ID Bank CJSC

Financial Statements

Year ended 31 December 2023
together with independent auditor's report

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Notes to, and forming part of, the Financial Statements

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Ernst & Young CJSC
Vazgen Sargsyan St., 2 Building,
Yerevan, 0010 Armenia,
Kamar Business Center
Tel: +374 60 50 7777
www.ey.com/am

«Էրնսթ ընդ Յանգ» ՓԲԸ
ՀՀ, ք. Երևան, 0010,
Վազգեն Սարգսյան փող., 2 շենք
«Կամար» Բիզնես Կենտրոն
Հեռ.՝ +374 60 50 7777

Independent auditor's report

To the Shareholders and Council of
ID Bank Closed Joint-Stock Company

Opinion

We have audited the financial statements of ID Bank Closed Joint-Stock Company (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Bank for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 18 April 2023.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans to customers	
Allowance for impairment of loans to customers is a key audit matter due to both the significance of loans to customers and the complexity and judgements related to the estimation of expected credit losses ("ECL") under IFRS 9 Financial Instruments ("IFRS 9"). The calculation of ECL on a portfolio basis involves estimation techniques that use complex statistical modelling and expert judgment. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data, which is adjusted for forward looking information, including forecast of macroeconomic parameters. ECL on a portfolio basis are highly impacted by assessment of whether a significant increase in credit risk has occurred since initial recognition. This assessment is primarily based on the following criteria – days past due, change in the risk classification of the borrower and renegotiation of loan terms due to deterioration of financial position of the borrower. The calculation of ECL for significant credit-impaired financial assets on an individual basis requires assessment of estimated future cash flows from the realization of collateral and other sources. The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have a material effect on the financial results of the Bank. Information on the allowance for impairment of loans to customers is included in Note 19 "Loans to customers" and Note 29 "Risk management" to the financial statements.	We focused our audit on the following: ▸ Analysis of credit risk models and assumptions used to determine ECL on a portfolio basis; ▸ Testing controls over the Bank's process for identification of significant increase in credit risk; ▸ Testing the ECL for significant credit-impaired loans to customers on an individual basis. To test the allowance calculated on a portfolio basis, with the support of our internal specialists, we analyzed underlying statistical models, key inputs and assumptions used and forward-looking information incorporated in the calculation of ECL, including updated forecast of macroeconomic parameters. We tested key statistical data underlying credit risk factors calculation, such as loans' overdue days and statistics of recoveries of loans to customers after the default date. We also tested the design and operating effectiveness of the key controls over the process for identification of significant increase in credit risk and assessed the consistency of application of the criteria selected by management to identify significant increase in credit risk as at the reporting date. For selected credit-impaired exposures, we tested the calculation of estimated future cash flows from sale of collateral and other sources. We also analysed the financial statements' disclosures of the Bank's exposure to credit risk.

Other information included in the Bank's 2023 Annual Report

Other information consists of the information included in the Bank's 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Council for the financial statements

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

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

The Council is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Partner (Assurance) Ruslan Khoroshvili

General Director Eric Hayrapetyan

Responsible Auditor Yelena Adamyan

Ernst & Young CJSC
Yerevan, Armenia

23 April 2024

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 AMD'000	2022 AMD'000
Interest income calculated using the effective interest method	6	25,931,049	19,919,227
Interest expense	6	(7,098,421)	(6,885,962)
Net interest income		**18,832,628**	**13,033,265**
Fee and commission income	7	10,361,438	6,180,054
Fee and commission expense	7	(6,863,060)	(4,562,552)
Net fee and commission income		**3,498,378**	**1,617,502**
Net foreign exchange gain	8	7,460,147	12,908,096
Net gain on financial instruments at fair value through profit or loss	9	1,069,273	1,127,937
Net realised loss on investment securities		(93,720)	(55,163)
Share of the profit of associates accounted for using the equity method	16	575,245	–
Net other operating income	10	233,476	31,920
Operating income		**31,575,427**	**28,663,557**
Net impairment losses on financial instruments	11	(382,000)	(1,332,312)
Personnel expenses		(7,269,745)	(6,782,363)
Other general administrative expenses	12	(4,741,784)	(3,825,080)
Profit before income tax		**19,181,898**	**16,723,802**
Income tax expense	13	(3,424,768)	(3,207,353)
Profit for the year		**15,757,130**	**13,516,449**
Other comprehensive (loss)/income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities:			
Net change in fair value	13	302,230	(570,786)
Net amount reclassified to profit or loss	13	87,786	45,234
Total items that are or may be reclassified subsequently to profit or loss		390,016	(525,552)
Other comprehensive income/ (loss) for the year, net of income tax		**390,016**	**(525,552)**
Total comprehensive income for the year		**16,147,146**	**12,990,897**

Signed and authorized for release on behalf of the Management of the Bank.

Mher Abrahamyan
Chairman of the Management Board

Anushik Khachatryan
Chief Accountant

April 23, 2024

Statement of Financial Position

As at 31 December 2023

	Notes	*2023* AMD'000	*2022* AMD'000
ASSETS			
Cash and cash equivalents	14	36,606,515	36,273,430
Amounts receivable under reverse repurchase agreements	18	8,606,787	15,725,509
Loans and advances to banks and other financial institutions	17	63,515,077	41,858,155
Financial instrument measured at fair value through profit or loss		449,838	351,121
Investment securities measured at fair value through other comprehensive income	15		
Held by the Bank		10,812,707	7,804,552
Investment securities measured at amortised cost	15		
Held by the Bank		54,361,958	69,479,481
Pledged under sale and repurchase agreements		6,646,146	–
Loans to customers	19	158,884,500	121,327,795
Repossessed assets	19	2,709,765	3,098,462
Investments in associates	16	7,575,245	–
Property, equipment and intangible assets	20	9,687,175	7,480,638
Right of use assets	21	3,188,475	2,071,018
Other assets	22	3,630,008	3,535,599
Total assets		**366,674,196**	**309,005,760**
LIABILITIES			
Amounts payable under repurchase agreements	24	8,010,540	–
Deposits and balances from banks and other financial institutions	23	57,310,415	39,509,998
Financial instrument measured at fair value through profit or loss		11,255	–
Current accounts and deposits from customers	26	209,920,125	188,283,970
Current tax liabilities		2,258,501	2,993,571
Debt securities issued	25	15,506,851	12,895,735
Deferred tax liability	13	442,859	342,209
Lease liability	21	3,415,391	2,194,220
Other liabilities	27	6,313,467	4,113,994
Total liabilities		**303,189,404**	**250,333,697**
EQUITY			
Share capital	28	33,971,850	33,971,850
Share premium		5,014,099	5,014,099
Revaluation surplus for buildings		–	96,917
Fair value reserve for investment securities		119,492	(270,524)
Retained earnings		24,379,351	19,859,721
Total equity		**63,484,792**	**58,672,063**
Total liabilities and equity		**366,674,196**	**309,005,760**

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2023

	Notes	*2023* AMD'000	*2022* AMD'000 Reclassified
Cash flows from operating activities			
Interest receipts		26,275,698	18,928,749
Interest payments		(6,746,112)	(6,626,890)
Fee and commission receipts		10,361,438	6,180,054
Fee and commission payments		(6,863,060)	(4,562,552)
Net payments from financial instruments at fair value through profit or loss		272,222	1,127,937
Net receipts from foreign exchange		8,288,866	14,620,190
Other income receipts		288,183	109,725
Personnel and other general administrative expenses payments		(9,147,534)	(8,149,279)
(Increase)/decrease in operating assets			
Financial instrument measured at fair value through profit or loss		678,417	(166,950)
Amounts receivable under reverse repurchase agreements		7,293,125	(9,674,887)
Loans and advances to banks and other financial institutions		(20,856,671)	(32,395,706)
Loans to customers		(38,058,088)	(13,462,160)
Repossessed assets		572,884	848,710
Other assets		(262,859)	(1,888,507)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		9,376,019	7,998,218
Amounts payable under repurchase agreements		8,007,628	(13,011,495)
Current accounts and deposits from customers		18,339,456	110,430,378
Other liabilities		104,285	520,878
Net cash from operating activities before income tax paid		**7,923,897**	**70,826,413**
Income tax paid		(4,133,155)	(754,331)
Cash flows from operating activities		**3,790,742**	**70,072,082**
Cash flows from investing activities			
Acquisition of investment securities measured at FVOCI		(11,910,651)	(1,757,047)
Acquisition of investment securities measured at amortised cost		(56,426,143)	(68,978,994)
Proceeds from sale and repayment of investment securities measured at FVOCI		9,463,826	982,664
Proceeds from repayment of investment securities measured at amortised cost		65,443,788	16,433,517
Acquisition in associates	16	(7,000,000)	–
Purchases of property, equipment and intangible assets		(3,493,292)	(1,470,706)
Sale of property, equipment and intangible assets		8,124	139,333
Cash flows used in investing activities		**(3,914,348)**	**(54,651,233)**
Cash flows from financing activities			
Proceeds from issuance of debt securities	25(a)	6,208,154	8,769,181
Repayment of debt securities issued	25(a)	(3,982,629)	(6,646,600)
Proceeds from borrowed funds	23(a)	11,517,476	7,962,796
Repayment of borrowed funds	23(a)	(3,290,975)	(1,966,894)
Dividends paid	28	(11,237,500)	–
Repayment of lease liability	21(d)	(276,834)	(214,376)
Cash flows (used in)/ from financing activities		**(1,062,308)**	**7,904,107**
Net increase in cash and cash equivalents		**(1,185,914)**	**23,324,956**
Effect of changes in exchange rates on cash and cash equivalents		1,520,173	(6,760,161)
Effect of changes in ECL on cash and cash equivalents	11	(1,174)	2,051
Cash and cash equivalents as at the beginning of the year	14	36,273,430	19,706,584
Cash and cash equivalents as at the end of the year	14	**36,606,515**	**36,273,430**

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2023

AMD'000	*Share capital*	*Share premium*	*Revalua-tion surplus for buildings*	*Fair value reserve for investment securities*	*Retained earnings*	*Total equity*
Balance as at 1 January 2022	33,971,850	5,014,099	105,601	255,028	6,334,588	**45,681,166**
Total comprehensive income						
Profit for the year	–	–	–	–	13,516,449	**13,516,449**
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of investment securities, net of deferred tax	–	–	–	(570,786)	–	**(570,786)**
Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	–	–	–	45,234	–	**45,234**
Total items that are or may be reclassified subsequently to profit or loss	–	–	–	(525,552)	–	**(525,552)**
Total other comprehensive loss	**–**	**–**	**–**	**(525,552)**	**–**	**(525,552)**
Total comprehensive income for the year	**–**	**–**	**–**	**(525,552)**	**13,516,449**	**12,990,897**
Transfer from revaluation surplus to retained earnings	–	–	(8,684)	–	8,684	**–**
Balance as at 31 December 2022	**33,971,850**	**5,014,099**	**96,917**	**(270,524)**	**19,859,721**	**58,672,063**

AMD'000	*Share capital*	*Share premium*	*Revalua-tion surplus for buildings*	*Fair value reserve for investment securities*	*Retained earnings*	*Total equity*
Balance as at 1 January 2023	33,971,850	5,014,099	96,917	(270,524)	19,859,721	**58,672,063**
Total comprehensive income						
Profit for the year	–	–	–	–	15,757,130	**15,757,130**
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of investment securities, net of deferred tax	–	–	–	302,230	–	**302,230**
Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	–	–	–	87,786	–	**87,786**
Total items that are or may be reclassified subsequently to profit or loss	–	–	–	390,016	–	**390,016**
Total other comprehensive loss	**–**	**–**	**–**	**390,016**	**–**	**390,016**
Total comprehensive income for the year	**–**	**–**	**–**	**390,016**	**15,757,130**	**16,147,146**
Dividends paid (Note 28)	–	–	–	–	(11,237,500)	**(11,237,500)**
Reversal of revaluation surplus	–	–	(96,917)	–	–	**(96,917)**
Balance as at 31 December 2023	**33,971,850**	**5,014,099**	–	**119,492**	**24,379,351**	**63,484,792**

The accompanying notes 1 to 34 form an integral part of these financial statements.

(thousands of Armenian Drams)

1. Background

(a) Organisation and operations

ID Bank CJSC (the "Bank") was established in the Republic of Armenia as a limited liability company in 1990 and was reorganised into a closed joint stock company in 2007. Previously the Bank operated under the brand name Anelik Bank CJSC. In June 2018 the Bank was renamed to ID Bank CJSC.

The principal activities of the bank are deposit taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The activities of the Bank are regulated by the Central Bank of Armenia (the "CBA"). The Bank has a general banking license and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered office is 13 Vardanants Street, Yerevan 0010, Republic of Armenia. The Bank has 13 branches (2022: 13 branches). The majority of its assets and liabilities are located in the Republic of Armenia.

As at 31 December 2023 the Bank's 100% shareholder is ID Group CJSC. As at 31 December 2022 the Bank's 100% shareholder was Fistoco Ltd.

Related party transactions are described in detail in Note 33.

(b) Armenian business environment

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

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia.

As a result of the war there was an influx of non-residents (especially from Russia) to Armenia contributing to significant increase in the volume of money inflows from Russia, Ukraine and Belarus and activation of plastic cards transactions. The Bank's management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Bank's business as there is uncertainty over the magnitude of the impact on the economy in general.

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(thousands of Armenian Drams)

2. Basis of preparation (continued)

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

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

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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

Judgements

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

- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 29.

Assumptions and estimations uncertainty

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

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 29;
- Estimates of fair values of financial assets and liabilities – Note 34.

Climate-related matters

The Bank considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the Bank due to both physical and transition risks. The Bank believes its business model and products will still be viable after the transition to a low-carbon economy, and as such concluded that climate-related matters do not result in material uncertainty in estimates and assumptions underpinning any of the items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Bank is closely monitoring relevant changes and developments, such as new climate-related legislation.

(e) Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation. These reclassifications had no impact on net profit or equity as previously reported.

Certain amounts in Note 17 Loans and advances to banks and other financial institutions for the year ended 31 December 2022 have been reclassified.

	As previously reported	***Reclassification***	***As reclassified***
Deposits of non-resident banks			
- rated AAA	10,521,057	(10,521,057)	–
- rated BBB- to BBB+	–	10,521,057	10,521,057

(thousands of Armenian Drams)

2. Basis of preparation (continued)

(e) Reclassifications (continued)

Certain amounts in the statement of cash flows for the year ended 31 December 2022 have been reclassified.

	As previously reported	***Reclassification***	***As reclassified***
Acquisition of investment securities measured at amortised cost	(52,545,477)	(16,433,517)	(68,978,994)
Proceeds from sale and repayment of investment securities measured at amortised cost	–	16,433,517	16,433,517
Other assets	(1,039,797)	(848,710)	(1,888,507)
Repossessed assets	–	848,710	848,710

3. Changes in accounting policies and presentation

(a) New and amended standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. With exception of amendments to IAS 1 and IFRS Practice Statement 2 as disclosed in this Note, no other standard or amendment affected the Bank's financial statements:

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

Other than the exceptions outlined below, the Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

As part of this determination, the Bank assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Bank has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

(thousands of Armenian Drams)

3. Changes in accounting policies and presentation (continued)

(a) New and amended standards and interpretations (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Bank's financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

  - An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
  - An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

As the Bank operates only in Armenia, which is not an OECD country, the Pillar Two requirements do not apply. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank's financial statements at 31 December 2023.

Definition of Accounting Estimates – Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Bank's financial statements.

Voluntary change in accounting policy

Starting from the financial year 2023, the Bank made a voluntary change in its accounting policy for land and buildings category of property and equipment from revaluation model to cost model. The Management believes that cost model provides more reliable and more meaningful presentation for the users considering also that the market practice is mixed. See Note 20.

(b) Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. The amendments are not expected to have a material effect on the Bank's financial statements:

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

(thousands of Armenian Drams)

4. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for equity instruments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income. For such investments foreign currency differences arising on translation are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA maintained in foreign currencies is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(c) Interest (continued)

Calculation of interest income and expense

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

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

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

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

Presentation

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

– Interest on financial assets measured at amortised cost;

– Interest on debt instruments measured at FVOCI.

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

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 6).

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

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

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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

– The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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

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

– Interest income using the effective interest method;

– ECL and reversals; and

– Foreign exchange gains and losses.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

– The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

– How the performance of the portfolio is evaluated and reported to the bank's management;

– The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– How managers of the business are compensated – e.g. Whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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

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

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

– Contingent events that would change the amount and timing of cash flows;
– Leverage features;
– Prepayment and extension terms;
– Terms that limit the bank’s claim to cash flows from specified assets (e.g. Non-recourse asset arrangements); and
– Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank’s claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

– Whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
– The fair value of the collateral relative to the amount of the secured financial asset;
– The ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
– Whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
– The bank’s risk of loss on the asset relative to a full-recourse loan;
– The extent to which the collateral represents all or a substantial portion of the borrower’s assets; and
– Whether the Bank will benefit from any upside from the underlying assets.

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained Note 4 (e). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

Financial liabilities

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

iii. Repurchase and reverse repurchase agreements

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

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

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

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

v. Modification 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 (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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

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

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

– Change the currency of the financial asset;

– Change of terms of financial asset that lead to non-compliance with the SPPI criterion.

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

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

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

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

Financial liabilities

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

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

– Change the currency of the financial liability;

– Change in collateral or other credit enhancement;

– Inclusion of conversion option;

– Change in the subordination of the financial liability.

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

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

vi. Impairment

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

– Financial assets that are debt instruments;

– Financial guarantee contracts issued; and

– Loan commitments issued.

No impairment loss is recognised on equity investments.

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

– Debt investment securities that are determined to have low credit risk at the reporting date; and

– Other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 29).

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which lifetime ECL is recognised and that are credit-impaired are referred to as ‘Stage 3’ financial instruments.

Measurement of ECL

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

– *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the bank expects to receive);

– *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

– *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the bank expects to receive; and

– *Financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 29.

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 29(b));
- 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 (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

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

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

Presentation of allowance for ECL in the statement of financial position

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

– *Financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;

– *Loan commitments and financial guarantee contracts*: generally, as a provision;

– *Where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

– *Debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in the fair value reserve.

Write-offs

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

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

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

(f) Loans to customers

'Loans to customers' caption in the statement of financial position includes loans to customers measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

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

– Debt investment securities measured amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

– Debt securities measured at FVOCI, see Note 4(e)(i)); and

– Equity investment securities designated as at FVOCI (see Note 4(e)(i)).

(h) Deposits, debt securities issued and loans from banks and other financial institutions

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

(i) Financial guarantees and loan commitments

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

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(i) Financial guarantees and loan commitments (continued)

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

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

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

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Starting from financial year 2023 the Bank voluntarily changed its accounting policy for land and buildings category of property and equipment from revaluation model to cost model. For more details please see Note 20.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences when asset is available for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	50 years
- computers and communication equipment*	4-10 years
- motor vehicles	8 years
- fixtures and fittings*	5 years

* *for communication equipment, fixtures and fittings with an amount of less than AMD 50 thousand estimated useful life is 1 year.*

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

(k) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 to 10 years.

(l) Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when the Bank obtains the legal title on the property.

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(l) Repossessed assets (continued)

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

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

(m) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(n) Provisions

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

(o) Share capital

(i) Ordinary shares

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

(ii) Share premium

Amount paid in excess of par value of shares issued is recognised as a share premium.

(iii) Dividends

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

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

(p) Taxation

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

(i) Current tax

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(p) Taxation (continued)

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

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

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

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

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

(q) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Management considers that the Bank comprises three operating segments: Retail banking, Corporate banking, Trading and Investment banking.

(r) Leases

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

(iv) As a lessee

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

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

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

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

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

(thousands of Armenian Drams)

4. Significant accounting policies (continued)

(r) Leases (continued)

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

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

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

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

The Bank presents right-of-use assets that do not meet the definition of investment property and lease liabilities as separate lines in the statement of financial position.

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

5. Segment information

For management purposes, the Bank is organised into three operating segments based on products and services as follows:

Retail banking	Principally handling individual customers' deposits and current accounts, and providing consumer, mortgage loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Trading and Investment banking	Treasury and finance, investment banking and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a profit before income tax basis and are allocated to operating segments.

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

(thousands of Armenian Drams)

5. Segment information (continued)

2023 / AMD'000	***Retail banking***	***Corporate banking***	***Trading and IB***	***Other non-allocated***	***Total***
External income					
Interest revenue calculated using the effective interest method	12,500,174	5,373,379	8,057,496	–	**25,931,049**
Interest expense	(3,390,564)	(3,480,243)	(227,614)	–	**(7,098,421)**
Net interest income	**9,109,610**	**1,893,136**	**7,829,882**	**–**	**18,832,628**
Fee and commission income	6,781,758	3,139,263	176,605	263,812	**10,361,438**
Fee and commission expense	(4,601,940)	(2,010,587)	(250,533)	–	**(6,863,060)**
Net fee and commission income/(expense)	**2,179,818**	**1,128,676**	**(73,928)**	**263,812**	**3,498,378**
Net foreign exchange gain	2,229,826	3,072,659	2,157,662	–	**7,460,147**
Income from associated entities	–	–	–	575,245	**575,245**
Net gain on financial instruments at fair value through profit or loss			1,069,273		**1,069,273**
Net realised (loss)/gain on investment securities			(93,720)		**(93,720)**
Net other operating income	(63,187)	186,900	3,666	106,097	**233,476**
Operating income	**13,456,067**	**6,281,371**	**10,892,835**	**945,154**	**31,575,427**
Credit loss expense	(98,579)	(121,430)	(49,968)	(112,023)	**(382,000)**
Personal expenses	(4,738,531)	(2,265,419)	(205,275)	(60,520)	**(7,269,745)**
Other general administrative costs	(3,575,170)	(1,064,976)	(81,596)	(20,042)	**(4,741,784)**
Segment profit before income tax	**5,043,787**	**2,829,546**	**10,555,996**	**752,569**	**19,181,898**
Income tax expense	(900,526)	(505,192)	(1,884,685)	(134,365)	**(3,424,768)**
Profit for the period	4,143,261	2,324,354	8,671,311	618,204	**15,757,130**

(thousands of Armenian Drams)

5. Segment information (continued)

2022 / AMD'000	***Retail banking***	***Corporate banking***	***Trading and IB***	***Other non-allocated***	***Total***
External income					
Interest revenue calculated using the effective interest method	10,258,462	4,928,633	4,732,132	–	19,919,227
Interest expense	(3,201,864)	(3,327,278)	(356,820)	–	(6,885,962)
Net interest income	**7,056,598**	**1,601,355**	**4,375,312**	**–**	**13,033,265**
Fee and commission income	4,107,751	1,871,915	200,388	–	6,180,054
Fee and commission expense	(3,082,216)	(1,069,607)	(410,729)	–	(4,562,552)
Net fee and commission income/(expense)	**1,025,535**	**802,308**	**(210,341)**	**–**	**1,617,502**
Net foreign exchange gain	3,684,847	3,667,508	5,555,741	–	12,908,096
Net gain on financial instruments at fair value through profit or loss			1,127,937		1,127,937
Net realised (loss)/gain on investment securities			(55,163)		(55,163)
Net other operating income	(110,457)	139,337	(2,589)	5,629	31,920
Operating income	**11,656,523**	**6,210,508**	**10,790,897**	**5,629**	**28,663,557**
Credit loss expense	(488,906)	(673,932)	(120,383)	(49,091)	**(1,332,312)**
Personal expenses	(4,827,772)	(1,741,479)	(158,020)	(55,092)	**(6,782,363)**
Other general administrative costs	(2,889,535)	(833,294)	(67,430)	(34,821)	**(3,825,080)**
Segment profit before income tax	**3,450,310**	**2,961,803**	**10,445,064**	**(133,375)**	**16,723,802**
Income tax expense	(661,713)	(568,026)	(2,003,193)	25,579	**(3,207,353)**
Profit for the period	2,788,597	2,393,777	8,441,871	(107,796)	**13,516,449**

The following table presents segment assets and liabilities of the Bank's operating segments as of 31 December 2023 and 2022:

	As of 31 December 2023					
	Interest bearing					
	Retail banking	***Corporate banking***	***Trading and IB***	***Unallocated balances***	***Investment in associate***	***Total***
Assets	96,687,107	62,197,392	144,392,513	55,821,939	7,575,245	366,674,196
Liabilities	115,787,108	97,548,408	80,839,061	9,014,827		303,189,404

	As of 31 December 2022				
	Interest bearing				
	Retail banking	***Corporate banking***	***Trading and IB***	***Unallocated balances***	***Total***
Assets	79,054,766	42,273,029	135,218,818	52,459,147	309,005,760
Liabilities	105,734,702	84,743,488	52,405,733	7,449,774	250,333,697

(thousands of Armenian Drams)

5. Segment information (continued)

Interest bearing assets include financial assets through profit and loss, investment securities, loans and advances to banks and other financial institutions, amounts receivable under reverse repurchase agreements loans to customers.

Interest bearing financial liabilities include financial liabilities through profit and loss, deposit and balances from banks and other financial institutions, current accounts and deposits from customers, issued debt securities by the Bank.

Unallocated balances include cash and cash equivalents, property, equipment and intangible assets, right-of-use assets, repossessed assets, other assets, deferred tax liability, current tax liabilities and other liabilities.

Geographic information

The Bank's operations are concentrated in Armenia. The Bank has no current assets outside Armenia other than financial instruments.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the period ended 31 December 2023 or 31 December 2022 are as follows:

2023 / AMD'000	***Retail banking***	***Corporate banking***	***Trading and IB***	***Other non-allocated***	***Total***
Commission income					
Plastic cards operations	5,419,996	2,268,766	–	–	**7,688,762**
Transfer fees	187,560	429,070	–	–	**616,630**
Commission for account service and cash operations	212,431	425,963	–	–	**638,394**
Commissions from payment systems	911,440	–	–	–	**911,440**
Cash/non-cash currency transportation	–	–	139,171	–	**139,171**
Other	50,331	15,463	37,435	263,812	**367,041**
Total	**6,781,758**	**3,139,262**	**176,606**	**263,812**	**10,361,438**

2022 / AMD'000	***Retail banking***	***Corporate banking***	***Trading and IB***	***Other non-allocated***	***Total***
Commission income					
Plastic cards operations	3,062,762	1,180,892	–	–	**4,243,654**
Transfer fees	197,880	220,825	–	–	**418,705**
Commission for account service and cash operations	305,577	461,615	–	–	**767,192**
Commissions from payment systems	460,471	–	–	–	**460,471**
Cash/non-cash currency transportation	–	–	175,198	–	**175,198**
Other	81,062	8,583	25,189	–	**114,834**
Total	**4,107,752**	**1,871,915**	**200,387**	**–**	**6,180,054**

(thousands of Armenian Drams)

6. Net interest income

	2023 AMD'000	2022 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	17,266,184	14,673,724
Investment securities measured at amortised cost	4,759,755	2,935,159
Amounts receivable under reverse repurchase agreements	1,531,740	952,312
Loans and advances to banks and other financial institutions	1,448,290	526,537
Investment securities measured at fair value through other comprehensive income	663,785	574,340
Cash and cash equivalents	248,618	190,747
Financial instrument measured at fair value through profit or loss	12,677	66,409
	25,931,049	**19,919,227**
Interest expense		
Current accounts and deposits from customers	3,772,929	4,165,593
Deposits and balances from banks and other financial institutions	2,357,136	1,614,332
Debt securities issued	672,885	677,821
Lease liabilities	255,887	162,330
Amounts payable under repurchase agreements	39,520	265,768
Other	64	118
	7,098,421	**6,885,962**
Net interest income	**18,832,628**	**13,033,265**

7. Net fee and commission expense

	2023 AMD'000	2022 AMD'000
Fee and commission income		
Plastic card servicing	6,232,677	3,381,727
Cash withdrawal and accounts service	2,283,010	1,625,183
Commissions from payment systems	911,440	460,471
Remittances	680,673	440,862
Currency transportation	139,171	175,198
Other	114,467	96,613
	10,361,438	**6,180,054**
Fee and commission expense		
Card transactions	4,651,830	2,843,755
Payment systems services	1,820,654	1,270,705
Currency transportation	220,901	387,309
Other	169,675	60,783
	6,863,060	**4,562,552**
Net fee and commission income	**3,498,378**	**1,617,502**

(a) Performance obligations and revenue recognition policies

Fee and commission income from the contracts with customers is measured based on the consideration specified in the contract with the customer. The Bank recognises revenue when it transfers control over a service to a customer. Due to nature of the services provided there are no significant contract assets and liabilities as at 31 December 2023 and 31 December 2022.

(thousands of Armenian Drams)

7. Net fee and commission expense (continued)

(a) Performance obligations and revenue recognition policies (continued)

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, credit card and servicing fees, fees form transfers. Fees for ongoing account management are charged to the customer's account on monthly basis. The Bank sets the rates separately for retail and corporate banking customers on a regular basis. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed on a regular basis. Transaction-based fees for money transfers are charged to the customer's account when the transaction takes place.	Revenue form account service and servicing fees is recognised over time as the service are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

8. Net foreign exchange gain

	2023 AMD'000	*2022 AMD'000*
Gain on spot transactions	8,288,866	14,682,012
Loss from revaluation of financial assets and liabilities	(828,719)	(1,773,916)
	7,460,147	**12,908,096**

9. Net gain on financial instruments at fair value through profit or loss

	2023 AMD'000	*2022 AMD'000*
Net gain from revaluation of financial instruments at fair value through profit or loss	797,051	1,131,297
Net proceeds/(losses) from sale of financial instruments at fair value through profit or loss	272,222	(3,360)
	1,069,273	**1,127,937**

10. Net other operating income

	2023 AMD'000	*2022 AMD'000*
Fines and penalties received	204,470	282,087
Deposit Guarantee Fund expenses	(241,776)	(195,976)
Gain/(loss) from sale of repossessed assets	20,591	14,991
Loss from sale of buildings	–	(77,805)
Other	250,191	8,623
	233,476	**31,920**

(thousands of Armenian Drams)

11. Net impairment losses on financial instruments

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

	2023			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	(1,174)	–	–	(1,174)
Debt investment securities at FVOCI	(34,823)	–	–	(34,823)
Debt investment securities at amortised cost	(25,257)	–	–	(25,257)
Loans and advances to banks and other financial institutions at amortised cost	(52,433)	–	–	(52,433)
Amounts receivable under reverse repurchase agreements at amortised cost	7,268	–	–	7,268
Loans to customers at amortised cost – corporate customers	(252,225)	62,297	231,359	41,431
Loans to customers at amortised cost – retail customers	(85,641)	(100,001)	(15,609)	(201,251)
Other financial assets at amortised cost	(20,670)	–	(94,238)	(114,908)
Financial guarantee contracts	(853)	–	–	(853)
Total	**(465,808)**	**(37,704)**	**121,512**	**(382,000)**

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

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	2,051	–	–	2,051
Debt investment securities at FVOCI	(33,507)			(33,507)
Debt investment securities at amortised cost	(97,076)	–	–	(97,076)
Loans and advances to banks and other financial institutions at amortised cost	53,817	(723,343)	–	(669,526)
Amounts receivable under reverse repurchase agreements at amortised cost	(9,543)	–	–	(9,543)
Loans to customers at amortised cost – corporate customers	(339,625)	(89,081)	586,042	157,336
Loans to customers at amortised cost – retail customers	(419,178)	(112,523)	(44,284)	(575,985)
Other financial assets at amortised cost	9,288	–	(122,194)	(112,906)
Financial guarantee contracts	6,844	–	–	6,844
Total	**(826,929)**	**(924,947)**	**419,564**	**(1,332,312)**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for 2023.

	*2023**			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(517,706)	(89,167)	(1,887,703)	**(2,494,576)**
Transfer to Stage 1	–	–	–	**–**
Transfer to Stage 2	5	(5)	–	**–**
Transfer to Stage 3	11,360	26	(11,386)	**–**
Net remeasurement of loss allowance including assets repaid	227,056	62,297	231,359	**520,712**
New financial assets originated or purchased	(479,281)	–	–	**(479,281)**
Foreign exchange and other movements	(11,265)	(2,109)	(151,493)	**(164,867)**
Recovery of previously written-off loans	–	–	(48,105)	**(48,105)**
Write-offs	–	–	12,892	**12,892**
Balance at 31 December	**(769,831)**	**(28,958)**	**(1,854,436)**	**(2,653,225)**

* *The loss allowance in these tables includes ECL on loan commitments for certain corporate products such as credit cards and overdrafts*

(thousands of Armenian Drams)

11. Net impairment losses on financial instruments (continued)

	*2023**			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(761,243)	(167,970)	(998,311)	**(1,927,524)**
Transfer to Stage 1	(11,223)	8,118	3,105	**–**
Transfer to Stage 2	148,828	(153,691)	4,863	**–**
Transfer to Stage 3	99,365	180,468	(279,833)	**–**
Net remeasurement of loss allowance including assets repaid	1,004,878	(100,001)	(15,609)	**889,268**
New financial assets originated or purchased	(1,090,519)	–	–	**(1,090,519)**
Foreign exchange and other movements	(235,628)	(108)	(81,468)	**(317,204)**
Recovery of previously written-off loans	–	–	(681,189)	**(681,189)**
Write-offs	–	–	1,155,099	**1,155,099**
Balance at 31 December	**(845,542)**	**(233,184)**	**(893,343)**	**(1,972,069)**

* *The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts.*

Significant changes in the gross carrying amount of retail and corporate portfolios during the year ended 31 December 2023 that contributed to changes in loss allowance are presented in Note 19(a).

The following tables show reconciliations from the opening to the closing balances of the loss allowance for 2022.

	2022*			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(229,893)	(886)	(7,908,894)	(8,139,673)
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	3,036	(3,036)	–	–
Transfer to Stage 3	22	711	(733)	–
Net remeasurement of loss allowance including assets repaid	(126,221)	(80,546)	586,042	379,275
New financial assets originated or purchased	(216,440)	(5,499)	–	(221,939)
Foreign exchange and other movements	51,790	89	334,360	386,239
Recovery of previously written-off loans	–	–	(717,761)	(717,761)
Write-offs	–	–	5,819,283	5,819,283
Balance at 31 December	**(517,706)**	**(89,167)**	**(1,887,703)**	**(2,494,576)**

** The loss allowance in these tables includes ECL on loan commitments for certain corporate products such as credit cards and overdrafts*

	2022*			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(359,420)	(107,129)	(576,476)	(1,043,025)
Transfer to Stage 1	(22,129)	13,098	9,031	–
Transfer to Stage 2	10,437	(16,755)	6,318	–
Transfer to Stage 3	18,402	53,845	(72,247)	–
Net remeasurement of loss allowance including assets repaid	92,213	(12,822)	12,701	92,092
New financial assets originated or purchased	(511,391)	(99,701)	(56,985)	(668,077)
Foreign exchange and other movements	10,645	1,494	18,913	31,052
Recovery of previously written-off loans	–	–	(743,828)	(743,828)
Write-offs	–	–	404,262	404,262
Balance at 31 December	**(761,243)**	**(167,970)**	**(998,311)**	**(1,927,524)**

* *The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts.*

Significant changes in the gross carrying amount of retail and corporate portfolios during the year ended 31 December 2022 that contributed to changes in loss allowance are presented in Note 19(a).

(thousands of Armenian Drams)

12. Other general administrative expenses

	2023 AMD'000	2022 AMD'000
Depreciation and amortization*	1,529,581	1,286,267
Advertising and marketing	552,468	231,026
Non-refundable taxes and duties	505,432	446,781
Communications and information services	494,843	295,427
Repairs and maintenance	376,004	279,396
Professional services	324,273	403,374
Office and utility expenses	255,604	220,201
Insurance	197,606	123,962
Representation and organizational expenses	185,687	138,788
Security	111,742	104,704
Rent expenses	60,405	40,976
Other	148,139	254,178
	4,741,784	**3,825,080**

* *Included in depreciation and amortization for the year ended 31 December 2023 is AMD 355,283 thousand (2022: AMD 258,552 thousand) related to amortisation of right-of-use asset under IFRS 16 Leases requirements, see Note 21.*

13. Income tax expense

	2023 AMD'000	2022 AMD'000
Current tax expense	3,398,085	3,574,258
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	26,683	(366,905)
Total income tax expense	**3,424,768**	**3,207,353**

In 2023 the applicable tax rate for current tax is 18 % (2022: 18%).

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

	2023 AMD'000	%	2022 AMD'000	%
Profit before income tax	19,181,898		16,723,802	
Income tax at the applicable tax rate	(3,452,742)	(18)	(3,010,285)	(18)
Non-taxable income/(non-deductible expenses)	27,974	–	(197,068)	(1)
	(3,424,768)	**(18)**	**(3,207,353)**	**(19)**

(thousands of Armenian Drams)

13. Income tax expense (continued)

(a) Deferred tax assets and liabilities

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

AMD'000	***Balance 1 January 2023***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance 31 December 2023***
Cash and cash equivalents	(255)	(45,069)	–	(45,324)
Investment securities	72,967	21,056	(85,615)	8,408
Loans and advances to banks and other financial institutions	27,519	46,758	–	74,277
Loans to customers	(736,104)	(59,174)	–	(795,278)
Property, equipment and intangible assets	(30,691)	20,036	11,648	993
Right of use asset	(372,783)	(201,143)	–	(573,926)
Other assets	(54,337)	(89,542)	–	(143,879)
Lease liability	406,622	208,148	–	614,770
Other liabilities	344,853	72,247	–	417,100
	(342,209)	**(26,683)**	**(73,967)**	**(442,859)**

AMD'000	***Balance 1 January 2022***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance 31 December 2022***
Cash and cash equivalents	1,160	(1,415)	–	(255)
Investment securities	(83,892)	41,494	115,365	72,967
Loans and advances to banks and other financial institutions	1,977	25,542	–	27,519
Loans to customers	(868,564)	132,460	–	(736,104)
Property, equipment and intangible assets	(13,615)	(17,076)	–	(30,691)
Right of use asset	(264,895)	(107,888)	–	(372,783)
Other assets	(33,897)	(20,440)	–	(54,337)
Lease liability	282,487	124,135	–	406,622
Other liabilities	154,760	190,093	–	344,853
	(824,479)	**366,905**	**115,365**	**(342,209)**

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2023 and 2022 comprise the following:

	2023			***2022***		
AMD'000	***Amount before tax***	***Tax expense***	***Amount net-of-tax***	***Amount before tax***	***Tax expense***	***Amount net-of-tax***
Net change in fair value of investment securities at FVOCI	368,573	(66,343)	302,230	(696,080)	125,294	(570,786)
Net change in fair value of investment securities at FVOCI transferred to profit or loss	107,058	(19,272)	87,786	55,163	(9,929)	45,234
Other comprehensive (loss)/income	**475,631**	**(85,615)**	**390,016**	**(640,917)**	**115,365**	**(525,552)**

(thousands of Armenian Drams)

14. Cash and cash equivalents

	2023 AMD'000	*2022 AMD'000*
Cash on hand	12,392,695	10,147,082
Nostro accounts with the CBA	11,314,810	14,765,225
Nostro accounts with other banks		
rated from A- to A+	4,266,361	134,608
rated from BBB- to BBB+	2,286,965	4,187,289
rated from BB- to BB+	1,600,412	4,657,436
rated from B- to B+	832	66,586
not rated	4,747,032	2,316,622
Total nostro accounts with other banks	**12,901,602**	**11,362,541**
Total gross cash and cash equivalents	**36,609,107**	**36,274,848**
Credit loss allowance	(2,592)	(1,418)
Total net cash and cash equivalents	**36,606,515**	**36,273,430**

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

For not rated instruments according to the Bank's assessment, there are no restrictions on the ability to withdraw funds from this balance.

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

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

15. Investment securities

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

	2023 AMD'000	*2022 AMD'000*
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	2,787,581	2,867,793
Eurobonds of the Republic of Armenia	1,672,182	1,623,609
Total government bonds	**4,459,763**	**4,491,402**
Corporate bonds		
rated from BB- to BB+	3,224,119	1,190,657
rated from B- to B+	970,345	601,260
not rated	1,790,735	1,153,488
Total corporate bonds	**5,985,199**	**2,945,405**
Equity instruments		
Corporate shares	367,745	367,745
Total securities held by the Bank	**10,812,707**	**7,804,552**
Total investment securities measured at FVOCI	**10,812,707**	**7,804,552**

(thousands of Armenian Drams)

15. Investment securities (continued)

(b) Investment securities measured at amortised cost

	2023 AMD'000	*2022 AMD'000*
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	18,597,200	18,669,607
Eurobonds of the Republic of Armenia	18,124,385	12,253,476
Government securities of other countries	11,657,843	31,965,651
Total government bonds	**48,379,428**	**62,888,734**
Corporate bonds		
rated BB- to BB+	5,115,065	5,656,601
rated B- to B+	–	59,399
not rated	1,030,260	1,029,827
Total corporate bonds	**6,145,325**	**6,745,827**
Total securities held by the Bank	**54,524,753**	**69,634,561**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	6,663,688	–
Total government bonds	**6,663,688**	**–**
Total securities pledged under sale and repurchase agreements	**6,663,688**	**–**
Total gross investment securities measured at amortised cost	**61,188,441**	**69,634,561**
Credit loss allowance	(180,337)	(155,080)
Total net investment securities measured at amortised cost	**61,008,104**	**69,479,481**

(c) Credit quality of investment securities

The following table sets out information about the credit quality of investment securities as at 31 December 2023 and 31 December 2022. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2023			
AMD'000	***Stage 1*** ***12-month ECL***	***Stage 2*** ***Lifetime ECL not credit-impaired***	***Stage 3*** ***Lifetime ECL credit-impaired***	***Total***
Investment securities at FVOCI				
– rated from BB- to BB+	7,683,882	–	–	7,683,882
– rated from B- to B+	970,345			970,345
– not rated	1,790,735	–	–	1,790,735
Carrying amount	**10,444,962**	**–**	**–**	**10,444,962**

(thousands of Armenian Drams)

15. Investment securities (continued)

(c) Credit quality of investment securities (continued)

	31 December 2023			
AMD’000	***Stage 1 12-month ECL***	***Stage 2 Lifetime ECL not credit-impaired***	***Stage 3 Lifetime ECL credit-impaired***	***Total***
Investment securities at amortised cost				
− rated AAA	11,657,843	−	−	11,657,843
− rated from BB- to BB+	48,500,338	−	−	48,500,338
− not rated	1,030,260	−	−	1,030,260
Loss allowance	**(180,337)**	−	−	**(180,337)**
Carrying amount	**61,008,104**	**−**	**−**	**61,008,104**

	31 December 2022			
AMD’000	***Stage 1 12-month ECL***	***Stage 2 Lifetime ECL not credit-impaired***	***Stage 3 Lifetime ECL credit-impaired***	***Total***
Investment securities at FVOCI				
− rated from BB- to BB+	5,682,059	−	−	5,092,662
− rated from B- to B+	601,260	−	−	1,190,657
− not rated*	1,153,488	−	−	1,153,488
Carrying amount	**7,436,807**	**−**	**−**	**7,436,807**

	31 December 2022			
AMD’000	***Stage 1 12-month ECL***	***Stage 2 Lifetime ECL not credit-impaired***	***Stage 3 Lifetime ECL credit-impaired***	***Total***
Investment securities at amortised cost				
− rated AAA	31,965,651	−	−	31,965,651
− rated from BB- to BB+	36,579,684	−	−	36,579,684
− rated B- to B+	59,399	−	−	59,399
− not rated	1,029,827	−	−	1,029,827
Loss allowance	**(155,080)**	−	−	**(155,080)**
Carrying amount	**69,479,481**	**−**	**−**	**69,479,481**

The Bank uses credit ratings per Standard & Poor’s in disclosing credit quality.

The Bank has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral and is included in amounts payable under repurchase agreements (Note 24). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(thousands of Armenian Drams)

16. Investments in associates

	2023 AMD'000	2022 AMD'000
Investment in Idram LLC - cost	7,000,000	
24% share in post-acquisition profit of Idram LLC	575,245	–
Total	**7,575,245**	**–**

Investments in associates represent 24% share in share capital of Idram LLC, which was acquired during 2023 by the cost of AMD 7,000,000 thousand. The associate of the Bank is the operator of Idram payment system. The country of incorporation and principal place of business of Idram LLC is Armenia.

Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill.

The summarised financial information of Idram LLC is presented below:

The reconciliation of the summarised financial information presented to the carrying amount of Investments in associates is presented below:

	2023 AMD'000
Assets	39,252,862
Liabilities	(11,870,346)
Net assets	27,382,516
ID Bank's share (24%) in net assets	6,571,804
Goodwill	1,003,441
Investment in associate	**7,575,245**

	For the period of 01 July 2023 - 31 December 2023 AMD'000
Income	6,141,156
Expenses	(3,770,823)
Total profit before tax	**2,370,333**
Total profit after tax	1,938,743
ID Bank's share from total profit after tax	465,298
Elimination of effects of unrealized (profit)/loss	109,947
ID Bank's share in Idram's post - acquisition profit	**575,245**

(thousands of Armenian Drams)

17. Loans and advances to banks and other financial institutions

	2023 AMD'000	*2022 AMD'000*
Due from the CBA		
Credit card settlement deposit with the CBA	7,137,500	3,130,000
Deposit with the Central Bank of Armenia, obligatory reserves	17,026,587	17,723,016
Total due from the CBA	**24,164,087**	**20,853,016**
Loans		
Eurasian Union banks and other financial institutions		
not rated	6,169,192	6,348,278
Armenian banks		
rated from BB- to BB+	–	79,977
Total loans	**6,169,192**	**6,428,255**
Deposits		
Non-resident banks		
rated A- to A+	3,456,275	–
rated BBB- to BBB+	8,144,421	10,521,057
rated BB- to BB+	3,584,316	–
Total deposits	**15,185,012**	**10,521,057**
Other advances		
Armenian banks		
rated from BB- to BB+	104,809	–
rated from B- to B+	1,860	2,046
not rated	82,831	–
Non-resident banks		
rated AA- to AAA	1,347,463	1,437,924
rated A- to A+	3,102,566	–
Payment systems		
not rated	5,202,747	2,615,043
Other financial institutions – funds in stock exchanges		
not rated	8,973,232	767,103
Total gross loans and advances to banks and other financial institutions	**64,333,799**	**42,624,444**
Credit loss allowance	(818,722)	(766,289)
Total net loans and advances to banks and other financial institutions	**63,515,077**	**41,858,155**

(a) Balances with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdraw ability is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 4% (2022: 4%) and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 6% is maintained in AMD and 12% in the respective currency of funds attracted (2022: 6% maintained in AMD and 12% in the respective currency of attracted funds). The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may be applied. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 14) as these funds are readily available for withdrawal.

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

(thousands of Armenian Drams)

17. Loans and advances to banks and other financial institutions (continued)

(b) Concentration of loans and advances to banks and other financial institutions

As at 31 December 2023 the Bank has one counterparty except for CBA (2022: no counterparty except for CBA), whose balance exceeded 10% of equity. The gross value of the balance as at 31 December 2023 is AMD 15,995,182 thousand (31 December 2022 is AMD 10,520,983 thousand).

(c) Credit quality of loans and advances to banks and financial institutions

	31 December 2023			
AMD'000	***Stage 1 12-month ECL***	***Stage 2 Lifetime ECL not credit-impaired***	***Stage 3 Lifetime ECL credit-impaired***	***Total***
Loans and advances to banks and other financial institutions				
− rated from AA- to AAA	1,347,463	−	−	1,347,463
− rated from A- to A+	6,558,841			6,558,841
− rated from BBB- to BBB+	8,144,421			8,144,421
− rated from BB- to BB+	3,689,125	−	−	3,689,125
− rated from B- to B+	1,860			1,860
− not rated*	44,592,089	−	−	44,592,089
Loss allowance	**(818,722)**	**−**	**−**	**(818,722)**
Carrying amount	**63,515,077**	**−**	**−**	**63,515,077**

* *From unrated instruments AMD 24,164,087 thousand represents balances with CBA.*

	31 December 2022			
AMD'000	***Stage 1 12-month ECL***	***Stage 2 Lifetime ECL not credit-impaired***	***Stage 3 Lifetime ECL credit-impaired***	***Total***
Loans and advances to banks and other financial institutions				
− rated from AA- to AAA	1,437,924	−	−	1,437,924
− rated from BBB- to BBB+	10,521,057	−	−	10,521,057
− rated from BB- to BB+	79,977	−	−	79,977
− rated from B- to B+	2,046	−	−	2,046
− not rated*	27,648,843	2,934,597	−	30,583,440
Loss allowance	**(42,946)**	**(723,343)**	**−**	**(766,289)**
Carrying amount	**39,646,901**	**2,211,254**	**−**	**41,858,155**

* *From unrated instruments AMD 20,853,016 thousand represents balances with CBA.*

No loans and advances to banks and other financial institutions are credit impaired or past due.

The Bank uses credit ratings per Standard & Poor's in disclosing credit quality.

(thousands of Armenian Drams)

18. Amounts receivable under reverse repurchase agreements

	2023 AMD'000	*2022 AMD'000*
Amounts receivable under reverse repurchase agreements		
rated B+	–	9,137,132
not rated	8,615,278	6,604,136
Total gross amounts receivable under reverse repurchase agreements	**8,615,278**	**15,741,268**
Credit loss allowance	(8,491)	(15,759)
Total net amounts receivable under reverse repurchase agreements	**8,606,787**	**15,725,509**

As at 31 December 2023 the Bank has no counterparty bank (2022: one counterparty with total amount kAMD 6,026,645), whose balances exceed 10% of equity.

Amounts receivable under reverse repurchase agreements are from nonrated reputable local financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2023 and 2022. No amounts receivable under reverse repurchase agreements are credit impaired or past due.

(a) Collateral accepted as security for assets

As at 31 December 2023 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 9,100,187 thousand (2022: AMD 16,414,371 thousand).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

19. Loans to customers

	2023 AMD'000	**2022 AMD'000**
Loans to customers at amortised cost		
Loans to large corporates	45,804,223	27,092,486
Loans to trading companies	5,085,211	4,153,843
Loans to manufacturing companies	3,071,223	2,114,909
Cash covered loans	2,217,984	4,715,509
Other corporate loans	8,671,976	6,690,858
Total loans to corporate customers	**64,850,617**	**44,767,605**
Loans to retail customers		
Mortgage loans	42,163,245	34,017,388
Express loans	20,665,520	12,584,925
Consumer loans secured with real estate	20,275,538	18,314,290
Gold secured loans	7,089,734	7,698,585
Salary project loans	3,307,863	2,234,920
Credit lines	2,196,471	2,195,846
Cash covered loans	1,047,736	2,555,860
Other retail loans	1,913,070	1,380,476
Total loans to retail customers	**98,659,177**	**80,982,290**
Gross loans to customers at amortised cost	**163,509,794**	**125,749,895**
Credit loss allowance	(4,625,294)	(4,422,100)
Net loans to customers at amortised cost	**158,884,500**	**121,327,795**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2023:

	*31 December 2023**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Loans to corporate customers				
Loans to large corporate customers**				
– not overdue	43,000,154	–	538,641	43,538,795
overdue more than 1 year	–	–	2,265,428	2,265,428
Total gross loans to large corporate customers	**43,000,154**	**–**	**2,804,069**	**45,804,223**
Credit loss allowance	**(644,208)**	**–**	**(1,725,361)**	**(2,369,569)**
Total net loans to large corporate customers	**42,355,946**	**–**	**1,078,708**	**43,434,654**
Cash covered loans				
– not overdue	2,217,984	–	–	2,217,984
Total gross cash covered loans	**2,217,984**	**–**	**–**	**2,217,984**
Credit loss allowance	**(6,461)**	**–**	**–**	**(6,461)**
Total net cash covered loans	**2,211,523**	**–**	**–**	**2,211,523**
Loans to trading companies				
– not overdue	4,902,110	–	17,039	4,919,149
– overdue of 181-360 days	–	–	27,251	27,251
– overdue more than 1 year	–	–	138,811	138,811
Total gross loans to trading companies	**4,902,110**	**–**	**183,101**	**5,085,211**
Credit loss allowance	**(34,037)**	**–**	**(106,571)**	**(140,608)**
Total net loans to trading companies	**4,868,073**	**–**	**76,530**	**4,944,603**
Loans to manufacturing companies				
– not overdue	3,038,648	–	–	3,038,648
– overdue more than 1 year	–	–	32,575	32,575
Total gross loans to manufacturing companies	**3,038,648**	**–**	**32,575**	**3,071,223**
Credit loss allowance	**(22,113)**	**–**	**–**	**(22,113)**
Total net loans to manufacturing companies	**3,016,535**	**–**	**32,575**	**3,049,110**
Other corporate loans				
– not overdue	8,352,045	275,361	13,294	8,640,700
– overdue of less than 30 days	–	2,485	–	2,485
– overdue of 31-90 days	–	321	2,802	3,123
– overdue of 181-360 days	–	–	258	258
– overdue more than 1 year	–	–	25,410	25,410
Total gross other corporate loans	**8,352,045**	**278,167**	**41,764**	**8,671,976**
Credit loss allowance	**(63,012)**	**(28,958)**	**(22,504)**	**(114,474)**
Total net other corporate loans	**8,289,033**	**249,209**	**19,260**	**8,557,502**
Gross loans to corporate customers	**61,510,941**	**278,167**	**3,061,509**	**64,850,617**
Total expected credit loss on corporate customers	**(769,831)**	**(28,958)**	**(1,854,436)**	**(2,653,225)**
Total net loans to corporate customers	**60,741,110**	**249,209**	**1,207,073**	**62,197,392**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	*31 December 2023**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Loans to retail customers				
Mortgage loans				
– not overdue	41,771,897	156,789	71,835	42,000,521
– overdue of less than 30 days	–	47,506	16,074	63,580
– overdue of 31-90 days	–	1,760	6,755	8,515
– overdue of 91-180 days	–	–	48,830	48,830
– overdue of 181-360 days	–	–	19,148	19,148
– overdue more than 1 year	–	–	22,651	22,651
Total gross mortgage loans	**41,771,897**	**206,055**	**185,293**	**42,163,245**
Credit loss allowance	**(48,577)**	**(3,625)**	**(50,748)**	**(102,950)**
Total net mortgage loans	**41,723,320**	**202,430**	**134,545**	**42,060,295**
Consumer loans secured with real estate				
– not overdue	18,877,584	253,318	321,314	19,452,216
– overdue of less than 30 days	15,300	263,194	53,612	332,106
– overdue of 31-90 days	–	74,820	132,734	207,554
– overdue of 91-180 days	–	–	126,805	126,805
– overdue of 181-360 days	–	–	55,262	55,262
– overdue more than 1 year	–	–	101,595	101,595
Total gross consumer loans secured with real estate	**18,892,884**	**591,332**	**791,322**	**20,275,538**
Credit loss allowance	**(169,160)**	**(39,106)**	**(255,612)**	**(463,878)**
Total net consumer loans secured with real estate	**18,723,724**	**552,226**	**535,710**	**19,811,660**
Express loans				
– not overdue	19,374,517	273,743	67,697	19,715,957
– overdue of less than 30 days	5,666	217,197	19,158	242,021
– overdue of 31-90 days	–	200,526	102,707	303,233
– overdue of 91-180 days	–	–	231,596	231,596
– overdue of 181-365 days	–	–	172,713	172,713
Total gross express loans	**19,380,183**	**691,466**	**593,871**	**20,665,520**
Credit loss allowance	**(526,796)**	**(124,696)**	**(420,163)**	**(1,071,655)**
Total net express loans	**18,853,387**	**566,770**	**173,708**	**19,593,865**
Gold secured loans				
– not overdue	6,784,759	69,198	22,318	6,876,275
– overdue of less than 30 days	4,736	123,951	3,062	131,749
– overdue of 31-90 days	–	43,219	17,773	60,992
– overdue of 91-180 days	–	–	15,535	15,535
– overdue of 181-360 days	–	–	1,980	1,980
– overdue more than 1 year	–	–	3,203	3,203
Total gross gold secured loans	**6,789,495**	**236,368**	**63,871**	**7,089,734**
Credit loss allowance	**(21,756)**	**(15,267)**	**(43,246)**	**(80,269)**
Total net gold secured loans	**6,767,739**	**221,101**	**20,625**	**7,009,465**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	31 December 2023			
	Stage 1 AMD'000	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Salary project loans				
− not overdue	3,218,963	11,139	2,106	3,232,208
− overdue of less than 30 days	−	17,360	1,890	19,250
− overdue of 31-90 days	−	11,243	2,981	14,224
− overdue of 91-180 days	−	−	15,534	15,534
− overdue of 181-360 days	−	−	25,588	25,588
− overdue more than 1 year	−	−	1,059	1,059
Total gross salary project loans	**3,218,963**	**39,742**	**49,158**	**3,307,863**
Credit loss allowance	**(32,420)**	**(8,669)**	**(36,067)**	**(77,156)**
Total net salary project loans	**3,186,543**	**31,073**	**13,091**	**3,230,707**
Cash covered loans				
− not overdue	1,047,736	−	−	1,047,736
Total gross cash covered loans	**1,047,736**	**−**	**−**	**1,047,736**
Credit loss allowance	**(100)**	**−**	**−**	**(100)**
Total net cash covered loans	**1,047,636**	**−**	**−**	**1,047,636**
Credit lines				
− not overdue	2,112,987	13,613	697	2,127,297
− overdue of less than 30 days	−	9,077	770	9,847
− overdue of 31-90 days	−	11,498	4,019	15,517
− overdue of 91-180 days	−	−	22,594	22,594
− overdue of 181-360 days	−	−	14,261	14,261
− overdue more than 1 year	−	−	6,955	6,955
Total gross credit lines	**2,112,987**	**34,188**	**49,296**	**2,196,471**
Credit loss allowance	**(25,047)**	**(8,421)**	**(38,414)**	**(71,882)**
Total net credit lines	**2,087,940**	**25,767**	**10,882**	**2,124,589**
Other retail loans				
− not overdue	1,647,330	10,570	46,691	1,704,591
− overdue of less than 30 days	266	171,073	3,827	175,166
− overdue of 31-90 days	−	2,379	4,636	7,015
− overdue of 91-180 days	−	−	14,275	14,275
− overdue of 181-360 days	−	−	9,488	9,488
− overdue more than 1 year	−	−	2,535	2,535
Total gross other retail loans	**1,647,596**	**184,022**	**81,452**	**1,913,070**
Credit loss allowance	**(21,686)**	**(33,400)**	**(49,093)**	**(104,179)**
Total net other retail loans	**1,625,910**	**150,622**	**32,359**	**1,808,891**
Total gross loans to retail customers	**94,861,741**	**1,983,173**	**1,814,263**	**98,659,177**
Total expected credit loss on retail customers	**(845,542)**	**(233,184)**	**(893,343)**	**(1,972,069)**
Total net loans to retail customers	**94,016,199**	**1,749,989**	**920,920**	**96,687,108**

* *The loss allowance in this table includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.*

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

Significant changes in the gross carrying amount of retail and corporate portfolios during the year ended 31 December 2022 that contributed to changes in loss allowance were as follows:

	*2023**			
AMD'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	40,913,012	584,223	3,270,370	44,767,605
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(301)	301	–	–
Transfer to Stage 3	(11,360)	(4,336)	15,696	–
New financial assets originated or purchased	38,447,695	–	–	38,447,695
Financial assets that have been fully or partially repaid	(18,560,378)	(236,857)	(388,296)	(19,185,531)
Net change in asset from interest and foreign exchange revaluation	722,273	(65,164)	176,631	833,740
Write-offs	–	–	(12,892)	(12,892)
Balance at 31 December	**61,510,941**	**278,167**	**3,061,509**	**64,850,617**

	*2023**			
AMD'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans to customers at amortised cost – retail customers				
Balance at 1 January	77,908,270	1,218,668	1,855,352	80,982,290
Transfer to Stage 1	129,514	(123,031)	(6,483)	–
Transfer to Stage 2	(1,869,449)	1,883,956	(14,507)	–
Transfer to Stage 3	(1,380,040.0)	(397,707)	1,777,747	–
New financial assets originated or purchased	48,533,294	–	–	48,533,294
Financial assets that have been fully or partially repaid	(28,830,943)	(581,335)	(753,868)	(30,166,146)
Net change in asset from interest and foreign exchange revaluation	371,095	(17,378)	111,121	464,838
Write-offs	–	–	(1,155,099)	(1,155,099)
Balance at 31 December	**94,861,741**	**1,983,173**	**1,814,263**	**98,659,177**

The following table provides information on the credit quality of loans to customers as at 31 December 2022:

	*31 December 2022**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Loans to corporate customers				
Loans to large corporate customers**				
– not overdue	23,658,761	560,999	–	24,219,760
– overdue of 91-180 days	–	–	664,942	664,942
– overdue more than 1 year	–	–	2,207,784	2,207,784
Total gross loans to large corporate customers	**23,658,761**	**560,999**	**2,872,726**	**27,092,486**
Credit loss allowance	**(332,752)**	**(83,451)**	**(1,736,350)**	**(2,152,553)**
Total net loans to large corporate customers	**23,326,009**	**477,548**	**1,136,376**	**24,939,933**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	*31 December 2022**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Cash covered loans				
− not overdue	4,715,509	−	−	4,715,509
Total gross cash covered loans	**4,715,509**	**−**	**−**	**4,715,509**
Credit loss allowance	**(10,915)**	**−**	**−**	**(10,915)**
Total net cash covered loans	**4,704,594**	**−**	**−**	**4,704,594**
Loans to trading companies				
− not overdue	3,950,964	−	52,019	4,002,983
− overdue more than 1 year	−	−	150,860	150,860
Total gross loans to trading companies	**3,950,964**	**−**	**202,879**	**4,153,843**
Credit loss allowance	**(46,032)**		**(122,419)**	**(168,451)**
Total net loans to trading companies	**3,904,932**	**−**	**80,460**	**3,985,392**
Loans to manufacturing companies				
− not overdue	2,069,283	−	−	2,069,283
− overdue more than 1 year	−	−	45,626	45,626
Total gross loans to manufacturing companies	**2,069,283**	**−**	**45,626**	**2,114,909**
Credit loss allowance	**(33,820)**	−	**−**	**(33,820)**
Total net loans to manufacturing companies	**2,035,463**	**−**	**45,626**	**2,081,089**
Other corporate loans				
− not overdue	6,516,620	15,381	14,989	6,546,990
− overdue of less than 90 days	1,875	7,843	−	9,718
− overdue of 181-360 days	**−**	**−**	18,153	18,153
− overdue more than 1 year	**−**	**−**	115,997	115,997
Total gross other corporate loans	**6,518,495**	**23,224**	**149,139**	**6,690,858**
Credit loss allowance	**(94,187)**	**(5,716)**	**(28,934)**	**(128,837)**
Total net other corporate loans	**6,424,308**	**17,508**	**120,205**	**6,562,021**
Gross loans to corporate customers	**40,913,012**	**584,223**	**3,270,370**	**44,767,605**
Total expected credit loss on corporate customers	**(517,706)**	**(89,167)**	**(1,887,703)**	**(2,494,576)**
Total net loans to corporate customers	**40,395,306**	**495,056**	**1,382,667**	**42,273,029**
Loans to retail customers				
Mortgage loans				
− not overdue	33,710,091	135,613	30,500	33,876,204
− overdue of less than 30 days	41,632	12,399	26,016	80,047
− overdue of 31-90 days	−	19,006	21,900	40,906
− overdue more than 1 year	−	−	20,231	20,231
Total gross mortgage loans	**33,751,723**	**167,018**	**98,647**	**34,017,388**
Credit loss allowance	(91,569)	(5,459)	(35,899)	(132,927)
Total net mortgage loans	**33,660,154**	**161,559**	**62,748**	**33,884,461**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	*31 December 2022**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Consumer loans secured with real estate				
− not overdue	16,707,847	311,925	247,865	17,267,637
− overdue of less than 30 days	158,879	64,823	34,821	258,523
− overdue of 31-90 days	−	132,403	52,846	185,249
− overdue of 91-180 days	−	−	172,212	172,212
− overdue of 181-360 days	−	−	88,765	88,765
− overdue more than 1 year	−	−	341,904	341,904
Total gross consumer loans secured with real estate	**16,866,726**	**509,151**	**938,413**	**18,314,290**
Credit loss allowance	(161,068)	(30,693)	(297,479)	(489,240)
Total net consumer loans secured with real estate	**16,705,658**	**478,458**	**640,934**	**17,825,050**
Express loans				
− not overdue	11,666,716	49,883	51,945	11,768,544
− overdue of less than 30 days	143,616	18,471	6,693	168,780
− overdue of 31-90 days	−	165,139	10,110	175,249
− overdue of 91-180 days	−	−	256,663	256,663
− overdue of 181-365 days	−	−	215,689	215,689
Total gross express loans	**11,810,332**	**233,493**	**541,100**	**12,584,925**
Credit loss allowance	(405,344)	(80,709)	(520,677)	(1,006,730)
Total net express loans	**11,404,988**	**152,784**	**20,423**	**11,578,195**
Gold secured loans				
− not overdue	7,019,915	33,630	20,703	7,074,248
− overdue of less than 30 days	341,331	16,444	691.00	358,466
− overdue of 31-90 days	−	189,283	3,973	193,256
− overdue of 91-180 days	−	−	68,148	68,148
− overdue of 181-360 days	−	−	4,467	4,467
Total gross gold secured loans	**7,361,246**	**239,357**	**97,982**	**7,698,585**
Credit loss allowance	(33,205)	(32,977)	(40,435)	(106,617)
Total net gold secured loans	**7,328,041**	**206,380**	**57,547**	**7,591,968**
Salary project loans				
− not overdue	2,177,790	2,459	2,028	2,182,277
− overdue of less than 30 days	10,920	697	91	11,708
− overdue of 31-90 days	−	8,866	−	8,866
− overdue of 91-180 days	−	−	15,049	15,049
− overdue of 181-360 days	−	−	17,020	17,020
Total gross salary project loans	**2,188,710**	**12,022**	**34,188**	**2,234,920**
Credit loss allowance	(17,975)	(2,577)	(19,401)	(39,953)
Total net salary project loans	**2,170,735**	**9,445**	**14,787**	**2,194,967**
Cash covered loans				
− not overdue	2,554,962	898	−	2,555,860
Total gross cash covered loans	**2,554,962**	**898**	**−**	**2,555,860**
Credit loss allowance	(159)	**−**	**−**	(159)
Total net cash covered loans	**2,554,803**	**898**	**−**	**2,555,701**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	*31 December 2022**			
	Stage 1 AMD'000	***Stage 2 AMD'000***	***Stage 3 AMD'000***	***Total AMD'000***
Credit lines				
– not overdue	2,106,206	7,303	251	2,113,760
– overdue of less than 30 days	18,336	520	94	18,950
– overdue of 31-90 days	–	19,768	29	19,797
– overdue of 91-180 days	–	–	24,909	24,909
– overdue of 181-360 days	–	–	18,430	18,430
Total gross credit lines	**2,124,542**	**27,591**	**43,713**	**2,195,846**
Credit loss allowance	(31,634)	(10,018)	(28,632)	(70,284)
Total net credit lines	**2,092,908**	**17,573**	**15,081**	**2,125,562**
Other retail loans				
– not overdue	1,230,512	16,645	42,016	1,289,173
– overdue of less than 30 days	19,517	887	1,300	21,704
– overdue of 31-90 days	–	11,606	1,042	12,648
– overdue of 91-180 days	–	–	5,353	5,353
– overdue of 181-360 days	–	–	5,882	5,882
– overdue more than 1 year	–	–	45,716	45,716
Total gross other retail loans	**1,250,029**	**29,138**	**101,309**	**1,380,476**
Credit loss allowance	(20,289)	(5,537)	(55,788)	(81,614)
Total net other retail loans	**1,229,740**	**23,601**	**45,521**	**1,298,862**
Total gross loans to retail customers	**77,908,270**	**1,218,668**	**1,855,352**	**80,982,290**
Total expected credit loss on retail customers	**(761,243)**	**(167,970)**	**(998,311)**	**(1,927,524)**
Total net loans to retail customers	**77,147,027**	**1,050,698**	**857,041**	**79,054,766**

* *The loss allowance in this table includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.*

Significant changes in the gross carrying amount of retail and corporate portfolios during the year ended 31 December 2022 that contributed to changes in loss allowance were as follows:

	*2022**			
AMD'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	49,341,790	43,549	10,198,390	59,583,729
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(899,944)	899,944	–	–
Transfer to Stage 3	(4,359)	(8,941)	13,300	–
New financial assets originated or purchased	17,476,836	7,843	–	17,484,679
Financial assets that have been fully or partially repaid	(20,470,291)	(311,480)	(422,513)	(21,204,284)
Net change in asset from interest and foreign exchange revaluation	(4,531,020)	(46,692)	(699,524)	(5,277,236)
Write-offs	–	–	(5,819,283)	(5,819,283)
Balance at 31 December	**40,913,012**	**584,223**	**3,270,370**	**44,767,605**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	*2022**			
AMD'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans to customers at amortised cost – retail customers				
Balance at 1 January	64,025,666	936,753	1,738,261	66,700,680
Transfer to Stage 1	177,787	(137,266)	(40,521)	–
Transfer to Stage 2	(960,738)	1,001,645	(40,907)	–
Transfer to Stage 3	(841,534)	(261,336)	1,102,869	(1)
New financial assets originated or purchased	40,243,883	456,508	121,064	40,821,455
Financial assets that have been fully or partially repaid	(22,460,615)	(748,486)	(473,479)	(23,682,580)
Net change in asset from interest and foreign exchange revaluation	(2,276,179)	(29,150)	(147,673)	(2,453,002)
Write-offs	–	–	(404,262)	(404,262)
Balance at 31 December	**77,908,270**	**1,218,668**	**1,855,352**	**80,982,290**

(b) Key assumptions and judgements for estimating credit loss allowance

Key assumptions and judgements for estimating credit loss allowance is presented in Note 29(b).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

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

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 90%.

Consumer loans and other retail loans are mainly secured by real estate. The Bank's policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of a maximum of 70%.

Express loans are mainly unsecured.

Gold secured loans are secured by golden jewelry. The Bank's policy is to issue gold secured loans with a loan-to-value ratio at the date of loan issuance of a maximum of 100%.

Cash covered loans and part of credit lines are secured with highly liquid assets which include deposits, purchased debt securities issued by the Bank and current accounts.

Salary project loans and part of credit lines are mainly unsecured.

(iii) Repossessed collateral

As at 31 December 2023 and 31 December 2022, the repossessed collateral comprises mainly real estate.

	2023 ***Carrying amount*** ***AMD'000***	***2022*** ***Carrying amount*** ***AMD'000***
Balance at 1 January	3,098,462	3,130,926
Additions	210,620	928,222
Sales	(599,317)	(960,686)
Balance at 31 December	**2,709,765**	**3,098,462**

(thousands of Armenian Drams)

19. Loans to customers (continued)

(c) Analysis of collateral and other credit enhancements (continued)

As at 31 December 2023 the outstanding balance of repossessed assets includes assets sold with settlement of receivables in instalments amounted AMD 985,233 thousand (31 December 2022: AMD 890,910 thousand).
On the date of foreclosure the collateral is measured at the carrying amount of the defaulted loan. Subsequent to foreclosure repossessed assets are measured at cost less impairment losses. Impairment is estimated based on the market approach.
The Bank's policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

Loans are issued to customers that operate in the following economic sectors:

	2023 *AMD'000*	*2022* *AMD'000*
Trade and finance	14,507,622	19,142,013
Hospitality	12,053,910	6,452,795
Service	10,200,655	2,475,784
Manufacturing	8,506,577	7,353,992
Real estate	10,740,889	1,721,252
Energy	4,782,196	1,717,622
Construction	1,660,967	2,183,561
Transportation and communication	812,050	537,840
Agriculture, forestry and timber	174,476	125,046
Mining	–	2,387,728
Other	1,411,275	669,972
Loans to retail customers	98,659,177	80,982,290
	163,509,794	**125,749,895**
Credit loss allowance	(4,625,294)	(4,422,100)
	158,884,500	**121,327,795**

Prior year amounts of certain line items of economic sectors have been changed due to reclassifications made to conform to classifications used in the current year.

As at 31 December 2023, loans to customers with a gross value of AMD 161,728,313 thousand (2022: AMD 121,731,984 thousand) are issued to customers located within the Republic of Armenia.

(e) Assets under lien

As at 31 December 2023, loans to customers with a gross value of AMD 23,754,959 thousand (2022: AMD 11,307,813 thousand) serve as collateral for loans from credit organisations and borrowings from the Central Bank of Armenia (Note 23).

(f) Significant credit exposures

As at 31 December 2023, the Bank has no borrowers or groups of connected borrowers (2022: has no), whose loan balances exceed 10% of equity.

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 29(c), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(thousands of Armenian Drams)

20. Property, equipment and intangible assets

AMD'000	*Buildings*	*Leasehold improvements*	*Computers and communication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost							
Balance as at 1 January 2023	3,965,886	998,143	2,985,417	1,634,582	124,788	3,186,204	**12,895,020**
Additions	15,860	215,496	1,483,553	655,545	15,082	1,107,756	**3,493,292**
Disposals/write-offs	–	–	(4,777)	(8,974)	–	(54,057)	**(67,808)**
Transfer from revaluation as a result of policy change	(123,894)	–	–	–	–	–	**(123,894)**
Reclassification	–	58,703	8,250	(58,703)	–	(8,250)	**–**
Balance at 31 December 2023	**3,857,852**	**1,272,342**	**4,472,443**	**2,222,450**	**139,870**	**4,231,653**	**16,196,610**
Depreciation and amortisation							
Depreciation and amortisation for the year	76,756	52,082	317,987	199,285	15,904	512,284	**1,174,298**
Disposals/write-offs	–	–	(4,530)	(5,156)	–	(54,230)	**(63,916)**
Transfer from revaluation as a result of policy change	(15,329)	–	–	–	–	–	**(15,329)**
Reclassification	–	–	423	–	–	(423)	**–**
Balance at 31 December 2023	**1,096,200**	**221,499**	**2,185,593**	**1,226,614**	**85,123**	**1,694,406**	**6,509,435**
Carrying amount							
At 31 December 2023	**2,761,652**	**1,050,843**	**2,286,850**	**995,836**	**54,747**	**2,537,247**	**9,687,175**
Cost							
Balance as at 1 January 2022	4,265,121	869,161	2,329,750	1,554,874	133,099	2,672,978	**11,824,983**
Additions	–	138,749	682,681	105,399	176	543,701	**1,470,706**
Disposals/write-offs	(309,002)	–	(23,563)	(29,142)	(8,487)	(30,475)	**(400,669)**
Reclassification	9,767	(9,767)	(3,451)	3,451	–	–	**–**
Balance at 31 December 2022	**3,965,886**	**998,143**	**2,985,417**	**1,634,582**	**124,788**	**3,186,204**	**12,895,020**
Depreciation and amortisation							
Depreciation and amortisation for the year	82,567	45,664	322,949	172,944	15,240	388,351	**1,027,715**
Disposals/write-offs	(98,797)	–	(23,308)	(22,464)	(8,487)	(30,475)	**(183,531)**
Reclassification	–	–	393	(393)	–	–	**–**
Balance at 31 December 2022	**1,034,773**	**169,417**	**1,871,713**	**1,032,485**	**69,219**	**1,236,775**	**5,414,382**
Carrying amount							
At 31 December 2022	**2,931,113**	**828,726**	**1,113,704**	**602,097**	**55,569**	**1,949,429**	**7,480,638**

(thousands of Armenian Drams)

20. Property, equipment and intangible assets (continued)

(a) Revalued assets

Starting from the financial year 2023, the Bank made a voluntary change in its accounting policy for land and buildings category of property and equipment from revaluation model to cost model in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The Management believes that cost model provides more reliable and more meaningful presentation for the users considering also that the market practice. The main operations of the Bank are lending loans and taking deposits. The Bank does not sell its land and buildings, and their value is primarily realized through continuous use. Therefore, the Management views fair value accounting not to be representative of a business purpose of these assets. In addition, Armenian real estate market is relatively small, so valuation of properties often requires significant judgments, and properties' fair values are usually quite sensitive to reasonably possible changes in key valuation inputs. Thus, the Management expects the users of the financial statements of the Bank to rely more on cost, rather than fair valuation of the properties.

21. Leases

The Bank leases assets such as customer service centre spaces which typically run for a period of 5 to 10 years. Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2023 AMD'000	***2022 AMD'000***
Balance at 1 January	2,071,018	1,369,777
Additions/modifications to right of use assets	1,472,740	959,793
Depreciation charge for the period	(355,283)	(258,552)
Balance at 31 December	**3,188,475**	**2,071,018**

(b) Lease liability

	2023 AMD'000	***2022 AMD'000***
Less than one year	748,312	418,674
One to two years	742,912	416,805
Two to five years	2,031,953	1,140,735
More than five years	1,389,337	644,127
Total undiscounted lease payable	**4,912,514**	**2,620,341**
Unearned finance cost	(1,497,123)	(426,121)
Lease liability	**3,415,391**	**2,194,220**

(c) Amounts recognised in profit and loss

	2023 AMD'000	***2022 AMD'000***
Depreciation of right of use asset	355,283	258,552
Interest on lease liabilities	255,887	162,330
Expenses relating to short-term leases	60,405	40,976

(thousands of Armenian Drams)

21. Leases (continued)

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

	2023 *AMD'000*	*2022* *AMD'000*
Balance at 1 January	2,194,220	**1,507,701**
Changes from financing cash flows		
Repayments	(276,834)	(214,376)
Total changes from financing cash flows	**(276,834)**	**(214,376)**
Other changes		
Additions to lease liability	1,499,766	959,793
Interest paid	(255,887)	(162,330)
Interest expense	255,887	162,330
The effect of change in foreign exchange rates	(1,761)	(58,898)
Balance at 31 December	**3,415,391**	**2,194,220**

22. Other assets

	2023 *AMD'000*	*2022* *AMD'000*
Other receivables*	2,177,192	2,249,035
Credit loss allowance**	(35,336)	(24,980)
Total net other financial assets	**2,141,856**	**2,224,055**
Prepayments	1,240,000	1,169,450
Materials and supplies	115,991	138,399
Other	132,161	3,695
Total other non-financial assets	**1,488,152**	**1,311,544**
Total other assets	**3,630,008**	**3,535,599**

* *AMD 1,249,370 thousand of Other receivables represents amounts placed in VISA system to finance Bank's customers transactions and should be received back from those who make transactions (31 December 2022: AMD 1,768,251 thousand).*

** *The loss allowance in this table includes ECL on other receivables from individuals and legal entities which are fully in stage 1.*

23. Deposits and balances from banks and other financial institutions

	2023 *AMD'000*	*2022* *AMD'000*
Term deposits from banks and other financial institutions	7,516,031	8,858,874
Secured loans with the CBA	13,770,199	7,481,292
Loans from banks	2,253,569	–
Secured loans from other financial institutions	10,514,220	8,429,712
Current accounts with financial institutions	22,996,059	14,575,746
Vostro accounts	86,371	69,662
Other liability	173,966	94,712
	57,310,415	**39,509,998**

As at 31 December 2023, loans to customers with a gross value of AMD 23,754,959 thousand (2022: AMD 11,307,813 thousand) serve as collateral for secured loans from credit organisations and borrowings from the Central Bank of Armenia (Note 19).

(thousands of Armenian Drams)

23. Deposits and balances from banks and other financial institutions (continued)

As at 31 December 2023 included in loans from banks and other financial institutions are loans of AMD 24,284,419 thousand (31 December 2022: AMD 15,911,004 thousand) with arrangements to sub-lend these funds to borrowers for qualifying loans. There is no actual market for this type of financing, provided by local and international non-government organisations to support small and medium-size businesses in specific sectors of economy and develop the mortgage market. These loans represent a separate market segment and accordingly, at the initial recognition the Bank does not discount them.

As at 31 December 2023 the Bank has three bank and other financial institution except CBA (2022: one banks and other financial institution except CBA), whose balances exceed 10% of equity. The gross value of these loans as at 31 December 2023 is AMD 33,217,083 thousand (2022: AMD 8,990,207 thousand).

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

’000 AMD	***2023 AMD’000***	***2022 AMD’000***
Balance at 1 January	**15,911,004**	**9,838,770**
Changes from financing cash flows		
Proceeds from borrowed funds	11,517,476	7,962,796
Repayment borrowed funds	(3,290,975)	(1,966,894)
The effect of changes in foreign exchange rates	**8,226,501**	**5,995,902**
Other changes		
Interest expense	1,479,180	964,475
Interest paid (operating cash flows)	(1,332,266)	(888,143)
Balance at 31 December	**24,284,419**	**15,911,004**

24. Amounts payable under repurchase agreements

	2023 AMD’000	***2022 AMD’000***
Amounts payable under repurchase agreements with CBA	8,010,540	–
	8,010,540	**–**

The securities pledged under repurchase agreements with CBA represent the securities measured at amortised cost with carrying amount of AMD 6,663,688 thousand as at 31 December 2023 (31 December 2022: nill) and fair value of AMD 8,279,870 thousand as at 31 December 2023 (31 December 2022: nill). Please see Note 16.

25. Debt securities issued

	2023 AMD’000	***2022 AMD’000***
Debt securities issued in USD	13,483,659	10,945,211
Debt securities issued in AMD	2,023,192	1,950,524
	15,506,851	**12,895,735**

During 2023 the Bank issued bonds with nominal amount of USD 13,000 thousand (2022: USD 15,585 thousand and AMD 1,928,880 thousand). As at 31 December 2023 the balance of debt securities issued is attributable to Traches issued from 2021 to 2023 (31 December 2022: from 2021 to 2022).

(thousands of Armenian Drams)

25. Debt securities issued (continued)

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

'000 AMD	*2023 AMD'000*	*2022 AMD'000*
Balance at 1 January	12,895,735	13,337,577
Changes from financing cash flows		
Proceeds from debt securities issued	6,208,154	8,769,181
Repayment of debt securities issued	(3,982,629)	(6,646,600)
Total changes from financing cash flows	**2,225,525**	**2,122,581**
The effect of changes in foreign exchange rates	**392,467**	**(2,566,308)**
Other changes		
Interest expense	672,885	677,821
Interest paid (operating cash flows)	(679,761)	(675,936)
Balance at 31 December	**15,506,851**	**12,895,735**

26. Current accounts and deposits from customers

	2023 AMD'000	*2022 AMD'000*
Current accounts and demand deposits		
− Retail	74,648,137	70,415,861
− Corporate	85,792,780	74,617,019
Term deposits		
− Retail	41,138,971	35,318,841
− Corporate	8,340,237	7,932,249
	209,920,125	**188,283,970**

As at 31 December 2023, the Bank maintained customer deposit balances of AMD 7,710,328 thousand (2022: AMD 9,656,156 thousand) that serve as collateral for loans to customers and guarantees issued by the Bank.

As at 31 December 2023, the Bank has one customer (2022: one customer), whose balances exceed 10% of equity with a gross value of AMD 26,716,497 thousand (2022: AMD 28,167,765 thousand).

27. Other liabilities

	2023 AMD'000	*2022 AMD'000*
Payables to employees	2,543,994	2,107,171
Payables to payment systems	437,760	416,554
Non-cleared transaction	985,565	126,463
Other financial liabilities	1,219,207	857,367
Total other financial liabilities	**5,186,526**	**3,507,555**
Other non-financial liabilities	922,471	416,422
Taxes payable other than on income	204,470	190,017
Total other non-financial liabilities	**1,126,941**	**606,439**
Total other liabilities	**6,313,467**	**4,113,994**

(thousands of Armenian Drams)

28. Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 679,437 ordinary shares (2022: 679,437). All shares have a nominal value of AMD 50,000 (2022: AMD 50,000).

During 2023 no ordinary shares were issued (2022: none). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Fair value reserve for investment securities

Fair value reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

(c) Dividends

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

In 2023, the general meeting of the shareholders of the Bank decided to pay dividends amounted AMD 7,837,500 thousand to the shareholders of the Bank from the undistributed profits of previous years with dividend per share amount of AMD 11.5 thousand. The Bank also distributed an interim dividend for 2023 amounted AMD 3,400,000 thousand with dividend per share amount of AMD 5 thousand.

29. Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major (significant) risks faced by the Bank are those related to financial risk, market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

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

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. Risk Management Director is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Chairman of the Management Board and indirectly to the Council of the Bank. The Risk Management Directorate is not subordinate to, and does not report to, divisions accepting relevant risks.

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

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

(thousands of Armenian Drams)

29. Risk management (continued)

(a) Risk management policies and procedures (continued)

In compliance with the Bank's internal documentation the Risk Management Directorate and internal audit function frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

(b) Financial risk review

This note presents information about the Bank's exposure to financial risks.

Credit risk

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

The credit policy establishes:

- Procedures for reviewing and approving loan credit applications;
- Methodology for the credit assessment of borrowers (corporate and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan applications are reviewed either through an automated system with the use of scoring models, or through the Risk Management Directorate.

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

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4(e)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

(thousands of Armenian Drams)

29. Risk management (continued)

(b) Financial risk review (continued)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement in probability of default (PD);
- Qualitative indicators; and
- Backstop of 30 days past due.

The exposures of the Bank's borrowers are subject to ongoing monitoring, which may result in a determination about significant increase in credit risk. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
– Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes	– Payment record – this includes overdue status as well as a range of variables about payment ratios
– Data from credit reference agencies, press articles, changes in external credit ratings	– Utilisation of the granted limit – Requests for and granting of forbearance
– Quoted bond and credit default swap (CDS) prices for the borrower where available	– Existing and forecast changes in business, financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	

Generating the term structure of PD

Market benchmark approach

Bank assessed individually loans of borrowers with total outstanding on-balance and off-balance exposures greater than AMD 500,000 thousand.

The Bank considers the information of international credit risk agencies for estimation of PDs of the individually assessed exposures. The Bank sets the minimum level of PDs equal to country's corporate rating grade where the borrower operates.

Collectively assessed

Overdue days are primary input into the determination of the term structure of PD for collectively assessed exposures in Markov's model of transition matrices. Transition matrices are constructed using historical data over the past 36 months.

Individually assessed - Loss given default

To estimate LGD of individually assessed secured loans the following assumptions are applied by the Bank:

- Haircut of 20%-40% is applied on immovable collateral;
- The period of collateral realization is estimated to be 12-36 months, depending on collateral type, geographical region, etc.

(thousands of Armenian Drams)

29. Risk management (continued)

(b) Financial risk review (continued)

LGD for collectively assessed unsecured loans is calculated based on vintage analysis of historical recovery rates (cash flows received after the default). The historical recovery rates are discounted from the recovery date up to the default date. The Bank uses five years historical data for LGD estimation.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information.

The Bank has analyzed and identified key macroeconomic drivers of retail and corporate portfolio credit losses. Using analysis of historical data, the Bank has estimated relationships between macro-economic variables and default rates of retail and corporate portfolios. As a result of analysis, the Bank applies the Real GDP growth rate as a key driver for the FLI incorporation. The Bank obtains the forecasts of macroeconomic data from third party source.

The bank applies probability weighted approach for ECL calculation by considering three scenarios of possible outcomes by using real GDP growth as key macroeconomic driver.
Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers and 1 day for loans and advances to banks and other financial institutions and investment securities. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank’s quantitative modelling the remaining lifetime PD increased by more than 64%.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period of three months during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

(thousands of Armenian Drams)

29. Risk management (continued)

(b) Financial risk review (continued)

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- The borrower is past due more than 90 days for loans to customers and 30 days for loans and advances to banks and other financial institutions and investment securities on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. Breaches of covenant;
- Quantitative – e.g. Overdue status and non-payment on another obligation of the same issuer to the bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4(e)(v).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4(e)(iv)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

(thousands of Armenian Drams)

29. Risk management (continued)

(b) Financial risk review (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

– Probability of default (PD);

– Loss given default (LGD);

– Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations, upon which credit conversion factor (CCF) is calculated based on the weighted average percentage of historically utilized balances of lines of credit in default. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

– Instrument type;

– Collateral type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

Offsetting financial assets and financial liabilities

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

– Are offset in the Bank’s statement of financial position; or

– Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

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

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

(thousands of Armenian Drams)

29. Risk management (continued)

(b) Financial risk review (continued)

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Collateral received	
Amounts receivable under reverse repurchase agreements	8,615,278	–	8,615,278	–	(8,615,278)	–
Total financial assets	**8,615,278**	**–**	**8,615,278**	–	**(8,615,278)**	**–**
Amounts payable under repurchase agreements	(8,010,540)	–	(8,010,540)	6,663,688	–	(1,346,852)
Total financial liabilities	**(8,010,540)**	**–**	**(8,010,540)**	**6,663,688**	**–**	**(1,346,852)**

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Collateral received	
Amounts receivable under reverse repurchase agreements	15,741,268	–	15,741,268	–	(15,741,268)	–
Total financial assets	**15,741,268**	**–**	**15,741,268**	–	**(15,741,268)**	**–**

As at 31 December 2022 the Bank had no repo arrangements.

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

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk

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

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO, based on recommendations of the Risk Management Directorate.

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

(ii) Currency risk

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

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023:

	AMD	*USD*	*EUR*	*Other currencies**	*Total*
AMD’000	***AMD’000***	***AMD’000***	***AMD’000***	***AMD’000***	***AMD’000***
ASSETS					
Cash and cash equivalents	12,882,501	8,289,143	7,637,376	7,797,495	36,606,515
Financial instrument measured at fair value through profit or loss	437,094	12,744	–	–	449,838
Investment securities measured at fair value through other comprehensive income					
Held by the Bank	4,202,206	6,308,543	301,958	–	10,812,707
Investment securities measured at amortised cost					
Held by the Bank	19,569,409	34,792,549	–	–	54,361,958
Pledged under sale and repurchase agreements	6,646,146	–	–	–	6,646,146
Loans and advances to banks and other financial institutions	14,219,264	33,779,153	12,275,821	3,240,839	63,515,077
Amounts receivable under reverse repurchase agreements	7,402,074	1,204,713	–	–	8,606,787
Loans to customers	115,057,678	35,969,332	6,943,537	913,953	158,884,500
Other financial assets	696,354	1,438,546	6,300	656	2,141,856
Total assets	**181,112,726**	**121,794,723**	**27,164,992**	**11,952,943**	**342,025,384**
LIABILITIES					
Derivative financial liabilities	10,466	–	–	789	11,255
Deposits and balances from banks and other financial institutions	37,624,097	13,194,003	2,753,775	3,738,540	57,310,415
Amounts payable under repurchase agreements	8,010,540	–	–	–	8,010,540
Debt securities issued	2,023,194	13,483,657	–	–	15,506,851
Current accounts and deposits from customers	87,052,437	93,117,319	21,346,511	8,403,858	209,920,125
Lease liability	3,267,756	147,635	–	–	3,415,391
Other financial liabilities	4,560,386	485,030	125,352	15,756	5,186,524
Total liabilities	**142,548,876**	**120,427,644**	**24,225,638**	**12,158,943**	**299,361,101**
Currency swap contracts	2,679,619	526,190	(2,821,770)	54,544	**438,583**
Net position	**41,243,469**	**1,893,269**	**117,584**	**(151,456)**	**43,102,866**

* *Other currencies mainly comprise of RUB balances.*

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022:

	AMD AMD'000	*USD AMD'000*	*EUR AMD'000*	*Other currencies* AMD'000*	*Total AMD'000*
ASSETS					
Cash and cash equivalents	13,012,656	12,933,959	5,541,002	4,785,813	36,273,430
Financial instrument measured at fair value through profit or loss	–	–	–	181,610	181,610
Investment securities measured at fair value through other comprehensive income	3,931,419	3,873,133	–	–	7,804,552
Investment securities measured at amortised cost	18,628,043	50,429,547	421,891	–	69,479,481
Loans and advances to banks and other financial institutions	8,045,453	26,741,815	7,024,731	46,156	41,858,155
Amounts receivable under reverse repurchase agreements	15,527,436	198,073	–	–	15,725,509
Loans to customers	90,490,996	22,489,085	5,173,860	3,173,854	121,327,795
Other financial assets	300,669	1,864,771	56,216	2,399	2,224,055
Total assets	**149,936,672**	**118,530,383**	**18,217,700**	**8,189,832**	**294,874,587**
LIABILITIES					
Deposits and balances from banks and other financial institutions	29,040,573	7,704,130	2,681,681	83,614	39,509,998
Debt securities issued	1,950,524	10,945,211	–	–	12,895,735
Current accounts and deposits from customers	67,251,446	97,177,661	19,681,553	4,173,310	188,283,970
Lease liability	1,916,476	277,744	–	–	2,194,220
Other financial liabilities	3,014,648	346,238	145,584	1,085	3,507,555
Total liabilities	**103,173,667**	**116,450,984**	**22,508,818**	**4,258,009**	**246,391,478**
Currency swap contracts	–	–	4,200,600	(4,031,089)	**169,511**
Currency spot contracts	714,102	(714,102)	–	–	**–**
Net position	**47,477,107**	**1,365,297**	**(90,518)**	**(99,266)**	**48,652,620**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2023 and 2022, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2023 AMD'000	*2022 AMD'000*
10% appreciation of USD against AMD	189,327	136,530
10% appreciation of EUR against AMD	11,758	(9,052)

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

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

(ii) Liquidity risk

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

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

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

The liquidity management policy requires:

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

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount inflow/ (outflow)*	*Carrying amount*
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	25,643,545	385,932	7,238,642	16,813,712	19,667,115	69,748,946	57,310,415
Amounts receivable under reverse repurchase agreements	8,015,413	–	–	–	–	8,015,413	8,010,540
Debt securities issued	54,218	1,955,438	3,686,476	461,876	10,105,145	16,263,153	15,506,851
Current accounts and deposits from customers	164,217,019	7,121,818	33,146,839	6,160,901	1,609,991	212,256,568	209,920,125
Lease liability	62,359	149,497	162,300	374,156	4,164,202	4,912,514	3,415,391
Other financial liabilities	2,947,275	–	1,119,625	–	1,119,625	5,186,525	5,186,526
Total financial liabilities	**200,939,829**	**9,612,685**	**45,353,882**	**23,810,645**	**36,666,078**	**316,383,119**	**299,349,848**
Credit related commitments	**8,221,736**	**–**	**–**	**–**	**–**	**8,221,736**	**–**

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount inflow/ (outflow)*	*Carrying amount*
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	14,919,380	1,659,610	2,071,983	5,902,164	19,778,669	44,331,806	39,509,998
Debt securities issued	56,551	108,895	155,225	4,208,120	9,202,567	13,731,358	12,895,735
Current accounts and deposits from customers	149,384,767	7,956,210	6,865,068	17,758,095	8,390,657	190,354,797	188,283,970
Lease liability	34,890	69,779	104,669	209,337	2,201,666	2,620,341	2,194,220
Other financial liabilities	1,362,384	1,838,000	260,761	46,410	–	3,507,555	3,507,555
Total financial liabilities	**165,757,972**	**11,632,494**	**9,457,706**	**28,124,126**	**39,573,559**	**254,545,857**	**246,391,478**
Credit related commitments	**9,655,412**	**–**	**–**	**–**	**–**	**9,655,412**	**–**

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue **	*Total*
ASSETS								
Cash and cash equivalents	36,606,515	–	–	–	–	–	–	36,606,515
Financial instrument measured at fair value through profit or loss	449,838	–	–	–	–	–	–	449,838
Investment securities measured at fair value through other comprehensive income								
Held by the Bank	–	477,937	2,224,727	5,856,631	1,885,667	367,745	–	10,812,707
Investment securities measured at amortised cost								
Held by the Bank	4,034,403	8,738,866	11,224,423	24,167,439	6,196,827	–	–	54,361,958
Pledged under sale and repurchase agreements	6,646,146	–	–	–	–	–	–	6,646,146
Invest in our affiliates	–	–	–	–	–	7,575,245	–	7,575,245
Loans and advances to banks and other financial institutions	58,159,354	–	1,510,707	3,384,862	460,154	–	–	63,515,077
Amounts receivable under reverse repurchase agreements	8,606,787	–	–	–	–	–	–	8,606,787
Loans to customers	3,213,448	7,347,107	30,131,107	72,073,621	44,994,690	–	1,124,527	158,884,500
Property, equipment and intangible assets	–	–	–	–	–	9,687,175	–	9,687,175
Right of use asset	–	–	–	–	–	3,188,475	–	3,188,475
Repossessed assets	–	–	–	–	–	2,709,765	–	2,709,765
Other assets	3,160,088	–	127,915	167,436	169,216	–	5,353	3,630,008
Total assets	**120,876,579**	**16,563,910**	**45,218,879**	**105,649,989**	**53,706,554**	**23,528,405**	**1,129,880**	**366,674,196**

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
LIABILITIES								
Derivative financial liabilities	11,255	–	–	–	–	–	–	11,255
Deposits and balances from banks and other financial institutions	25,635,726	383,661	7,220,952	16,699,962	7,370,114	–	–	57,310,415
Amounts payable under repurchase agreements	8,010,540	–	–	–	–	–	–	8,010,540
Debt securities issued	41,050	1,882,320	3,772,719	9,810,762	–	–	–	15,506,851
Current accounts and deposits from customers	164,210,641	7,067,954	33,001,307	5,116,286	523,937	–	–	209,920,125
Deferred tax liability	–	–	–	–	–	442,859	–	442,859
Lease liability	24,893	61,936	293,122	1,873,156	1,162,284	–	–	3,415,391
Current tax liabilities	–	–	2,258,501	–	–	–	–	2,258,501
Other liabilities	4,074,217	–	1,119,625	1,119,625	–	–	–	6,313,467
Total liabilities	**202,008,322**	**9,395,871**	**47,666,226**	**34,619,791**	**9,056,335**	**442,859**	**–**	**303,189,404**
Net position	**(81,131,743)**	**7,168,039**	**(2,447,347)**	**71,030,198**	**44,650,219**	**23,085,546**	**1,129,880**	**63,484,792**

* *Overdue portion of outstanding overdue loans*

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	36,273,430	–	–	–	–	–	–	36,273,430
Financial instrument measured at fair value through profit or loss	169,511	–	–	–	–	181,610	–	351,121
Investment securities measured at fair value through other comprehensive income	–	80,924	1,005,113	5,335,419	1,015,351	367,745	–	7,804,552
Investment securities measured at amortised cost	16,052,534	10,321,128	15,579,242	20,907,220	6,619,357	–	–	69,479,481
Loans and advances to banks and other financial institutions	12,123,535	6,406,035	3,444,488	2,161,081	–	17,723,016	–	41,858,155
Amounts receivable under reverse repurchase agreements	15,725,509	–	–	–	–	–	–	15,725,509
Loans to customers	2,352,890	8,302,726	19,642,049	55,274,456	34,087,406	–	1,668,268	121,327,795
Property, equipment and intangible assets	–	–	–	–	–	7,480,638	–	7,480,638
Right of use asset	–	–	–	–	–	2,071,018	–	2,071,018
Repossessed assets	–	–	–	–	–	3,098,462	–	3,098,462
Other assets	2,224,055	–	–	–	–	1,311,554	–	3,535,599
Total assets	**84,921,464**	**25,110,813**	**39,670,892**	**83,678,176**	**41,722,114**	**32,234,033**	**1,668,268**	**309,005,760**
LIABILITIES								
Deposits and balances from banks and other financial institutions	14,906,216	1,581,934	7,497,789	10,191,343	5,332,716	–	–	39,509,998
Debt securities issued	42,387	40,645	3,935,700	8,877,003	–	–	–	12,895,735
Current accounts and deposits from customers	149,349,090	7,816,925	23,630,425	6,979,749	507,781	–	–	188,283,970
Deferred tax liabilities	–	–	–	–	–	342,209	–	342,209
Current tax liabilities	–	2,993,571	–	–	–	–	–	2,993,571
Lease liability	23,624	43,833	207,266	1,290,428	629,069	–	–	2,194,220
Other liabilities	1,772,013	1,838,000	307,172	196,809	–	–	–	4,113,994
Total liabilities	**166,093,330**	**14,314,908**	**35,578,352**	**27,535,332**	**6,469,566**	**342,209**	**–**	**250,333,697**
Net position	**(81,171,866)**	**10,795,905**	**4,092,540**	**56,142,844**	**35,252,548**	**31,891,824**	**1,668,268**	**58,672,063**

* *Overdue portion of outstanding overdue loans*

(thousands of Armenian Drams)

29. Risk management (continued)

(c) Market risk (continued)

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

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of the Republic Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly

(d) Interest rate risk

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

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

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities and on net trading income, based on trading instruments held at 31 December. The sensitivity of equity is calculated by revaluing debt financial assets measured at FVOCI at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2023***	***Sensitivity of net interest income 2023***	***Sensitivity of equity 2023***
AMD	1%	2,116,593	(143,161)
USD	1%	550,366	(69,278)
EUR	1%	23,337	(9,432)
RUR	1%	871	–

Currency	***Increase in basis points 2022***	***Sensitivity of net interest income 2022***	***Sensitivity of equity 2022***
AMD	1%	1,629,140	(139,395)
USD	1%	472,532	(71,596)
EUR	1%	14,541	–

A 1% decrease in basis points would have had the equal but opposite effect on the amounts shown above,

30. Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2023 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 11% (2022: 12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2023 and 2022.

In 2023, a number of specific adjustments were made in the CBA's capital management regulation for banks in order to bring the methodology of calculation of the capital adequacy ratio of banks in line with international standards. The minimum limits of capital adequacy have been changed in accordance with the requirements of the capital buffers defined by the Basel Committee and Pillar 2 of Basel, while also preserving the peculiarities of the banking system of the Republic of Armenia.

(thousands of Armenian Drams)

30. Capital management (continued)

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2023 AMD'000 Unaudited	*2022 AMD'000 Unaudited*
Tier 1 capital		
Tier 1 core capital	62,774,602	56,654,153
Deductions and adjustments	(18,152,397)	(5,116,539)
Tier 1 capital only	**44,622,205**	**51,537,614**
Tier 2 capital		
Tier 2 core capital	4,457,146	(201,082)
Reductions	(1,613,374)	–
Tier 2 capital only	**2,843,772**	**(201,082)**
Total capital	**47,465,977**	**51,336,532**
Total risk weighted assets, combining credit, market and operational risks	**262,646,571**	**184,735,644**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**18.07%**	**27.79%**

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

31. Credit related commitments

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

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

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

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

	2023 AMD'000	*2022 AMD'000*
Contracted amount		
Credit card commitments	3,437,322	3,893,172
Loan and credit line commitments	4,182,189	3,709,380
Guarantees and letters of credit	602,225	2,052,860
	8,221,736	**9,655,412**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Credit card commitments, loan and credit line commitments are mainly in Stage 1 and measured at amortised cost as at 31 December 2023 and 2022. Credit card commitments, loans and credit line commitments are not credit impaired or past due.

(thousands of Armenian Drams)

32. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has property insurance and Banker's Blanket Bond (BBB) insurance with up to USD 3,000 thousand coverage.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

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

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

33. Related party transactions

(a) Control relationships

As at 31 December 2023 the Bank's parent company is ID Group CJSC, and the ultimate beneficial owner (UBO) of the Bank is Lala Bakhshetsyan. As at 31 December 2022 the Bank's parent company was Fistoco Ltd.

During 2023 changes occurred in the Bank's shareholding structure. ID Group CJSC was formed in 2023, which acquired 100% of the Bank, and as at 31 December 2023 has shareholding structure of 72% - Drivelio Holdings Limited (UBO – Lala Bakhshetsyan) and 28% - Fistoco Ltd.

(b) Transactions with members of the Council and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2023 and 2022 is as follows:

	2023 AMD'000	***2022 AMD'000***
Members of Council and Management Board of the Bank	**1,681,006**	**2,059,777**

These amounts include benefits in respect of members of the Council and the Management Board accrued in the statement of profit or loss and other comprehensive income of respective periods.

(thousands of Armenian Drams)

33. Related party transactions (continued)

(b) Transactions with members of the Council and the Management Board (continued)

The outstanding balances and average effective interest rates as at 31 December 2023 and 2022 for transactions with members of the Council and the Management Board are as follows:

	2023 AMD'000	*Average effective interest rate, %*	*2022 AMD'000*	*Average effective interest rate, %*
Statement of financial position				
ASSETS				
Loans issued (gross)	479,817	10.0%	2,854,107	11.7%
Loan impairment allowance	(892)	–	(2,540)	–
Other assets	3,062	–	1,374	–
LIABILITIES				
Deposits received	5,332,712	5.1%	2,248,249	5.1%
Current accounts	1,138,277	–	–	–
Debt securities issued	275,769	4.1%	487,315	4.2%
Lending commitments	287,438	–	1,222,124	–

Amounts included in profit or loss in relation to transactions with members of the Council and the Management Board for the year ended 31 December are as follows:

	2023 AMD'000	*2022 AMD'000*
Profit or loss		
Interest income	117,286	145,524
Interest expense	(173,420)	(121,435)
Impairment loss, net	1,648	(1,342)
Fee and commission income	35,427	1,276
Fee and commission expense	(1,287)	(105)

(thousands of Armenian Drams)

33. Related party transactions (continued)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2023 and related profit or loss amounts of transactions for the year ended 31 December 2023 with other related parties are as follows:

	Parent		***Shareholders with significant influence***		***Associate***		***Other***		***Total AMD'000***
	AMD'000	***Average effective interest rate, %***	***AMD'000***	***Average effective interest rate, %***	***AMD'000***	***Average effective interest rate, %***	***AMD'000***	***Average effective interest rate, %***	
Statement of financial position									
ASSETS									
Loans to customers	–	–	–	–			121,765	7.80%	**121,765**
Loan impairment allowance	–	–	–	–			(47)	–	**(47)**
Loans and advances to banks and other financial institutions – payment systems	–	–	–	–	1,903,897	–	-	–	**1,903,897**
LIABILITIES									
Deposits and balances from banks and other financial institutions									
- Current accounts	–	–	–	–	12,120,749	–			**12,120,749**
- Term deposits	–	–	–	–	1,540,497	6.6%			**1,540,497**
Current accounts and deposits from customers									
– Current accounts	2,875,743	–	224,404	–			27,300,226	–	**30,400,373**
– Term deposits	5,350	4.3%	–	–			243,451	6.2%	**248,801**
Debt securities issued	–	–	–	–			143,438	3.8%	**143,438**
Other liabilities	–	–	–	–	159,231	–	–	–	**159,231**
Profit (loss)									
Interest income	–	–	–	–	6,757	–	65,074	–	**71,831**
Interest expense	(104)	–	–	–	(241,912)	–	(13,323)	–	**(255,339)**
Fee, commission and other income	20,812	–	43,890	–	1,289,438	–	85,310	–	**1,439,450**
Fee, commission and other expense	(8)	–	–	–	(861,104)	–	(432)	–	**(861,544)**

(thousands of Armenian Drams)

33. Related party transactions (continued)

(c) Transactions with other related parties (continued)

The outstanding balances and the related average effective interest rates as at 31 December 2022 and related profit or loss amounts of transactions for the year ended 31 December 2022 with other related parties are as follows:

	Shareholders		***Other***		***Total AMD'000***
	AMD'000	***Average effective interest rate, %***	***AMD'000***	***Average effective interest rate, %***	
Statement of financial position					
ASSETS					
Loans to customers	−	−	59,925	9.8%	59,925
Other assets	−	−	19,046	−	19,046
LIABILITIES					
Current accounts and deposits from customers					
− Current accounts	80,011	−	28,808,470	−	28,888,481
− Term deposits	−	−	86,334	8.3%	86,334
Debt securities issued	−	−	47,064	4.7%	47,064
Profit (loss)					
Interest income	−	−	3,228	−	3,228
Interest expense	−	−	(8,624)	−	(8,624)
Fee and commission income	4,344	−	23,924	−	28,268
Fee and commission expense	−	−	(20)	−	(20)

Other related parties include transactions with companies under significant influence of the Council and Management Board and their close family members.

The majority of balances resulting from transactions with related parties mature within one year, except debt securities which mature within two years.

34. Fair values of financial instruments

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2023 and 31 December 2022 the estimated fair values of all financial instruments except for investment securities measured at amortised cost and loans to customers approximate their carrying amounts.

(thousands of Armenian Drams)

34. Fair values of financial instruments (continued)

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

AMD'000	***Level 1***	***Level 2***	***Level 3***	***Total***
Loans and advances to banks and other financial institutions	–	–	62,819,090	**62,819,090**
Financial instruments at fair value through profit or loss				
– Derivative assets	–	449,837	–	**449,837**
nvestment securities at FVOCI				
– Debt and other fixed income instruments	–	10,444,962	–	**10,444,962**
– Equity instruments	330,050	–	37,695	**367,745**
Investment securities at amortised cost	11,657,609	52,364,023	–	**64,021,632**
Loans to customers	–	–	143,562,189	**143,562,189**
Deposits and balances from banks and other financial institutions	–	–	57,209,830	**57,209,830**
Current accounts and deposits from customers	–	–	210,450,719	**210,450,719**
Debt securities issued	–	15,430,193	–	**15,430,193**

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

AMD'000	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial instruments at fair value through profit or loss				
– Derivative assets	–	169,511	–	**169,511**
– Equity instruments	181,610	–	–	**181,610**
Investment securities at FVOCI				
– Debt and other fixed income instruments	–	10,444,962	–	**10,444,962**
– Equity instruments	330,050	–	37,695	**367,745**
Loans to customers	–	–	109,537,938	**109,537,938**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

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