB+ to B-	Standard	0.047-2.813%	0.045-3.231%
CCC+ to CC	Substandard	4.695-21.841%	5.519-27.516%
D	Non-Performing	100%	100%

Collective or 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 amortised cost/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 4.4.3.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

In thousand Armenian drams	2023	2022
Amortised costs of financial assets modified during the period	3,452,253	885,713
Net modification gain/(loss)	928,965	(302,330)

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

- GDP growth/decrease
- GDP (current LCU)

- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan)

37.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	53,176,822	346,685	2,145,523	55,669,030
Amounts due from financial institutions	17,211,264	215,404	8,756,911	26,183,579
Derivative financial assets	11,236	-	-	11,236
Loans to customers	149,115,883	247,727	1,375	149,364,985
Investment securities	34,703,300	-	1,757,988	36,461,288
Other financial assets	952,431	150,154	147,902	1,250,487
As of 31 December 2023	255,170,936	12,809,699	959,970	268,940,605
As of 31 December 2022	249,285,686	28,956,034	23,732,455	301,974,175

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The Bank's main credit exposure as categorized by the industry sectors of the counterparties as of 31 December 2023 are concentrated in financial sector except for the loans. For the loan industry sector please see 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.

As of 31 December 2023 the Bank didn't possess credit-impaired loans for which allowance for ECL has not been recognized because of collaterals (2022: AMD 790,819 thousand).

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 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 loan portfolio by collateral is represented as follows:

In thousand Armenian drams	31 December 2023	31 December 2022
Loans collateralized by real estate	87,317,290	51,442,051
Loans collateralized by movable property	3,470,884	5,816,178
Loans collateralized by goods in circulation	612,851	1,729,510
Loans collateralized by guarantees	2,932,513	2,489,248
Loans collateralized by cash	1,392,727	10,200,400
Loans collateralized by household appliances	29,556,893	30,259,528
Unsecured loans	29,808,997	28,479,146
Total loans to customers (gross)	155,092,155	130,416,061

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.

36.2.1 Market risk – Non-trading

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank’s income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for the period, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2023.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2023 for the effects of the assumed changes in interest rates.

In thousand Armenian drams		2023	2022
Currency	Change in basis points	Sensitivity of equity	Sensitivity of equity
AMD	+1	(31,795)	(44,782)
AMD	-1	33,122	37,300

Average effective interest rates

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

	2023			2022		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Loans to banks	-	-	8	-	3.4	4.3
Loans to financial institutions	-	-	5.5	-	-	-
Time deposits in banks	-	5.0	2.3	-	4.4	2.3
Commercial loans	15.42	10.04	6.17	11.16	10.89	5.67
Mortgage and consumer loans	18.65	12.04	7.07	20.04	12.37	8.36
Investment securities	9.6	6.6	2.3	9.3	4.5	2.4
Interest earning liabilities						
Loans from banks under repurchase agreements	9.5	-	-	11.15	-	-
Loans and deposits from financial institutions	7.23	-	-	6.86	5.6	-
Deposits from retail and corporate customers	9.7	0.6	2.2	9.4	3.8	3.0
Loans from RA Government	6.5	-	-	6.5	-	-
Subordinated debt	-	12.6	-	-	12.6	-
Debt securities	6.4	-	-	6.5	-	-
Borrowings from other institutions	-	11.1	10.9	-	12.6	12.6

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2023 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 income statement (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 income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2023		31 December 2022	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	80,682	+5	(2,036)
EUR	+5	(15,922)	+5	(12,090)
USD	(5)	(80,682)	(5)	2,036
EUR	(5)	15,922	(5)	12,090

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

In thousand Armenian drams				31 December 2023
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	15,200,279	38,487,740	1,981,011	55,669,030
Amounts due from financial institutions	906,630	16,720,571	8,556,378	26,183,579
Loans to customers	108,466,771	40,630,132	268,082	149,364,985
Investment securities	8,850,792	27,610,496	-	36,461,288
Other financial assets	966,508	283,979	-	1,250,487
	134,390,980	123,732,918	10,805,471	268,929,369
Liabilities				
Amounts due to financial institutions	15,233,325	1,564,992	1,922,518	18,720,835
Amounts due to customers	88,636,688	113,735,085	8,821,397	211,193,170
Borrowings	844,143	4,070,443	-	4,914,586
Debt securities issued	2,286,929	7,060,192	-	9,347,121
Other financial liabilities	2,390,459	812	-	2,391,271
Total	109,391,544	126,431,524	10,743,915	246,566,983
Total effect of derivative financial instruments	(2,282,509)	2,023,950	268,740	10,181
Net position as of 31 December 2023	22,716,927	(674,656)	330,296	22,372,567
Commitments and contingent liabilities as of 31 December 2023	4,750,268	11,459,140	-	16,209,408
Total financial assets	114,542,469	171,380,483	16,051,223	301,974,175
Total financial liabilities	94,654,040	174,236,989	15,981,862	284,872,891
Total effect of derivative financial instruments	(1,973,097)	1,967,851	-	(5,246)
Net position as of 31 December 2022	17,915,332	(888,655)	69,361	17,096,038
Commitments and contingent liabilities as of 31 December 2022	2,131,300	2,426,092	-	4,557,392

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. 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 16). 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.

As of 31 December, these ratios were as follows:

	Unaudited	
	31 December 2023, %	**31 December 2022, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	31.23	44.47
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	71.06	92.62

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 based on contractual undiscounted repayment obligations. Refer to note 35 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Analysis of financial liabilities by remaining contractual maturities.

In thousand Armenian drams	31 December 2023						
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Total**
Non-derivative financial liabilities							
Amounts due to financial institutions	13,331,193	92,269	667,015	425,894	6,700,693	21,217,064	18,720,835
Amounts due to customers	128,796,761	16,827,385	57,867,132	11,165,368	73,332	214,729,978	211,193,170
Borrowings	9,344	-	2,557,695	944,232	2,462,817	5,974,088	4,914,586
Debt securities issued	26,875	1,727,575	3,976,247	4,608,546	-	10,339,243	9,347,121
Lease liabilities	43,621	87,241	377,387	1,158,676	652,073	2,318,998	1,710,224
Other financial liabilities	370,804	310,243	-	-	-	681,047	681,047
Total undiscounted non-derivative financial liabilities	142,578,598	19,044,713	65,445,476	18,302,716	9,888,915	255,260,418	246,566,983

In thousand Armenian drams	31 December 2023						
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Total**
Derivative financial liabilities							
Foreign exchange swap contracts							
Inflow	2,023,950	-	-	-	-	2,023,950	9,970
Outflow	(2,013,980)	-	-	-	-	(2,013,980)	
Foreign exchange forward contracts							
Inflow	268,740	-	-	-	-	268,740	211
Outflow	(268,529)	-	-	-	-	(268,529)	
Commitments and contingent liabilities	78,829	204,496	1,933,921	6,377,445	7,614,717	16,209,408	16,209,408

In thousand Armenian drams	31 December 2022						
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Total**
Non-derivative financial liabilities							
Amounts due to financial institutions	14,562,688	84,533	1,181,186	445,492	669,017	16,942,916	16,603,170
Amounts due to customers	147,834,525	19,159,404	70,246,249	20,268,262	74,215	257,582,655	252,805,069
Borrowings	8,811	-	938,418	2,903,798	2,027,890	5,878,917	4,278,478
Debt securities issued	-	147,438	4,304,126	5,307,683	-	9,759,247	9,147,395
Lease liabilities	44,552	89,104	372,098	1,165,421	463,746	2,134,921	1,648,614
Other financial liabilities	171,560	218,605	-	-	-	390,165	390,165
Total undiscounted non-derivative financial liabilities	162,622,136	19,699,084	77,042,077	30,090,656	3,234,868	292,688,821	284,872,891
Derivative financial liabilities							
Foreign exchange swap contracts							
Inflow	1,967,851	-	-	-	-	1,967,851	
Outflow	(1,973,097)	-	-	-	-	(1,973,097)	(5,246)
Commitments and contingent liabilities	291,376	284,345	1,053,672	2,166,850	761,149	4,557,392	4,557,392

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 35. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as of 31 December 2023 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

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 Risk Management department, Board, Executive Management. 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.

36.5 Climate-related risks

The Bank and its customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change. The key sources of climate risks have been identified as physical and transition risks.

Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels and risks.

Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

The Bank has made significant progress in embedding climate risk in its Risk framework, including the development of appropriate risk appetite metrics and the creation of a Climate Risk Committee, which is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories.

In addition, the Bank has re-evaluated its model landscape to incorporate climate-related risks and their impact on borrower's credit risk. In the current year, the Bank has also enhanced its data collection systems to help it achieve its climate related aims. For instance, the Bank has introduced mechanisms to collect information relating to clients' exposure to transition and physical risk, and to rate such exposure, in order to understand the impact of climate-related risk on corporate clients in affected sectors. The Bank has also made significant progress in the development of climate risk scenarios that will be used to assess the impact of climate risk on forward-looking information; and in building the knowledge and capacity of its workforce in matters relating to climate-related risk. Despite the progress, the Bank acknowledges the need for further efforts to fully integrate climate in the Bank's risk assessments and management protocols.

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					31 December 2023
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Lease liabilities**	**Total**
As of 1 January 2023	2,048,603	4,278,478	9,147,395	1,648,614	17,123,090
Redemption	(1,667,049)	(8,123,212)	-	(898,617)	(10,688,878)
Proceeds from issue	5,276,251	8,750,304	-	-	14,026,555
Foreign exchange differences	-	-	-	782,559	782,559
Adjustment on lease liabilities	(114,257)	9,016	195,627	-	90,386
Accrued interest	-	-	4,099	177,668	181,767
As of 31 December 2023	5,543,548	4,914,586	9,347,121	1,710,224	21,515,479

In thousand Armenian drams					31 December 2022
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Lease liabilities**	**Total**
As of 1 January 2022	7,906,667	3,121,387	12,168,789	1,362,299	24,559,142
Redemption	(6,437,324)	(2,366,739)	(1,433,631)	(799,130)	(11,036,824)
Proceeds from issue	1,522,492	3,885,333	-	-	5,407,825
Adjustment on lease liabilities	-	-	-	904,454	904,454
Foreign exchange differences	(943,232)	(361,503)	(1,587,763)	-	(2,892,498)
Accrued interest	-	-	-	180,991	180,991
As of 31 December 2022	2,048,603	4,278,478	9,147,395	1,648,614	17,123,090

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, police 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%.

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

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 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.

	Unaudited	
In thousand Armenian drams	**31 December 2023**	**31 December 2022**
Common Equity Tier 1 (2022: Tier 1 capital)	29,657,134	28,608,121
Additional Tier 2 (2022: Tier 2 capital)	4,300,000	2,786,875
Total regulatory capital	33,957,134	31,394,996
Risk-weighted assets	260,037,478	196,540,404
Capital adequacy ratio	13.06%	15.97%

The Bank has complied with all externally imposed capital requirements through the period.

The Central Bank of the Republic of Armenia has set the minimum size of total capital at 30,000,000 thousand Armenian drams.

38 Segment reporting

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 “Operating Segments”.

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.