“ARMBUSINESSBANK”
CLOSED JOINT-STOCK COMPANY

FINANCIAL STATEMENTS
in Armenian Drams
31 December 2022

YEREVAN 2023

CONTENTS

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Baker Tilly Armenia CJSC
22 Hanrapetutyan Street
0010 Yerevan, Republic of Armenia
Tel: +374(10) 544-301
Tel: +374(10) 544-307/309
Email: info@bakertillyarmenia.com
www.bakertilly.am

14 April 2023

N 012302

CONFIRMED BY:

V. GEVORGYAN

General Director
Baker Tilly Armenia CJSC

License for auditing N054 awarded by Ministry of Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To Shareholders of
"ARMBUSINESSBANK" CJSC

Opinion

We have audited the accompanying financial statements of "ARMBUSINESSBANK" CJSC (the "Bank"), which comprise the Statement of Financial Position as at 31 December 2022, the Statement of Profit or Loss and other Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, 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 (IESBA Code) and 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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, then 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.

- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Auditor

Sh. Tashchiyan

14.04.2023

Statement of Profit or Loss and other Comprehensive Income
For the year ended 31 December 2022

(in thousand AMD)

	Notes	2022	2021
Interest and similar income	6	134,564,488	59,502,623
Interest and similar expense	6	(49,417,262)	(44,049,196)
Net Interest Income		85,147,226	15,453,427
Fee and commission income	7	3,511,381	5,720,106
Fee and commission expense	7	(1,138,161)	(2,205,155)
Net fee and commission income		2,373,220	3,514,951
Net trading income	8	7,470,106	7,271,277
Gain/(loss) from foreign currency translation, net		(21,293,289)	(4,303,796)
Other income	9	6,712,143	4,246,864
Impairment loss	10	(54,729,380)	(39,114,103)
Expenses regarding personnel	11	(6,077,196)	(5,572,719)
Fixed assets depreciation	19	(1,083,249)	(1,384,750)
Intangible assets amortization	20	(474,923)	(428,252)
Other expenses	12	(3,995,799)	(3,544,691)
Operating profit		14,048,859	(23,861,792)
Income tax refund / (expense)	13	(13,835,669)	3,853,689
Profit for the year		213,190	(20,008,103)
Items that will or may be reclassified subsequently to profit or loss			
Net change in fair value of investment securities		(1,804,709)	(3,081,388)
Income tax effect			
Items that will not subsequently be reclassified to profit or loss			
Revaluation of buildings		6,220,475	-
Income tax effect		(1,112,403)	-
		5,108,072	-
Total comprehensive income for the year		**3,516,553**	**(23,089,491)**

The Notes 1 to 37 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2022

(in thousand AMD)

	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	14	94,980,431	54,385,807
Derivative financial assets	15	2,818	7,730
Amounts due from financial institutions	16	13,866,247	14,738,754
Loans to customers	17	499,858,657	565,239,862
Investment securities			
- Investment securities at amortized cost	18	126,481,863	-
- Investment securities at fair value through other comprehensive income	18	23,707,204	30,213,792
- Securities pledged under repurchase agreements	18	19,555,043	125,325,567
Property and equipment	19	17,599,038	12,064,146
Intangible assets	20	1,718,739	1,931,006
Deferred tax asset	13	-	7,015,388
Repossessed assets	21	7,593,247	7,866,678
Other assets	22	5,673,073	4,344,842
Total assets		**811,036,360**	**823,133,572**
Liabilities and Equity			
Liabilities			
Derivative financial liabilities	15	58,178	91,668
Amounts due to financial institutions	23	174,535,139	228,711,786
Amounts due to Government of the RA	24	348,906	767,544
Amounts due to customers	25	462,657,768	556,659,294
Debt securities issued	26	9,010,976	10,872,660
Liability regarding current tax		-	334,244
Deferred tax liability		7,551,462	-
Other liabilities	27	2,734,878	3,076,204
Total liabilities		**656,897,307**	**800,513,400**
Equity			
Share capital	28	170,092,515	42,090,187
General reserve		917,427	917,427
Other reserves		2,837,523	(465,840)
Retained earnings		(19,708,412)	(19,921,602)
Total equity		**154,139,053**	**22,620,172**
Total Liabilities and Equity		**811,036,360**	**823,133,572**

Gevorg Tarumyan
Chairman of the Executive Board
14.04.2023

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Chief Accountant

The Notes 1 to 37 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2022

(in thousand AMD)

	Share Capital	General Reserve	Fair value reserve	Fixed Assets Revaluation reserve	Retained Earnings	Total
Balance as at 31 December 2021	**42,090,187**	**917,427**	**(934,364)**	**468,524**	**(19,921,602)**	**22,620,172**
Profit for the year	-	-	-	-	213,190	213,190
Other comprehensive income						
Net change in fair value of debt instruments at FVOCI (including net change in expected credit losses reserve)	-	-	(1,804,709)	-	-	(1,804,709)
Revaluation of PPE	-	-	-	5,108,072	-	5,108,072
Total comprehensive income for the year	**-**	-	**(2,739,073)**	**5,576,596**	**(19,708,412)**	**26,136,725**
Allocation to reserve	-	-	-	-	-	-
Investments in share capital	128,002,328	-	-	-	-	128,002,328
Total transactions with owners	128,002,328	-	-	-	-	128,002,328
Balance as at 31 December 2022	**170,092,515**	**917,427**	**(2,739,073)**	**5,576,596**	**(19,708,412)**	**154,139,053**

(in thousand AMD)

	Share Capital	General Reserve	Fair value reserve	Fixed Assets Revaluation reserve	Retained Earnings	Total
Balance as at 31 December 2020	**42,090,187**	**913,027**	**2,147,024**	**468,524**	**90,901**	**45,709,663**
Profit for the year	-	-	-	-	(20,008,103)	(20,008,103)
Other comprehensive income						
Net change in fair value of debt instruments at FVOCI (including net change in expected credit losses reserve)	-	-	(3,081,388)	-	-	(3,081,388)
Total comprehensive income for the year	**-**	**-**	**(934,364)**	**468,524**	**(19,917,202)**	**22,620,172**
Allocation to reserve	**-**	4,400	-	-	(4,400)	**-**
Total transactions with owners	**-**	**4,400**	**-**	**-**	**(4,400)**	**-**
Balance as at 31 December 2021	**42,090,187**	**917,427**	**(934,364)**	**468,524**	**(19,921,602)**	**22,620,172**

Statement of Cash Flows
For the year ended 31 December 2022

	(in thousand AMD)	
	2022	**2021**
Cash Flows from Operating Activity		
Profit before taxes	14,048,859	(23,861,792)
Adjustments for:		
Depreciation and amortization charges	1,558,172	1,813,002
Impairment charge	54,729,380	39,114,103
Net (gain)/loss from changes in fair value of trading instruments	1,716,733	(2,299,107)
Net (gain)/loss from revaluation of financial assets at FVOCI	224,229	(429,311)
(Gain)/loss from acquisition and/or sale of financial assets at FVOCI	(60,882)	(74,215)
Interest receivable	(68,131,278)	(54,354,821)
Interest payable	4,216,756	3,577,571
(Gain)/loss from foreign currency translation	21,293,289	4,303,796
Cash flows before changes in operating assets and liabilities	29,595,258	(32,210,774)
(Increase)/decrease in operating assets		
Derivative financial assets	4,912	62,587
Amounts due from financial institutions	(473,600)	13,944,141
Loans to customers	19,499,356	52,288,997
Repossessed assets	273,431	(1,691,747)
Other assets	(1,401,246)	(559,476)
Increase/(decrease) in operating liabilities		
Derivative financial liabilities	(33,490)	(79,741)
Amounts due to financial institutions	(54,176,647)	37,262,756
Amounts due to RA Government	(418,238)	139,852
Liabilities towards customers	(65,863,723)	(14,911,890)
Other liabilities	667,606	(26,721)
Net cash flows from operating activities before income tax	(72,326,381)	54,217,984
Income tax paid	(1,107,114)	(792,375)
Net cash flows from operating activity	(73,433,495)	53,425,609
Cash Flows from Investing Activity		
Proceeds from sale of investment securities	(14,324,167)	(88,280,897)
Purchase of property and equipment	(562,894)	(489,633)
Purchase of intangible assets	(262,655)	(208,220)
Proceeds from sale of property and equipment	11,459	25,180
Net Cash Flows from Investing Activity	(15,138,257)	(88,953,570)

The Notes 1 to 37 are an integral part of these financial statements.

Cash Flows from financing Activity

Loans received from /(repaid to) financial institutions	4,944,326	(3,782,635)
Debt securities issued	62,270	8,867,841
Paid-in capital	128,002,328	-
Net cash from / (used in) financing activities	133,008,924	5,085,206
Net increase in cash and cash equivalents	44,437,172	(30,442,755)
Cash and cash equivalents at the beginning of the year	54,385,807	87,914,454
Effect of expected credit loss (ECL)	(88,808)	(42,338)
Effect of foreign currency translation on cash and cash equivalents	(3,753,740)	(3,043,554)
Cash and cash equivalents at the end of the year	**94,980,431**	**54,385,807**

Notes attached to the Financial Statements

for the year ended 31 December 2021

1. Main Activity and General Information

"ARMBUSINESSBANK” Closed Joint Stock Company (previous “Hayinvestbank” CJSC) (hereafter, the “Bank”) was incorporated in 1991. It is a closed joint-stock company operating within the RA legislation framework. The Bank was registered on 10 December 1991 by the Central Bank of Armenia (the “CBA”) and carries on its business under the License number 40.

The Bank is a member of the State system of physical persons banking deposits compensation guarantee in the RA, Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

The main activity of the Bank is extending credits and accepting deposits from the public, transfer of payments in Armenia and abroad, realization of currency exchange transactions, as well as provision of foreign currency and other banking services to physical and legal persons.

The Bank’s main office and its 24 branches are located in Yerevan, 26 branches are located in different regions of Armenia and 4 branches are located in the Republic of Nagorno Karabakh.

The registered office of the Bank is located at: 48 Nalbandyan Street, Yerevan.

2. Business Environment

Armenia continues to undergo political and economic changes as well as development of legal, tax and regulatory systems that are subject to varying interpretations and frequent changes creating along with other legal and fiscal impediments additional challenges for the entities operating in the Republic of Armenia.

The recent escalation of tensions over Ukraine has further increased the uncertainty surrounding the conditions for conducting business in Armenia.

Management of the Bank believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Bank.

3. Basis for the Reports Preparation

3.1 Statement of Compliance

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

The Bank prepares its statements for regulatory purposes in accordance with the requirements of the RA legislation in force and International Accounting Standards. These financial statements are based on the Bank’s books and records as adjusted and reclassified in order to comply with the 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 buildings which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank’s functional currency and the Bank’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Bank.

The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in Accounting Policy

In the current year the Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- *Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37);*
- *Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16);*
- *Fees in the '10%' Test for De-recognition of Financial Liabilities (Amendments to IFRS 9).*

The mentioned above standards and amendments that were applied for the first time in 2022 did not have a material effect on the Bank's financial statements.

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 the applicable new standards and interpretations will be adopted by the Bank for the first period beginning after the effective date of the pronouncement.

Management does not anticipate that the presented below amendments will have a material impact on the Bank's financial statements.

- *Reference to the Conceptual Framework (Amendments to IFRS 3);*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2;*

4. Summary of Significant Accounting Policy

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

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

According to IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

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 impairment of financial assets, see Note 4.4.6.

Commissions and other income and expense

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

Dividend income

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

Net trading income

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

4.2 Foreign currency

Transactions in foreign currencies are retranslated into the functional currency according to the exchange rate set as at the transaction date. Gains and losses resulting from the translation of assets and liabilities held for trading, denominated in foreign currencies, 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 into the functional currency at the 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 in a foreign currency that are measured at historical cost are translated using the exchange rates as at the transaction date. Non-monetary items in a foreign currency measured at fair value are translated using the exchange rates as at the date when the fair value has been determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of gain or loss from fair value changes. Translation differences on non-monetary items, such as shares classified as equity instruments, 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 used by the Bank in preparation of the financial statements are as follows:

	31 December 2022	31 December 2021
AMD/1 US Dollar	393.57	480.14
AMD/1 EUR	420.06	542.61

4.3 Taxation

Income tax on the profit for the reporting year is comprised of current and deferred taxes. Income tax is recognized in the statement of profit or loss, except for the taxes related to transactions the results of which are recognized directly in equity, in which case those taxes are recognized in equity as well.

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 taxes paid in 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. Thus, significant additional taxes, fines and penalties may 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 is calculated using the balance sheet liability method, which takes into account all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts 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.

There are also other taxes payable by the banks operating in the Republic of Armenia. 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, deposits and debt securities issued on the date on which they have originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the transaction 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, financial assets are classified as follows:

a) financial assets measured at amortized value;
b) financial assets measured at fair value through other comprehensive income (FVOCI);
c) financial assets measured at fair value through profit or loss (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 financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held under a business model, which aims at collecting contractual cash flows and selling financial assets; and

- Its contractual terms give rise to cash flows on specified dates, which 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.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities 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
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity financial instruments.
The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

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

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

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 34.1.2.
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 34.1.2.

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. 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. Both the total carrying amount of the asset and the provision for impairment (if any) are written off directly. The write-off is a partial or complete termination of recognition. 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 are comprised of 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, including highly liquid investments maturing within 90 days from the date of acquisition, that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 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 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 futures, 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

Loans 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 carrying value of the loan 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 and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

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

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

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

4.10 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 as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

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

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses 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 in the statement of financial position. The right-of-use asset is measured at cost, which is formed through 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 payments), 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.

4.13 Precious metals

Gold and other precious metals are recorded at the CBA prices which approximate fair values and are quoted according to London Bullion Market rates.

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

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. The Bank’s buildings are stated 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	30	3.3
Computers and communication means	3	33.3
ATMs	10	10
Vehicles	8	12.5
Office equipment	8	12.5
Other fixed assets	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 for based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted for at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for use.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that due to them, the future economic benefits, more than expected from the initial assessment of the current asset normative indicators, will flow to the Bank. 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.

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

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

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

4.15 Intangible assets

Intangible assets include computer software, licences and other intangible assets.
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 are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 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.

4.17 Grants

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

4.18 Borrowings

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

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

4.19 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.
Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently they are measured at the higher of the amortised amount and the amount of loss allowance.

Liabilities arising from financial guarantees are included in provisions in "Other liabilities". Losses arising on loan commitments are included within provisions of "Loans to customers" (see Note 17).

4.20 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 as provided in Note 4.19.

4.21 Equity

Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Retained earnings include accumulated profit 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 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.

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

Business models and SPPI

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

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.

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. The following main factors are considered for evaluation of remaining useful life: 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.

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (see Note 30).

Impairment of financial assets

The Bank assesses 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 34.1.2), 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. See Note 29.

6. Interest and Similar Income and Expense

	2022	*AMD ths.* 2021
Loans to customers	44,631,500	45,165,926
Investment securities at FVOCI	15,013,815	10,955,608
Amounts due from financial institutions	694,107	618,956
Reverse repurchase transactions	2,742,605	2,762,133
Discount rate of loans received	71,475,320	-
Other interest income	7,141	-
Total interest and similar income	134,564,488	59,502,623
Amounts due to financial institutions	6,463,110	5,840,486
Repurchase transactions	11,911,278	8,552,681
Amounts due to the RA Government	102,395	116,461
Amounts due to customers	30,232,852	29,078,306
Debt securities issued	707,627	461,262
Total interest and similar expense	49,417,262	44,049,196

7. Fee and Commission Income and Expense

	2022	*AMD ths.* 2021
Cash operations	539,018	410,177
Payment transactions/money transfers	327,074	949,623
Loan servicing	667,402	603,954
Plastic cards operations	1,252,145	3,037,429
Guarantees	408,872	634,598
Operations with securities	13,613	5,125
Other fees and commissions	303,257	79,200
Total fee and commission income	3,511,381	5,720,106
Payment transactions/money transfers	362,092	345,614
Cash operations	104,545	172,796
Plastic cards operations	645,461	1,662,631
Other expense	26,063	24,114
Total fee and commission expense	1,138,161	2,205,155

8. Net Trading Income

	2022	*AMD ths.* 2021
Net income from foreign currency transactions	9,293,434	2,710,614
Net gains/(losses) from foreign currency swap	(1,595,750)	4,057,137
Net income on financial assets measured at FVOCI	(227,578)	503,526
Total net trading income	7,470,106	7,271,277

9. Other Income

	2022	2021
		AMD ths.
Fines and penalties received	3,394,102	3,065,591
Income from loan portfolio purchased	2,479,804	-
Income from sale of fixed assets	578	87
Income from sale of repossessed property	109,631	175,854
Income from closure of accounts	3,585	8,847
Income from provision of references	11,832	10,161
Income from loan and guarantee applications examination	22,267	34,729
Income from money transfers	79,592	67,717
Income from internet banking services	50,343	114,272
Income from vehicle technical screening coupons	864	21,790
Other income	559,545	747,816
Total other income	**6,712,143**	4,246,864

10. Impairment loss

AMD ths.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	*Total 2022*
Cash and cash equivalents	46,470	-	-	46,470
Amounts due from financial institutions	(20,378)	-	-	(20,378)
Investment securities measured at FVOCI	(109,043)	-	-	(109,043)
Investment securities measured at amortized cost	88,379	-	-	88,379
Loans to customers	(733,835)	(4,799,757)	60,420,802	54,887,210
Other assets	(93,505)	-	-	(93,505)
Financial guarantees and loan commitment	(69,752)	-	-	(69,752)
Total impairment loss / (reversal)	**(891,661)**	**(4,799,757)**	**60,509,181**	**54,729,380**

AMD ths.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2021
Cash and cash equivalents	31,386	-	-	31,386
Amounts due from financial institutions	(147,470)	-	-	(147,470)
Investment securities measured at FVOCI	67,560			67,560
Loans to customers	2,025,602	1,512,102	35,387,566	38,925,270
Other assets	348,433	-	-	348,433
Financial guarantees and loan commitment	(111,076)	-	-	(111,076)
Total impairment loss / (reversal)	2,214,435	1,512,102	35,387,566	39,114,103

11. Personnel expenses

AMD ths.

	2022	2021
Employees salary and other compensations	6,057,503	5,570,343
Other expenses	19,693	2,376
Total personnel expenses	6,077,196	5,572,719

12. Other Expenses

AMD ths.

	2022	2021
Consulting and other services	187,995	59,718
Lease expenses	84,549	77,067
Taxes (except for income tax) and dues	378,589	303,657
Advertising costs	162,387	201,257
Insurance expenses	88,240	61,748
Representation expenses	58,347	33,943
Expenses on acquisition and issuance of plastic cards	53,624	37,351
Legal services expenses	90,389	107,354
Cash collection expenses	83,594	81,564
Administrative expenses	483,025	291,579
Financial assistance	28,061	47,815
Loss from disposal of repossessed property	45,085	17,238
Repair and maintenance of tangible assets	377,738	376,119
Software use and servicing expenses	242,788	221,233
Communication expenses	204,707	173,840
Expenses regarding security	224,579	220,428
Deposit guarantee fund expenses	926,351	888,596
Office expenses	88,277	71,420
Business travel expenses	36,680	99,106
Loan extension and repayment expenses	25,784	18,313
Payments to Financial system mediator	88,076	89,891
Penalties paid	17,494	40,114
Other losses	-	12,508
Other expenses	19,440	12,832
Total other expenses	3,995,799	3,544,691

13. Income Tax Expense / (Refund)

AMD ths.

	2022	2021
Current tax expense	3,600	941,377
Deferred tax expense	13,832,069	(4,795,066)
Total income tax expense / (refund)	13,835,669	(3,853,689)

In the Republic of Armenia, the corporate income tax is levied at the rate of 18% (2021: 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 tax base.

The correlation between the income tax expense and the accounting profit is presented below:

	2022	2021
Profit before taxation	14,048,859	(23,861,792)
Income tax at 18%	2,528,795	(4,295,123)
Non-taxable income	(8,055,317)	249,140
Non-deductible expenses	15,529,399	554,258
Foreign exchange differences (positive)/negative	3,832,792	(361,964)
Total income tax (refund) / expense	13,835,669	(3,853,689)

Deferred tax calculation in respect of temporary differences:

AMD ths.

	31 December 2020			31 December 2021		
	Net balance	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Cash and cash equivalents	1,971	5,632	-	7,603	7,603	-
Amounts due from financial institutions	(2,176)	(2,960)	-	(5,136)	-	(5,136)
Loans to customers	2,325,467	3,954,892	-	6,280,359	6,280,359	-
Investments in securities	(435,511)	462,804	691,231	718,524	718,525	-
Property and equipment	(251,265)	14,526		(236,739)	-	(236,739)
Other assets	(159,418)	326,233	-	166,815	166,815	-
Other liabilities	50,023	33,939	-	83,962	83,962	-
Deferred tax asset/(liability)	1,529,091	4,795,066	691,231	7,015,388	7,257,264	(241,875)

AMD ths.

	31 December 2019			31 December 2020		
	Net balance	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Cash and cash equivalents	1,963	8	-	1,971	1,971	-
Amounts due from financial institutions	11,424	(13,600)	-	(2,176)	-	(2,176)
Loans to customers	1,711,554	613,913	-	2,325,467	2,325,467	-
Investments in securities	(175,624)	15,154	(275,041)	(435,511)	-	(435,511)
Property and equipment	(241,814)	(9,451)		(251,265)	-	(250,754)
Other assets	(14,003)	(145,415)	-	(159,418)	-	(159,418)
Other liabilities	73,359	(23,336)	-	50,023	50,023	-
Deferred tax asset/(liability)	1,366,859	437,273	(274,041)	1,529,091	2,377,461	(847,859)

14. Cash and Cash Equivalents

	2022	2021
		AMD ths.
Cash on hand	8,860,440	8,137,930
Correspondent accounts with the CBA	77,838,856	42,320,297
Correspondent accounts with other banks	8,369,943	3,969,918
	95,069,239	54,428,145
Impairment allowance	(88,808)	(42,338)
Total cash and cash equivalents	94,980,431	54,385,807

Correspondent accounts with Central Bank of Armenia include the required minimum reserve with the CBA, in accordance with the RA Law on Banks and Banking, which as of 31 December is calculated in Armenian Drams at 2% (2021: 2%) of certain obligations of the Bank denominated in Armenian Drams, and at 18% of certain obligations of the Bank denominated in foreign currency. As at 31 December 2022, these funds comprised AMD 43,813,550 thousand (31 December 2021 - AMD 63,371,166 thousand). There are no restrictions on the withdrawal of these funds, however not meeting the minimum reserve requirement may result in penalties applied by the CBA. The mandatory reserve funds are non-interest bearing.

As of 31 December 2022, the correspondent accounts with two commercial banks amounted to AMD 6,096,176 thousand (73%) (2021: AMD 2,504,029 thousand (63%)), which represents a significant concentration.

An analysis of changes in the ECLs on cash and cash equivalents is presented below:

	2022	2021
		AMD ths.
	12-months ECL	**12-months ECL**
Cash and cash equivalents		
ECL allowance as at 1 January	42,338	10,952
Net re-measurement of loss allowance	46,470	31,386
Balance as at 31 December	88,808	42,338

The following non-cash transactions were performed during the year 2022:

- Loan repayment of AMD 2,405,696 thousand by obtaining ownership on repossessed collateral (2021: AMD 3,595,737 thousand).

15. 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.

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

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

			AMD ths.
			31 December 2022
	Notional amount	**Fair value of assets**	**Fair value of liabilities**
Foreign exchange contracts			
Foreign exchange swap contracts	6,113,090	-	58,178
Foreign exchange swap contracts	6,168,450	2,818	-
Total derivative financial instruments	55,360	2,818	58,178

AMD ths.

	31 December 2021		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**
Foreign exchange contracts			
Foreign exchange swap contracts	28,809,095	-	91,668
Foreign exchange swap contracts	28,893,033	7,730	-
Total derivative financial instruments	83,938	7,730	91,668

16. Amounts due from Financial Institutions

AMD ths

	2022	**2021**
Deposited funds with the CBA	1,487,500	1,410,000
Loans to financial institutions	4,049,043	2,840,948
Reverse sale-and-repurchase agreements	6,880,585	9,338,456
Deposited funds with other non-resident financial institutions	513,139	547,516
Other accounts	967,187	653,419
	13,897,454	14,790,339
Impairment reserve regarding the amounts due from financial institutions	(31,207)	(51,585)
Total amounts due from financial institutions	13,866,247	14,738,754

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

Loans are not impaired or overdue.

As at 31 December 2022 the accounts in “Loans to financial institutions” totalled AMD 2,638,252 thousand (58%) and were concentrated in one financial institution (2021: AMD 2,840,948 thousand (100%), concentrated in one financial institution).

As at 31 December 2022 the amounts in “Deposited funds in other non-resident financial institutions” represent guarantee amounts provided by the Bank for its operations and include frozen deposit placed by the Bank for membership to Master Card payment system in the total amount of AMD 260,886 thousand (2021: AMD 316,747 thousand), as well as frozen deposit placed by the Bank for membership to Visa payment system in the amount of AMD 316,747 thousand (2020: AMD 344,464 thousand), and frozen amount for the received guarantee in the amount of AMD 252,253 thousand (2021: AMD 230,769 thousand).

An analysis of changes in the ECLs on the amounts due from financial institutions is presented below:

AMD ths.

	2022	**2021**
	12-months ECL	**12-months ECL**
Amounts due from financial institutions		
ECL allowance as at 1 January	51,585	199,055
Net re-measurement of loss allowance	(20,378)	(147,470)
Balance as at 31 December	31,207	51,585

17. Loans to customers

AMD ths.

	2022			2021		
	Gross carrying amount	**ECL allowance**	**Carrying amount**	**Gross carrying amount**	**ECL allowance**	**Carrying amount**
Mortgage and consumer lending						
Mortgage lending	12,858,325	(292,279)	12,566,046	107,514,823	(2,171,191)	105,343,632
Consumer lending	131,342,734	(2,659,745)	128,682,989	70,312,340	(4,213,131)	66,099,209
Commercial lending						
Reverse sale-and-repurchase agreements	22,740,228	(350,766)	22,389,462	22,831,551	(50,396)	22,781,155
Industry	50,159,351	(4,501,608)	45,657,743	64,983,559	(5,323,122)	59,660,437
Construction	98,855,547	(16,671,742)	82,183,805	42,529,664	(137,562)	42,392,102
Trading	149,184,626	(28,073,422)	121,111,204	170,833,670	(26,370,503)	144,463,167
Other	101,091,231	(13,823,823)	87,267,408	131,102,871	(6,602,711)	124,500,160
Total	566,232,042	(66,373,385)	499,858,657	610,108,478	(44,868,616)	565,239,862

The ECL allowance in the table above 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.

In the year 2022, the Bank acquired a consumer loan portfolio of AMD 17,093,013 thousand from "VTB-Bank (Armenia)" CJSC.

During the year ended 31 December 2022, the Bank obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 7,429,870 thousand (2021: AMD 7,703,301 thousand). The Bank intends to sell these assets in a short period.

As at 31 December 2022 the weighted average effective interest rate on loans and advances to customers was 10.82% for loans in Armenian Drams (2021: 11.42%) and 7.65% for loans in US Dollars and Euros (2021: 8.03%).

As at 31 December 2022, the Bank had a concentration of loans represented by AMD 215,472,229 thousand due from the ten largest third party entities and their related parties (39.28% of gross loan portfolio) (2021: AMD 257,172,019 thousand or 42.15% of gross loan portfolio). The corresponding impairment reserve comprises AMD 50,200,017 thousand (2021: AMD 2,834,453 thousand).

The analysis of changes in ECL allowances in relation to mortgage, consumer and commercial lending is as follows.

AMD Thousand	2022				2021
	12months ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	**Total**
Mortgage and consumer lending					
ECL allowance as at 1 January 2022	977,712	981,053	2,391,928	4,350,693	6,851,372
Expense for the year	499,154	(855,139)	6,321,204	5,965,219	4,846,524
Recovery			9,602,289	9,602,289	276,196
Amounts written off during the year	-	-	(16,966,178)	(16,966,178)	(7,623,399)
Balance as at 31 December 2022	1,476,866	125,914	1,349,243	2,952,023	4,350,693

AMD Thousand	2022				2021
	12months ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Commercial lending					
ECL allowance as at 1 January 2022	4,834,240	4,054,985	31,628,698	40,517,923	14,889,880
Expense for the year	(1,232,990)	(3,944,618)	54,099,598	48,921,990	34,078,746
Recovery			5,565,477	5,565,477	5,893,022
Amounts written off during the year	-	-	(31,584,028)	(31,584,028)	(14,343,725)
Balance as at 31 December 2022	3,601,250	110,367	59,709,745	63,421,362	40,517,923

The increase in ECLs of the loan 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 34.1.2.

18. Investment Securities

Investment securities measured at amortized cost

AMD ths

	2022	2021
RA Government bonds	122,148,440	-
RA non- Government bonds	4,421,802	-
Impairment reserve	(88,379)	-
Total investment securities at amortized cost	126,481,863	-

An analysis of changes in the ECLs on investment securities measured at amortized cost is presented below:

AMD ths

	2022	2021
	12months ECL	12months ECL
ECL allowance as at 1 January	-	-
Net remeasurement of loss allowance	(88,379)	-
Balance as at 31 December	(88,379)	-

Investment securities measured at amortized cost according to yield and maturity include:

	31 December 2022		31 December 2021	
	%	Maturity	%	Maturity
RA Government bonds	10.11-10.15	2037-2050	-	-
RA non- Government bonds	11.5-11.75	2027-2029	-	-

Investment securities measured at *FVOCI*

		AMD ths.
	2022	**2021**
Investment securities measured at FVOCI – debt instruments	23,655,248	30,159,387
Investment securities designated as at FVOCI – equity investments	51,956	54,405
Total investment securities measured at FVOCI	23,707,204	30,213,792
`		
Debt instruments measured at FVOCI pledged under repurchase agreements	19,555,043	125,325,567

An analysis of changes in the ECLs on investment securities measured at FVOCI as well as pledged under repurchase agreements is presented below:

		AMD ths
	2022	**2021**
	12months ECL	**12months ECL**
ECL allowance as at 1 January	162,973	95,413
Net remeasurement of loss allowance	(109,043)	67,560
Balance as at 31 December	53,930	162,973

The above mentioned loss allowances are not recognized in the statement of financial position because the carrying amount of debt instruments measured at FVOCI and pledged under repurchase agreements represents their fair value.

All debt securities have fixed interest.
Investment securities, measured at FVOCI, according to yield and maturity include:

	31 December 2022		**31 December 2021**	
	%	**Maturity**	**%**	**Maturity**
RA Government bonds	0-13	2023-2050	7-12	2022-2050
RA Corporate bonds	5.95-7.5	2024-2026	5.95-10	2022-2031

19. Property and Equipment

	Land and buildings	Equipment	Vehicles	Computers	Other fixed assets	Construction in progress	Fixed assets owned by the Bank for long-term use	Capital investments in leased assets	Total
Initial value or revalued amount									
1 January 2021	11,213,881	879,194	305,045	4,609,690	2,138,139	-	1,063,784	455,546	20,665,279
Addition	-	30,048	5,739	306,560	51,504	7,610	85,039	3,133	489,633
Disposal	-	-	-	-	-	-	(25,180)	-	(25.180)
Write-off	-	-	(64,001)	(31,683)	(136)	-	-	-	(95,820)
31 December 2021	11,213,881	909,242	246,783	4,884,567	2,189,507	7,610	1,123,643	458,679	21,033,912
Addition	-	-	9,911	390,353	144,868	-	-	17,762	562,894
Disposal	-	-	(11,459)	-	-	-	-	-	(11,459)
Revaluation	6,220,475	-	-	-	-	-	-	-	6,220,475
Depreciation adjustment resulted from revaluation	(2,875,696)	-	-	-	-	-	-	-	(2,875,696)
Write-off	-	(97,417)	-	(1,151)	-	-	(93,230)	(30,428)	(222,226)
31 December 2022	14,558,660	811,825	245,235	5,273,769	2,334,375	7,610	1,030,413	446,013	24,707,900
Accumulated depreciation									
As at 1 January 2021	2,226,187	580,503	169,850	3,316,703	1,238,584	-	367,166	61,903	7,960,896
Annual expense	383,866	36,636	34,394	303,468	136,423	-	207,542	14,745	1,117,074
Disposal	-	-	-	-	-	-	(25,180)	-	(25,180)
Write-off	-	-	(51,708)	(31,180)	(136)	-	-	-	(83,024)
31 December 2021	2,610,053	617,139	152,536	3,588,991	1,374,871	-	549,528	76,648	8,969,766
Annual expense	383,866	33,886	25,393	313,121	141,224	-	171,077	14,682	1,083,249
Depreciation adjustment resulted from revaluation	(2,875,696)	-	-	-	-	-	-	-	(2,875,696)
Disposal	-	-	(11,459)	-	-	-	-	-	(11,459)
Write off	-	(44,559)	-	(713)	-	-	(5,448)	(6,277)	(56,998)
31 December 2022	118,223	606,466	166,470	3,901,399	1,516,095	-	715,157	85,053	7,108,862
Carrying amount									
31 December 2021	8,603,828	292,103	94,247	1,295,576	814,636	7,610	574,115	382,031	12,064,146
31 December 2022	14,440,437	205,359	78,765	1,372,370	818,280	7,610	315,256	360,960	17,599,038

Revaluation of assets

The buildings owned by the Bank were revalued by an independent appraiser in November 2022 using market comparison and income approaches, which resulted in a revaluation surplus of AMD 6,220,475 thousand. Management has based its estimate of the fair value of the building owned by the Bank on the results of the independent appraisal.

For the fair value hierarchy of property and equipment see Note 31.3

If the revalued buildings were presented under the historic cost, the balance sheet values would have the following appearance:

AMD ths.

	2022	2021
Historic cost	7,153,179	7,153,179
Accumulated depreciation	(2,438,749)	(2,173,809)
Carrying amount	4,714,430	4,979,370

Fully depreciated items

As at 31 December 2022 fixed assets included fully depreciated assets at cost in the amount of AMD 627,088 thousand (2021: AMD 690,186 thousand).

Fixed assets in the phase of installation

As at 31 December 2022 fixed assets included assets in the installation phase in the amount of AMD 541,219 thousand (2021: AMD 416,704 thousand).

Restrictions on title of fixed assets

As at 31 December 2022 the Bank had 23 fixed assets pledged as security for liabilities, valued at AMD 10,616,715.

Contractual commitments

As at 31 December 2022 the Bank had not any contractual commitment in respect of acquisition of new property (the same was in 2021).

20. Intangible Assets

AMD ths

	Licenses	Computer software	Capital investments	Other	Total
Initial cost					
As at 1 January 2021	3,102,491	285,600	90,566	157,641	3,636,298
Addition	203,843	2,777	1,600	-	208,220
Write-off	(41,104)	-	-	-	(41,104)
As at 31 December 2021	3,265,230	288,377	92,166	157,641	3,803,414
Addition	210,649	14,372	20,332	17,302	262,655
Write off	(50,611)	(27,653)	-	(7,189)	(85,453)
As at 31 December 2022	3,425,268	275,096	112,498	167,754	3,980,616
Accumulated amortisation					
As at 1 January 2021	1,286,798	137,429	-	60,911	1,485,138
Amortisation charge	390,473	19,637	-	18,143	428,253
Write-off	(40,983)	-	-	-	(40,983)
As at 31 December 2021	1,636,288	157,066	-	79,054	1,872,408
Amortisation charge	441,618	20,615	-	12,690	474,923
Write off	(50,612)	(27,653)	-	(7,189)	(85,454)
As at 31 December 2022	2,027,294	150,028	-	84,555	2,261,877
Carrying amount					
As at 31 December 2021	1,628,642	131,311	92,166	78,587	1,931,006
As at 31 December 2022	1,397,974	125,068	112,498	83,199	1,718,739

Contractual commitments

As at 31 December 2022 the Bank had not any contractual commitment in respect of acquisition of intangible assets (the same was in 2021).

21. Repossessed Assets

Details of financial and non-financial assets as at December 31, obtained by the Bank during the year by taking possession of collateral held as security against loans and advances provided, are shown below:

AMD ths

	2022	2021
Property	7,354,042	7,627,473
Other assets	239,205	239,205
Total non-financial assets	7,593,247	7,866,678

As of the date of repossession, the collateral is measured at the lower of the carrying amount of outstanding loan commitment and net realisable value of the collateral.

The Bank's policy is to pursue timely realisation 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.

22. Other Assets

AMD ths

	2022	2021
Debtors and other receivables	1,913,679	2,179,564
Impairment reserve regarding other assets	(452,805)	(546,311)
Total other financial assets	1,460,874	1,633,253
Prepayments	1,381,763	501,530
Prepayments regarding repossessed assets	2,115,599	1,794,582
Settlements with employees	2,735	1,750
Paintings	48,105	47,050
Future period expense	61,576	82,633
Precious metals	12,577	16,812
Warehouse	201,953	238,267
Other	387,891	28,965
Total non-financial assets	4,212,199	2,711,589
Total other assets	5,673,073	4,344,842

The analysis of changes in the ECLs on other financial assets is presented below:

AMD ths

	2022	2021
	Expected credit losses	**Expected credit losses**
Other financial assets		
ECL allowance as at 1 January	546,311	197,877
Net remeasurement of loss allowance	(93,506)	348,434
Balance as at 31 December	452,805	546,311

23. Amounts due to Financial Institutions

AMD ths

	2022	2021
Loans from RA Central Bank	58,833,278	17,249,226
Loans from financial institutions	21,158,768	22,588,889
Deposits from financial institutions	2,246,237	40,424,432
Current accounts of financial institutions	1,152,497	3,247,257
Correspondent accounts of other banks	6,040,893	1,606,990
Loans under repurchase agreements	85,103,466	143,594,992
Total amounts due to financial institutions	174,535,139	228,711,786

Loans and deposits from financial institutions have fixed interest rates.

As at 31 December 2022 deposits from financial institutions in the amount of AMD 663,647 thousand (29.54%) were received from one financial institution (2021: AMD 32,917,134 thousand (81.43%) - from one financial institution).

As at 31 December 2022 loans from financial institutions in the amount of AMD 7,957,467 thousand (23.7%) were received from one financial institution (2021: AMD 17,249,226 thousand (43.3%) - from one financial institution).

As at 31 December 2022 the weighted average effective interest rate on amounts due to financial institutions was 2.16% for borrowings in Armenian Drams (2021: 7.81%) and 4.36% for borrowings in US Dollars (2021: 4.44%).

24. Amounts due to the RA Government

AMD ths

	2022	2021
Current/Settlement accounts	109,532	116,652
Loans received	239,374	650,892
Total amounts due to the RA Government	348,906	767,544

As at 31 December 2022, loans received from the RA Government included loans received within the framework of the WB "Rural Reforms" program and from "Rural Finance Facility PIU" State Institution in the amount of AMD 81,474 thousand (2021: AMD 133,801 thousand).

25. Amounts due to Customers

AMD ths

	2022	2021
Corporate customers		
Current/settlement accounts	91,631,283	159,227,282
Time deposits	24,917,710	43,778,295
	116,548,993	203,005,577
Retail customers		
Current/settlement accounts	51,374,037	46,539,153
Time deposits	294,734,738	307,114,564
	346,108,775	353,653,717
Total amounts due to customers	462,657,768	559,659,294

As at 31 December 2022, the deposits from corporate and individual customers included time deposits held as security against guarantees and letters of credit issued amounting to AMD 21,604,955 thousand (2021: AMD 19,014,069 thousand). The fair value of those deposits approximate their carrying amount.

As at 31 December 2022, the aggregate balance of top ten customers of the Bank (including relating parties, see Note 30) amounts to AMD 93,714,683 thousand (2021: AMD 72,086,359 thousand) or 20.26% of total amount involved from customers (2021: 12.88%).

As of 31 December 2022 the effective interest rates on amounts due to customers in Armenian Drams ranged from 3.00% to 15.61% (2021: from 3.00% to 21.93%) and from 0.7% to 9.9% for amounts attracted in US Dollars and Euros (2021: from 0.7% to 9.9%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the reporting period (2021: either).

26. Debt Securities Issued

AMD ths

	2022	2021
Bonds	9,010,976	10,872,660
Total debt securities issued	9,010,976	10,872,660

As of 31 December 2022, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Par value	Quantity	%	Maturity	Total nominal value
09.01.2020	AMD	10,000	25,000	10.5	09.07.2023	250,000,000
09.01.2020	USD	100	50,000	5.8	09.07.2023	5,000,000
13.04.2021	USD	100	170,000	6.6	02.11.2026	17,000,000

The bonds of the Bank issued in 2020 are listed in the NASDAQ OMX Armenia stock exchange.

During the year the Bank did not repurchase any of its securities (the same - in 2021), and there was no redemption (the same - in 2021).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the reporting period (the same - in 2021).

27. Other Liabilities

AMD ths

	2022	2021
Amounts payable	356,437	364,070
Lease liabilities	746,087	924,559
Liabilities towards personnel	582,951	646,344
Total other financial liabilities	1,685,475	1,934,973
Taxes payable other than income tax	376,044	402,450
Future period revenues	17,199	12,941
Provisions*	655,311	725,063
Other	849	770
Total other non-financial liabilities	1,049,403	1,141,224
Total other liabilities	2,734,878	3,076,197

*Provisions have been made in respect of costs arising from financial guarantees.

28. Equity

As of 31 December 2022 the Bank’s registered and paid-in share capital comprised AMD 170,092,515 thousand (2021: AMD 42,090,187 thousand).

The share capital of the Bank, in accordance with its statutes, consists of 206,260 ordinary shares with AMD 824,651 par value each.

The shareholders of the Bank are presented below:

AMD ths	31 December 2022		31 December 2021	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
MFM Global Invest Ltd.	127,568,561	74.999515	42,090,187	100
"Home for Youth" Refinancing Credit Organization CJSC	42,523,954	25.000485	-	-
	170,092,515	100	42,090,187	100

As of 31 December 2022, there were no shares pledged as collateral for liabilities (2021: the same).

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the RA legislation. Non-distributable reserves are represented by the general reserve fund, which has been 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 provides for the creation of a reserve for these purposes of not less than 15% of the Bank’s share capital reported in statutory books.

29. Contingent liabilities and commitments

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 interpretations. 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.

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 nominal or contract amounts are as follows:

AMD ths

	31 December 2022	31 December 2021
Undrawn loan commitments	8,621,747	8,697,161
Guarantees	63,622,461	70,394,453
Undrawn overdrafts	246,796	275,500
Total liabilities containing credit risk	79,367,114	79,367,114

An analysis of changes in the ECLs on financial guarantee is presented below. An analysis of changes in the ECLs on loan commitment is included in allowances for loans and advances to customers.

AMD ths

	31 December 2022	31 December 2021
	12-months ECLs	12-months ECLs
Financial guarantees		
ECL allowance as at 1 January	725,063	836,139
Net measurement of loss allowance	(69,752)	(111,076)
Balance as at 31 December	655,311	725,063

Operating lease commitments – Bank as a lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

AMD ths

	31 December 2022	31 December 2021
Up to one year	84,549	77,067
Total operating lease commitments	84,549	77,067

30. 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 the shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is MFM Global Invest Ltd.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions have been carried out on commercial terms and at market rates.

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

AMD ths

	2022		2021	
	Shareholders and related parties	**Management and related parties**	**Shareholders and related parties**	**Management and related parties**
Amounts due from financial institutions				
As at 1 January	-	4,849,682	3.947.620	-
Provided during the year	-	731,131	5,405,709	-
Repaid during the year	-	5,580,813	9,353,329	-
As at 31 December, gross	-	-	-	-
Impairment reserve	-	-	-	-
As at 31 December	-	-	-	-
Loans to customers				
Loans outstanding as at 1 January, gross	-	450,109	8.165.073	860,678
Loans provided during the year	-	385,833	1,362,324	1,042,067
Loans repaid during the year	-	621,513	9,527,397	(1,236,177)
Loans outstanding as at 31 December, gross	-	214,429	-	666,568
Impairment reserve	-	(2,144)	-	(6,665)
As at 31 December	-	212,285	-	659,903
Amounts due to financial institutions				
As at 1 January	-	4,659,767	5.058,566	-
Received during the year	302,279,841	15,453,771	16,466,305	-
Repaid during the year	296,394,609	20,113,538	21,524,871	-
As at 31 December	5,885,232	-	-	-
Amounts due to customers				
As at 1 January	-	614,356	6,356,444	327,408
Received during the year	-	1,904,589	32,167,404	3,623,085
Repaid during the year	-	2,466,577	38,523,848	3,336,137
As at 31 December	-	52,368	-	614,356
Statement of profit or loss and other comprehensive income				
Interest income	-	15,788	894,538	80,892
Interest expense	719,162	1,650	1,330,980	10,637
Impairment charge / (reversal)	-	2,357	(22,911)	1,942

The loans issued to directors and other key management personnel (and close family members) during the year are repayable from 1 to 20 years and have interest rates of 9.9-16% (2021: 4-22% 1 to 20 years). The loans advanced to the directors are collateralised by gold, real estate, cash and other property.

Compensation of key management personnel was comprised of the following:

AMD ths

	2022	2021
Salaries and bonuses	567,763	518,049
Total key management compensation	567,763	518,049

31. Fair value measurement

The Bank's Board determines the policies and procedures both for recurring fair value measurement, such as unquoted trading and measured at fair value through other comprehensive income investment securities, unquoted derivative financial instruments, and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as real estate and repossessed property. Involvement of independent valuers is decided upon annually by the Board of the Bank.

At each reporting date, the Bank's management analyses the movements in the values of assets and liabilities which are subject to reassessment in accordance with the Bank's accounting policiy. For this analysis the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents should be verified. The Bank's management, in conjunction with the Bank's external valuers, compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities are presented according to their fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring their fair value.

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).

31.1 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 each fair value measurement is categorised.

AMD ths

					31 December 2022
	Level 1	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Financial assets					
Cash and cash equivalent	-	94,980,431	-	94,980,431	94,980,431
Amounts due from financial institutions	-	13,866,247	-	13,866,247	13,866,247
Loans to customers	-	499,858,657	-	499,858,657	499,858,657
Other financial assets	-	1,460,874	-	1,460,874	1,460,874
Financial liabilities					
Amounts due to financial institutions	-	174,535,139	-	174,535,139	174,535,139
Amounts due to the RA Government	-	348,906	-	348,906	348,906
Amounts due to customers	-	462,657,768	-	462,657,768	462,657,768
Debt securities issued	-	9,010,976	-	9,010,976	9,010,976
Other financial liabilities	-	1,685,475	-	1,685,475	1,685,475

AMD ths

	31 December 2021				
	Level 1	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Financial assets					
Cash and cash equivalent	-	54,385,807	-	54,385,807	54,385,807
Amounts due from financial institutions	-	14,738,754	-	14,738,754	14,738,754
Loans to customers	-	565,239,862	-	565,239,862	565,239,862
Other financial assets	-	1,633,253	-	1,633,253	1,633,253
Financial liabilities					
Amounts due to financial institutions	-	228,711,786	-	228,711,786	228,711,786
Amounts due to the RA Government	-	767,544	-	767,544	767,544
Amounts due to customers	-	556,659,294	-	556,659,294	556,659,294
Debt securities issued	-	10,872,660	-	10,872,660	10,872,660
Other financial liabilities	-	1,934,980	-	1,934,980	1,934,980

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 and advances 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 range from 1% to 24% per annum (2021: 2% 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 appraisers.

Amounts due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques by 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.

31.2 Financial instruments measured at fair value

AMD ths

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Listed bonds				
Derivative financial assets	-	2,818	-	2,818
Unlisted bonds, including securities pledged under repurchase agreement	-	43,210,291	-	43,210,291
Unlisted equity instruments	-	51,956	-	51,956
Total	-	43,265,065	-	43,265,065

Financial liabilities				
Derivative financial liabilities	-	58,178	-	58,178
Total	-	58,178	-	58,178
Net fair value	-	43,206,887	-	43,206,887

AMD ths

	31 December 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Listed bonds				
Derivative financial assets	-	7,730	-	7,730
Unlisted bonds, including securities pledged under repurchase agreement	-	155,484,954	-	155,484,954
Unlisted equity instruments	-	54,405	-	54,405
Total	-	155,547,089	-	155,547,089
Financial liabilities				
Derivative financial liabilities	-	91,668	-	91,668
Total	-	91,668	-	91,668
Net fair value	-	155,455,421	-	155,455,421

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

Quoted investments

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

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation techniques; current market rates are applied to discount future cash flows of the financial instruments.

Unquoted equity instruments

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 instruments 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.

Normally, the derivatives entered into by the Bank are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximise the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency swap contracts.

31.3 Fair value measurement of non-financial assets

AMD ths.

	As at 31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Buildings	-	-	*14,558,660*	*14,558,660*
Net fair value	-	-	14,558,660	14,558,660

	As at 31 December 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Buildings	-	-	*11,213,881*	*11,213,881*
Net fair value	-	-	11,213,881	11,213,881

Fair value measurements, Level 3

Use of valuation techniques for the Bank's non-financial assets classified at Level 3 is based on significant inputs that are not based on observable market data. An analysis of financial assets at this level is presented below:

AMD ths.

Property and equipment	**2022**
Non-financial assets	
As at 1 January 2022	11,213,881
Revaluation	6,220,475
Depreciation adjustment resulting from revaluation	(2,875,696)
Purchases	-
Sales	-
As at 31 December 2022	14,558,660
Net fair value	14,558,660

AMD ths.

Property and equipment	**2021**
Non-financial assets	
As at 1 January 2021	11,213,881
Purchases	-
Sales	-
As at 31 December 2021	11,213,881
Net fair value	11,213,881

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 at each reporting date.

The appraisal was carried out using comparative and income approaches that reflect observed prices for recent market transactions for similar properties and included adjustments related to above mentioned land factors, including plot size, location, pledging and current use, etc.

The buildings were re-valued in 2022.

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.

32. 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.

AMD ths.

				As at 31 December 2022		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	**Gross amount of recognised financial assets/ liabilities 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 assets						
Reverse sale and repurchase agreements	22,740,229	-	22,740,229	(22,740,229)	-	-
Financial liabilities						
Loans under repurchase agreements	(85,103,466)	-	(85,103,466)	19,555,043	-	(65,551,423)

				As at 31 December 2021		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	**Gross amount of recognised financial assets/ liabilities 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 assets						
Reverse sale and repurchase agreements	22,831,551	-	22,831,551	(22,831,551)	-	-
Financial liabilities						
Loans under repurchase agreements	(143,594,992)	-	(143,594,992)	125,325,567	-	(18,269,425)

33. Maturity Analysis of assets and liabilities

The table below shows the analysis of financial assets and liabilities according to their expected maturity.

AMD ths.

							As at 31 December 2022
	Demand and less that one month	**From 1 to 12 months**	**Subtotal, less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	94,980,431	-	*94,980,431*	-	-	-	94,980,431
Amounts due from financial institutions	9,824,587	1,680,240	*11,504,827*	2,361,420	-	*2,361,420*	13,866,247
Loans to customers	71,659,575	135,697,805	*207,357,380*	128,286,809	164,214,468	*292,501,277*	499,858,657
Derivative financial assets	-	2,818	*2,818*	-	-	-	2,818
Investment securities							
- Investment securities at FVOCI	51,956	-	*51,956*	1,567,633	22,087,615	*23,655,248*	23,707,204
-Securities pledged under repurchase agreements	-	6,459,800	*6,459,800*	11,631,280	1,463,963	*13,095,243*	19,555,043
Other financial assets measured at amortized cost	-	-	-	44,077,624	82,404,239	*126,481,863*	126,481,863
Other financial assets	1,460,874	-	*1,460,874*	-	-	-	1,460,874
	177,977,423	143,840,663	*321,818,086*	187,924,766	270,170,285	*458,095,051*	779,913,137

AMD ths.

As at 31 December 2022

	Demand and less that one month	From 1 to 12 months	Subtotal, less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Liabilities							
Derivative financial liabilities	-	58,178	*58,178*	-	-	-	58,178
Amounts due to financial institutions	93,944,218	7,987,438	*101,931,656*	14,648,268	57,955,215	*72,603,483*	174,535,139
Amounts due to the RA Government	267,612	-	*267,612*	81,294	-	*81,294*	348,906
Amounts due to customers	169,688,428	182,950,742	*352,639,170*	108,486,497	1,532,101	*110,018,598*	462,657,768
Debt securities issued	105,370	2,214,869	*2,320,239*	6,690,737	-	*6,690,737*	9,010,976
Other financial liabilities	582,951	1,102,524	*1,685,475*	-	-	-	1,685,475
	264,588,579	194,313,751	*458,902,330*	129,906,796	59,487,316	*189,394,112*	648,296,442
Net position	(86,611,156)	(50,473,088)	*(137,084,244)*	58,017,970	210,682,969	*268,700,939*	131,616,695
Accumulated gap	(86,611,156)	(137,084,244)		(79,066,274)	131,616,695		

AMD ths.

As at 31 December 2021

	Demand and less that one month	From 1 to 12 months	Subtotal, less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	54,385,807	-	*54,385,807*	-	-	-	54,385,807
Amounts due from financial institutions	7,994,119	3,940,137	*11,934,256*	2,804,498	-	*2,804,498*	14,738,754
Loans to customers	112,178,411	104,896,168	*217,074,579*	175,411,583	172,753,700	*348,165,283*	565,239,862
Derivative financial assets	7,730	-	*7,730*	-	-	-	7,730
Investment securities			-			-	-
- Investment securities at FVOCI	54,405	1,621,590	*1,675,995*	28,537,797	-	*28,537,797*	30,213,792
-Securities pledged under repurchase agreements	-	-	-	27,444,760	97,880,807	*125,325,567*	125,325,567
Other financial assets	1,633,253	-	*1,633,253*	-	-	-	1,633,253
	176,253,725	110,457,895	*286,711,620*	234,198,638	270,634,507	*504,833,145*	791,544,765
Liabilities							
Derivative financial liabilities	91,668	-	*91,668*	-	-	-	91,668
Amounts due to financial institutions	161,321,350	38,512,841	*199,834,191*	15,763,884	13,113,711	*28,877,595*	228,711,786
Amounts due to the RA Government	529,946	103,798	*633,744*	133,800	-	*133,800*	767,544
Amounts due to customers	228,303,805	213,545,141	*441,848,946*	91,323,225	23,487,123	*114,810,348*	556,659,294
Debt securities issued	-	-	-	2,671,942	8,200,718	*10,872,660*	10,872,660
Other financial liabilities	1,019,299	-	*1,019,299*	915,681	-	*915,681*	1,934,980
	391,266,068	252,161,780	*643,427,848*	110,808,532	44,801,552	*155,610,084*	799,037,932
Net position	(215,012,343)	(141,703,885)	*(356,716,228)*	123,390,106	225,832,955	*349,223,061*	(7,493,167)
Accumulated gap	(215,012,343)	(356,716,228)		(233,326,122)	(7,493,167)		

34. Risk Management

Banking activities are exposed 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.

The risk management procedure is organized in compliance with the Bank’s mission, principal and interim goals and is aimed at the improvement of the financial position of the Bank and the Bank’s reputation.

The main goals of risk management policy of the Bank is to disclose, assess and make manageable all possible risks that relate immediately to the Bank’s activity, help the Bank’s management make optimal decisions, assist in realistic planning of the Bank’s strategy, taking into account the principles of risk/profitability ratio by taking up manageable risks, determining preferable sectors of resource allocation, maintaining the standards set forth by the CBA, as well as regulations set by the Bank.

The Risk management policy of the Bank arises from the following main principles:

- The risk management must be mitigating and justified
- Risks must be fully disclosed, objectively assessed and efficiently managed
- When reacting to disclosed risks the risk management/supervision expenses and consequences of undesired cases must be weighed against gains expected as a result of risk mitigation
- Risk management may include such approaches as procedures aimed at risk mitigation, risk transfer to third parties, for example, through insurance, and risk acceptance, when risk mitigation expenses exceed assessed losses or their mitigation is actually impossible. For this purpose, accepted level of risk is determined.

Risk is managed through a process of ongoing identification, measurement and monitoring. The Bank’s risk management policy allows to efficiently manage risks relating to assets and liabilities of the Bank and Bank’s customers through exclusion and minimization of losses caused by risks by providing acceptable level of profitability, liquidity and solvency

The risk management at the Bank is carried out through limits set forth by all business processes, internal legal acts regulating the activity of the latter, all procedures and operations in a precise and documented manner.

Risk management structure

The Board of the Bank, the Chair of the Executive Board, the Executive Board and the Management of the Bank within the frames of their responsibilities set forth by RA legislation and internal legal acts of the Bank are responsible for the formation, viability and efficiency of proper Risk management system in the Bank.

Risk management committee and Risk management department

The Risk management committee and risk management departments are responsible for the Bank’s risk management policy implementation.

The risk management department continually supervises risk levels assumed by the Bank and the observance of limits relating to these risks; the possible effect of risks on the Bank’s activity are assessed through different stress-tests.

Reports, analyses and proposals concerning risks relating to the Bank’s activity, presented by the Risk management department (as well as other interested departments), are discussed during the meetings of the Risk management committee and presented to the Executive Board of the Bank for making appropriate decision.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with management and presents its conclusions and suggestions to the Board of the Bank.

Risk characterization and assessment

Depending on a variety of factors the Bank finds it expedient to divide banking risks into external and internal risks.
External risks are country, price, competitive and force major risks.
Internal risks are credit, liquidity, interest rate, foreign currency, operating, personnel and money laundering risks.

Country risk

Country risk is managed by the Bank using rankings assigned by international rating agencies (Moody’s, S&P, Fitch) to international banks and institutions. Risk management department performs periodic monitoring of ratings of foreign banks who are counteragents of the Bank.

Price risk

Possible minimum level of price risks is provided within the frames of the following measures: analysis of financial market structural, volume and price index dynamics, analysis of liquidity of separate financial instruments, disclosure of present tendencies, assessment of possible losses through stress tests on monthly basis, determination of financial instruments’ limit (by the type of operation with securities, dealer, issuer).

Competitive risk

Management of competitive risk at the Bank is performed by business subdivisions and Market research department through periodic comparison of variety of services and terms offered by the Bank and other banks.

Force major risk

The Bank has server backup center at its disposal according to the requirement of ISO 27001-2013. The location of the center outside the head office of the Bank, in a remote place, will ensure the Bank’s operation in force major situation.

Credit risk

The main issue of management of credit risks for the Bank is timely disclosure of credit risks, assessment and taking appropriate measures for their reduction.

The credit risk at the Bank is assessed not only for each borrower, but also for the loan portfolio in full. According to appropriate methodology elaborated by the Bank the potential solvency of the borrower is assessed before extension of the loan. From the perspective of mitigation of credit risk, the security and expediency of the loan are given significant importance. After loan extension, over the full term of the credit contract, credit monitoring is performed by the Bank for periodically assessing the solvency and security of the loans and taking appropriate measures for mitigating possible credit risks. The Bank’s loan portfolio is periodically analyzed by economic sectors, customers and loan types to ensure diversification and quality of the loan portfolio.

The activity of the Loan committee is significant in mitigation of credit risk. Loan committee is the body executing loan policy of the Bank, whose purpose is the management of loan policy and formation of quality loan portfolio. The main issue of the Credit committee is to make professional protocol or final decision concerning execution and servicing of instruments exposed to credit risk.

Liquidity risk

The purpose of the Bank’s liquidity management is to create financial means which would enable to satisfy legal cash requirements of all kinds of creditors, depositors and other clients without serious issues, which may be reflected in the Bank’s balance and off-balance sheet articles, as well as provide maximum level of profitability along with all these factors.

Management of assets and liabilities by mutual agreement is carried out in the Bank for providing fluent liquidity and efficient liquidity risk management by ensuring:

- Existence of highly liquid assets
- Stability of resources
- Acceptable limits of maturity gaps of assets and liabilities
- Opportunities for attracting means from external sources

With the purpose of making correct decision regarding liquidity management of the Bank the maturity analysis of assets and liabilities is given great importance, which is performed by the calculation model of maturity gaps (GAP) by demand and accumulated separations. Instant liquidity is calculated on a daily basis for making correct situational decision.

34.1 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, which add debt securities and other debt instruments to the Bank's assets portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Relevant reports and analysis are periodically presented to the Executive Board of the Bank.

Credit risk in the Bank is managed according to the Bank's lending policy and other internal legal acts regulating the field. The risk management executive body performs monitoring of loan portfolio on a daily basis, loan portfolio dynamics calculation based on constructed series, and analysis of quality of portfolio by products and branches, based on which forecasting of quality indexes of loan portfolio is performed. The risk management executive body performs loan monitoring of several loan types by the approved procedure, and when necessity arises, monitoring of other loans based on deterioration of the financial position of the borrower. Loans extended by the Bank are approved by the risk executive body, according to internal legal acts, to reduce credit risk.

34.1.1 Credit quality analysis

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

AMD ths

	31 December 2022				31 December 2021
Internal rating grade	**Stage 1 12-months ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Cash and cash equivalents					
Standard	95,069,239	-	-	95,069,239	54,428,145
Gross carrying amount	95,069,239	-	-	95,069,239	54,428,145
Impairment allowance	(88,808)	-	-	(88,808)	(42,338)
Net carrying amount	94,980,431	-	-	94,980,431	54,385,807
Amounts due from banks and financial institutions					
Standard	13,897,454	-	-	13,897,454	14,790,339
Gross carrying amount	13,897,454	-	-	13,897,454	14,790,339
Impairment allowance	(31,207)	-	-	(31,207)	(51,585)
Net carrying amount	13,866,247	-	-	13,866,247	14,738,754
Mortgage and consumer loans					
High grade	153,041,614	-	-	153,041,614	101,610,397
Standard grade	1,518,993	1,241,452	-	2,760,446	3,185,937
Substandard grade	-	-	-	-	3,810,235
Non-performing grade	-	-	5,839,720	5,839,720	4,235,435
Gross carrying amount	154,560,608	1,241,452	5,839,720	161,641,780	112,842,004
Impairment allowance	(1,476,866)	(125,914)	(1,349,243)	(2,952,023)	(4,350,693)
Net carrying amount	153,083,742	1,115,539	4,490,477	158,689,757	108,491,311
Commercial loans					
High grade	280,587,130	-	-	280,587,130	413,267,890
Standard grade	4,329,279	1,039,468	-	5,368,747	9,378,010
Substandard grade	-	-	-	-	15,176,020
Non-performing grade	-	-	118,634,385	118,634,385	59,444,554

AMD ths

Internal rating grade	Stage 1 12-months ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	31 December 2022 Total	31 December 2021 Total
Gross carrying amount	284,916,408	1,039,468	118,634,385	404,590,262	497,266,474
Impairment allowance	(3,601,250)	(110,367)	(59,709,745)	(63,421,362)	(40,517,923)
Net carrying amount	281,315,158	929,101	58,924,641	341,168,899	456,748,551
Investment securities					
Standard grade	169,692,154	-	-	169,692,154	155,484,954
Fair value	169,692,154	-	-	169,692,154	155,484,954
Impairment allowance	(131,083)	-	-	(131,083)	(151,747)
Other financial assets					
Standard	1,913,679	-	-	1,913,679	2,179,564
Gross carrying amount	1,913,679	-	-	1,913,679	2,179,564
Impairment allowance	(452,805)	-	-	(452,805)	(546,311)
Net carrying amount	1,460,874	-	-	1,460,874	1,633,253
Loan commitments and financial guarantee					
Standard grade	63,622,461	-	-	63,622,461	70,394,453
	63,622,461	-	-	63,622,461	70,394,453
Impairment allowance *	655,311	-	-	655,311	725,063

* The ECL allowance disclosed in loan commitments and financial guarantees in the above table applies only to the guarantees provided. The ECL allowance on loans 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.

34.1.2 Impairment assessment

The references below show in which notes the Bank's impairment assessment and measurement approaches are disclosed 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 assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank uses 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 uses past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when, although at the reporting date the 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-months PD (probability of default). A significant change in 12-months 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 amounts due from financial institutions 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 settlement and current accounts 7 days' past 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 financial 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 Bank has an internal credit rating system.
- Change notches external credit score/ rate. For this criterion, the country's 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 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 judgment. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Collective 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.

The Bank groups assets, for which ECL are not calculated individually, 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 and cure of default

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

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,
- credit institution 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 loans

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-months 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-months 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 have 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 4.4.4.

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

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

- GDP growth
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Official exchange rate

Expected credit losses as of the reporting date have not been adjusted because of large differences between macroeconomic factors based on future forecast.

34.1.3 Most significant concentrations of credit risk

Geographical segments

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

AMD ths.

	RA	OECD countries	Non-OECD countries	Total
Cash and cash equivalents	86,610,504	1,000,320	7,369,607	94,980,431
Amounts due from financial institutions	13,068,090	622,362	175,795	13,866,247
Loans to customers	431,053,777	1,228,254	67,576,626	499,858,657
Derivative financial assets	2,818	-	-	2,818
Investment securities				
- Investment securities at FVOCI	23,687,236	19,968	-	23,707,204
-Securities pledged under repurchase agreements	19,555,043	-	-	19,555,043
Other financial values measured at amortized cost	126,481,863	-	-	126,481,863
Other assets	1,460,874	-	-	1,460,874
As at 31 December 2022	701,920,205	2,875,687	76,364,879	779,913,137
As at 31 December 2021	695,407,883	2,402,698	93,734,184	791,544,765

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

Industry sectors

The following table breaks down the Bank’s main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

AMD ths.

	Financial institutions	Industry	Construc-tion	Trading	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	94,980,431	-	-	-	-	-	-	94,980,431
Amounts due from financial institutions	13,866,247	-	-	-	-	-	-	13,866,247
Loans to customers	-	45,657,743	82,183,805	143,500,665	128,682,989	12,566,047	87,267,408	499,858,657
Derivative financial assets	2,818	-	-	-	-	-	-	2,818

AMD ths.

	Financial institutions	Industry	Construc-tion	Trading	Consumer sector	Mortgage	Other	Total
- Investment securities at FVOCI	51,956	-	-	-	-	-	23,655,248	23,707,204
-Securities pledged under repurchase agreements	-	-	-	-	-	-	19,555,043	19,555,043
Other financial values measured at amortized cost	-	-	-	-	-	-	126,481,863	126,481,863
Other financial assets	-	-	-	-	-	-	1,460,874	1,460,874
As at 31 December 2022	108,901,452	45,657,743	82,183,805	143,500,665	128,682,989	12,566,047	258,420,436	779,913,137
As at 31 December 2021	69,186,696	59,660,437	42,392,102	167,244,322	66,099,209	105,343,632	281,618,367	791,544,765

34.1.4 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. The Bank did not hold any financial instruments for which no loss allowance is recognised because of collateral.

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

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

The analysis of gross loan portfolio of loans and advances to customers by collateral is presented below:

AMD ths.

	31 December 2022	31 December 2021
Loans collateralized by real estate	123,645,607	93,083,585
Loans collateralized by gold	17,205,626	18,512,541
Loans collateralized by securities	19,086,493	12,983,560
Loans collateralized by guarantees of other organizations	57,256,047	86,454,507
Loans collateralized by vehicles	322,870	6,876,448
Loans collateralized by cash	54,818,220	50,743,652
Loans collateralized by stock	72,784	1,172,131
Other collateral	293,824,395	340,282,054
Total loans to customers (gross)	**566,232,042**	**610,108,478**

The amounts presented in the table above are carrying values of the loans, and they 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.

34.2 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 Value at Risk ("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 other significant concentration of market risk.*

34.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk management issue in the Bank is to maintain the target level of interest rate spread and net interest margin of assets and liabilities. For the purpose of mitigating interest rate risk specially elaborated mechanisms of price formation (interest rate determination) for assets and liabilities are in place.

The model of calculation of maturity gap of interest rate sensitive assets and interest rate sensitive liabilities is the base of assessment of interest rate risk, which allows estimating the effect of interest rate change on the Bank's expected net interest income. The interest rate risk in the Bank is assessed using duration model which indicates the economic value change of equity as a result of interest rate change taking into account the incompliance of maturities of attracted liabilities and allocated assets.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages currency risk using standard and VaR methodologies. Foreign currency rates are monitored on daily basis, based on which forecasting of foreign currency rates is performed at the end of the month for the following month. The Executive board has established limits for foreign currency positions.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2022 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of equity instruments). 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.

AMD ths.

	31 December 2022			31 December 2021		
Currency	**Change in currency rate %**	**Effect on profit before tax**	**Effect on equity**	**Change in currency rate %**	**Effect on profit before tax**	**Effect on equity**
US Dollar	+5	1,878,760	1,878,760	+5	(133,707)	(133,707)
US Dollar	-5	(1,878,760)	(1,878,760)	-5	133,707	133,707
Euro	+8	1,109,976	1,109,976	+8	3,403,375	3,403,375
Euro	-8	(1,109,976)	(1,109,976)	-8	(3,403,375)	(3,403,375)

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

AMD ths.

	31 December 2022			
	Armenian Drams	**Freely convertible currencies/ precious metals**	**Non-freely convertible currencies**	**Total**
Assets				
Cash and cash equivalents	38,412,072	50,902,970	5,665,389	94,980,431
Amounts due from financial institutions	9,012,955	4,736,628	116,664	13,866,247
Derivative financial assets	2,818	-	-	2,818
Loans to customers	326,846,844	171,059,376	1,952,437	499,858,657
Investment securities				
- Investment securities at FVOCI	23,104,478	602,726	-	23,707,204
-Securities pledged under repurchase agreements	19,555,043	-	-	19,555,043
Other financial values at amortized cost	124,435,260	2,046,603	-	126,481,863
Other financial assets	1,460,874	-	-	1,460,874
	542,830,344	229,348,303	7,734,490	779,913,137
Liabilities				
Derivative financial liabilities	58,178	-	-	58,178
Amounts due to financial institutions	161,201,262	12,711,654	622,223	174,535,139
Amounts due to the RA Government	348,906	-	-	348,906
Amounts due to customers	301,814,318	153,561,911	7,281,539	462,657,768
Debt securities issued	255,046	8,755,930	-	9,010,976
Other financial liabilities	1,685,475	-	-	1,685,475
Total	465,363,185	175,029,495	7,903,762	648,296,442
Net position as at 31 December 2022	77,467,159	54,318,808	(169,272)	131,616,695
Total financial assets	490,068,264	296,682,883	4,793,618	791,544,765
Total financial liabilities	519,390,009	247,981,583	31,666,340	799,037,932
Net position as at 31 December 2021	(29,321,745)	48,701,300	(26,872,722)	(7,493,167)

Freely convertible currencies represent mainly US Dollars and Euros, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding the Republic of Armenia.

34.3 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 2% of certain obligations of the Bank denominated in Armenian Drams and 18% on certain obligations of the Bank denominated in foreign currency (See note 14). 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 requirements of the Central Bank of Armenia.

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

AMD ths.

	31 December 2022				
	Demand and less than one month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Derivative financial liabilities	-	58,178	-	-	58,178
Amounts due to financial institutions	94,048,746	8,150,683	16,428,099	72,776,210	191,403,738
Amounts due to the RA Government	267,612	-	83,279	-	350,891
Amounts due to customers	169,749,574	190,927,488	127,816,922	4,196,869	492,690,853
Debt securities issued	105,370	2,287,919	8,394,102	-	10,787,391
Other financial liabilities	1,988,792	5,471	295,811	444,805	2,734,879
Total undiscounted financial liabilities	**266,160,094**	**201,429,739**	**153,018,213**	**4,641,674**	**698,025,930**

AMD ths.

	31 December 2021				
	Demand and less than one month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Derivative financial liabilities	91,668	-	-	-	91,668
Amounts due to financial institutions	161,327,215	39,329,316	17,011,522	18,132,307	235,800,360
Amounts due to the RA Government	529,946	103,798	145,578	-	779,322
Amounts due to customers	228,407,500	224,120,897	99,558,678	26,829,775	578,916,850
Debt securities issued	-	-	2,940,553	10,848,075	13,788,628
Other financial liabilities	1,536,032	-	-	398,948	1,934,980
Total undiscounted financial liabilities	391,892,361	263,554,011	119,656,331	56,209,105	831,311,808

The Bank has attracted means in significant amounts from shareholders and related parties. Any significant repayment of these amounts may negatively affect the Bank's activity. The Management of the Bank is assured that the present level of financing will be maintained in the visible future and in the case of repayment of means it will be informed in advance, which will allow the Bank cash its liquid means and repay the debt.

34.4 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. 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 relevant representative of the Bank management, with the summaries submitted to the Board.

35. Reconciliation of cash flows arising from financing activities

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

AMD ths.

			31 December 2022
	Loans from financial institutions	**Debt securities issued**	**Total**
As at 1 January 2022	**39,838,115**	**10,872,660**	**50,710,775**
Cash flows	*41,620,808*	*62,269*	*41,683,077*
Repayments	(154,591,637)	-	(154,591,637)
Proceeds	196,212,445	62,269	196,274,714
Non-cash transactions	*(1,466,877)*	*(1,923,953)*	*(3,390,830)*
Gain/(loss) from currency exchange differences	(1,466,877)	(1,923,953)	(3,390,830)
As at 31 December 2022	**79,992,046**	**9,010,976**	**89,003,022**

AMD ths.

			31 December 2021
	Loans from financial institutions	**Debt securities issued**	**Total**
As at 1 January 2021	40,887,190	2,916,675	43,803,865
Cash flows	*(1,960,449)*	*7,045,655*	*5,085,206*
Repayments	(24,004,880)	(14,017,096)	(38,021,976)
Proceeds	22,044,431	21,062,751	43,107,182
Non-cash transactions	*911,374*	*910,330*	*1,821,704*
Gain/(loss) from currency exchange differences	911,374	910,330	1,821,704
As at 31 December 2021	**39,838,115**	**10,872,660**	**50,710,775**

36. Capital Adequacy

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

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

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

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

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

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

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, the Board of the RA Central Bank in 2017 decided to determine the minimum size of total capital for the banks at 30,000,000 thousand Armenian Drams starting from 1 January 2018.

37. 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 earns 10% or more of its revenue.