Byblos Bank Armenia CJSC

Financial Statements

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

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Independent auditor's report

To the Shareholder and Board of Directors of Byblos Bank Armenia Closed Joint-Stock Company

Opinion

We have audited the financial statements of Byblos Bank Armenia 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 then ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 24 March 2023.

Responsibilities of management and the Board of Directors 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 Board of Directors is responsible for overseeing the Bank's financial reporting process.

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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 Board of Directors 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.

Ernst & Young CJSC
Yerevan, Armenia

General Director
Partner (Assurance) Eric Hayrapetyan

Responsible Auditor Yelena Adamyan

12 March, 2024

Statement of Profit or Loss and Other Comprehensive Income

As at 31 December 2023

(thousands of Armenian Drams)

	Notes	2023	2022
Interest income calculated using the effective interest method	5	8,185,814	6,744,730
Interest expense	5	(3,954,293)	(3,509,784)
Net interest income	5	**4,231,521**	**3,234,946**
Fee and commission income	6	356,779	223,831
Fee and commission expense	6	(221,514)	(161,055)
Net fee and commission income		**135,265**	**62,776**
Net foreign exchange gain		210,444	113,735
Net other operating expenses		(160,885)	(113,155)
Operating income		**4,416,345**	**3,298,302**
Reversal of credit loss expense	7	158,877	109,939
Personnel expenses		(1,479,361)	(1,207,927)
Other general administrative expenses	8	(1,323,011)	(997,532)
Profit before income tax		**1,772,850**	**1,202,782**
Income tax expense	9	(273,494)	(281,675)
Profit for the year		**1,499,356**	**921,107**
Other comprehensive income/(loss) for the period, 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 and changes in allowance for expected credit losses		598,364	(636,919)
Other comprehensive income/ (loss) for the period, net of income tax		**598,364**	**(636,919)**
Total comprehensive income for the period		**2,097,720**	**284,188**

The financial statements were approved by management on 12 March 2024 and were signed on its behalf by:

Hayk Stepanyan
Chief Executive Officer

Ani Sargsyan
Head of Finance and Administration

The accompanying notes from 1 to 28 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2023

(thousands of Armenian Drams)

	Notes	*2023*	*2022*
Assets			
Cash and cash equivalents	10	6,268,266	13,015,224
Amounts receivable under reverse repurchase agreements	11	5,441,127	6,466,185
Loans and advances to banks	12	16,682,670	8,954,714
Loans to customers	13	50,572,585	52,043,050
Investment securities	14	31,610,283	18,429,094
Right-of-use assets	15	416,504	484,917
Property, equipment and intangible assets	16	2,849,472	2,734,364
Repossessed assets	13	147,727	109,052
Other assets	17	336,555	310,413
Total assets		**114,325,189**	**102,547,013**
Liabilities			
Loans and balances from banks	18	97,523	3,142,082
Current accounts and deposits from customers	19	73,831,733	61,784,306
Current tax liabilities		201,863	179,530
Lease liability		353,279	389,107
Other liabilities	21	787,101	486,934
Other borrowed funds	20	278,949	299,003
Deferred tax liabilities	9	94,640	8,471
Subordinated loans from Parent	22	6,411,157	6,086,356
Total liabilities		**82,056,245**	**72,375,789**
Equity			
Share capital	23	26,249,100	26,249,100
Share premium		257,149	257,149
Fair value reserve for investment securities		(82,352)	(680,716)
Retained earnings		5,845,047	4,345,691
Total equity		**32,268,944**	**30,171,224**
Total equity and liabilities		**114,325,189**	**102,547,013**

The accompanying notes from 1 to 28 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2023

(thousands of Armenian Drams)

	Notes	*2023*	*2022*
Cash flows used in operating activities			
Interest receipts		8,093,634	6,676,472
Interest payments		(3,625,806)	(3,307,883)
Fee and commission receipts		356,681	223,708
Fee and commission payments		(221,347)	(161,002)
Net receipts from foreign exchange		245,581	142,442
Tax payments (other than income tax)		(38,666)	(23,549)
Salaries and other payments to employees		(1,457,083)	(1,220,839)
Other general administrative expenses payments		(1,021,186)	(717,381)
Net other operating expenses		(203,041)	(157,867)
(Increase)/decrease in operating assets			
Investment securities		(12,098,741)	3,241,615
Amounts receivable under reverse repurchase agreements		1,031,586	(7,075,291)
Loans and advances to banks		(7,588,688)	2,039,710
Loans to customers		2,273,566	(15,707,481)
Other assets		115,694	189,108
Increase/(decrease) in operating liabilities			
Loans and balances from banks		(3,000,957)	2,721,134
Current accounts and deposits from customers		10,641,541	7,614,259
Other liabilities		212,485	126,075
Net cash flows used in operations before income tax		**(6,284,747)**	**(5,396,770)**
Income tax paid		(297,141)	(242,897)
Net cash flows used in operations		**(6,581,888)**	**(5,639,667)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(318,177)	(163,373)
Net cash flows used in investing activities		**(318,177)**	**(163,373)**
Cash flows from financing activities			
Repayment of other borrowed funds	20	(31,769)	(97,513)
Lease payments		(35,918)	(74,241)
Net cash used in financing activities		**(67,687)**	**(171,754)**
Net decrease in cash and cash equivalents		**(6,967,752)**	**(5,974,794)**
Effect of changes in exchange rates on cash and cash equivalents		219,977	(2,724,566)
Effect of changes in credit loss allowance on cash and cash equivalents		817	463
Cash and cash equivalents at the beginning of the year		13,015,224	21,714,121
Cash and cash equivalents at the end of the period	10	**6,268,266**	**13,015,224**

The accompanying notes from 1 to 28 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2023

(thousands of Armenian Drams)

	Share capital	Share Premium	Revaluation reserve for investment securities	Retained earnings	Total
Balance as at 1 January 2022	**26,249,100**	**257,149**	**(43,797)**	**3,424,584**	**29,887,036**
Total comprehensive income					
Profit for the period	–	–	–	921,107	**921,107**
Other comprehensive loss					
Fair value reserve for investment securities:					
- net change in fair value, net of deferred tax	–	–	(636,919)	–	**(636,919)**
Total other comprehensive loss	**–**	**–**	**(636,919)**	**–**	**(636,919)**
Total comprehensive income for the period	**–**	**–**	**(636,919)**	**921,107**	**284,188**
Balance as at 31 December 2022	**26,249,100**	**257,149**	**(680,716)**	**4,345,691**	**30,171,224**
Balance as at 1 January 2023	**26,249,100**	**257,149**	**(680,716)**	**4,345,691**	**30,171,224**
Total comprehensive income					
Profit for the period	–	–	–	1,499,356	**1,499,356**
Other comprehensive income					
Fair value reserve for investment securities:					
- net change in fair value, net of deferred tax	–	–	598,364	–	**598,364**
Total other comprehensive income	**–**	**–**	**598,364**	**–**	**598,364**
Total comprehensive income for the period	**–**	**–**	**598,364**	**1,499,356**	**2,097,720**
Balance as at 31 December 2023	**26,249,100**	**257,149**	**(82,352)**	**5,845,047**	**32,268,944**

The accompanying notes from 1 to 28 form an integral part of these financial statements.

(thousands of Armenian drams)

1 Background

(a) Organization and operations

Byblos Bank Armenia CJSC (the Bank) was established in 2007 under the laws of the Republic of Armenia.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, cash and settlement transactions and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (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 head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The Bank has four branches.

The majority of the assets and liabilities are located in the Republic of Armenia.

The Bank is wholly-owned by Byblos Bank SAL which is located in Lebanon, Beirut. The ultimate controlling party is a single individual Francois Bassil.

Related party transactions are described in detail in Note 27.

(b) Armenian business environment

The Bank's operations are located in the Republic of Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax, regulatory frameworks and overall business practices and environment continue developing and improving. However still varying interpretations and frequent changes of legislation together with other legal impediments contribute to the challenges faced by entities operating in Armenia. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories, later escalation of the conflict in the Republic of Armenia territory has increased uncertainty in the business environment.

As a result of the war in Ukraine 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. The Bank strictly refrains from any involvement in servicing of mentioned flows, meanwhile the 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 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 financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that investment securities at fair value through other comprehensive income (FVOCI) and embedded derivatives 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.

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

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 447.90 and AMD 420,06 to 1 EUR, respectively.

(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 recognized 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 recognized 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 24(b).*

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 24(b)*:
  - Estimates of fair values of financial assets and liabilities – *Note 28*;
  - Fair value of forward and option instruments of subordinated loans from Parent – *Note 22*.

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.

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:

(thousands of Armenian drams)

3. Changes in accounting policies and presentation (continued)

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

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.

For loan contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts. This choice is made at a portfolio level and is irrevocable. The Bank has made an irrevocable choice to apply IFRS 9 to each portfolio of these products.

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

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:

(thousands of Armenian drams)

3. Changes in accounting policies and presentation (continued)

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

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

a) 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.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. 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.

(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.*

4 Significant accounting policies

In accordance with the amendments to IFRSs Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 that became effective on 1 January 2023, the Bank revised its disclosure of accounting policies. The revised material accounting policy information focuses on how the Bank has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Bank chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency

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

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(a) Foreign currency (continued)

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 recognized in profit or loss.

(b) Cash and cash equivalents

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

(c) Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repo”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within loans and balances from banks.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repurchase agreements. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

(d) Interest

Effective interest rate

Interest income and expense are recognized 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 amortized 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.

Amortized cost and gross carrying amount

The ‘amortized 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 amortization 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 amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortized 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.

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(d) Interest (continued)

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 amortized 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 amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

Presentation

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

- Interest on financial assets measured at amortized 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 amortized cost.

(e) Fees and commission

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

Other fee and commission income including account servicing fees, commission from transfers and payments, sales commission is recognized 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 recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized 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.

(f) Financial assets and financial liabilities

i. Classification

Financial assets

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

A financial asset is measured at amortized 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)

(f) 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 recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized 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 derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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 amortized 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 realizing 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 realized.

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

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

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

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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

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

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) 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 recognized in other comprehensive income is recognized in profit or loss.

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

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized. 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 recognize 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

iii. 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 derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize 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 amortized 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 recognizes 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 amortized 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.

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

Financial liabilities

The Bank derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized 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 recognized 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 recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Interest rate benchmark reform

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

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

iv. Impairment

See also *Note 24(b)*.

The Bank recognizes 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 recognized 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 24(b)).

The Bank does not apply the low credit risk exemption to any financial instruments.

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 recognized 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 recognized 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 are recognized and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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 24(b).

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 derecognized (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 24(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 amortized 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 reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

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

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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

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

Presentation of allowance for ECL in the statement of financial position

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

- *Financial assets measured at amortized 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 recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-offs

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

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

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

Non-integral financial guarantee contracts

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

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

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

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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

(g) Loans to customers

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

(h) Investment securities

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

- Debt securities measured at FVOCI (see *Note 4(e)(i))*; and
- Equity investment securities designated as at FVOCI (see *Note 4(e)(i)*).

(i) Deposits, debt securities issued and subordinated liabilities

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

(j) 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 as follows: at the higher of the loss allowance determined in accordance with IFRS 9 (see *Note 4(e)(iv))* and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

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

For other loan commitments the Bank recognizes a loss allowance (see Note 4(e)(iv)) in accordance with IFRS 9. Liabilities arising from financial guarantees and loan commitments are included within provisions.

(k) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

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

• Buildings	50 years
• Computers and communication equipment	1-8 years
• Fixtures and fittings	8 years
• Motor vehicles	5 years

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(k) Property and equipment (continued)

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(l) Intangible assets

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

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

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

(m) Repossessed assets

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

At initial recognition repossessed assets are measured at cost including expenditure incurred in the process of collateral foreclosure. After 2 years of initial recognition repossessed assets, if not sold, are depreciated at 20% annually. 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 recognized in “other operating income” in profit or loss.

(n) Impairment of non-financial assets

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

(o) Provisions

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

(p) Share capital

(i) Ordinary shares

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

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(iii) Dividends

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

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

(q) Taxation

Income tax comprises current and deferred tax. Income tax is recognized 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 recognized within other comprehensive income or directly within equity.

(thousands of Armenian drams)

4. Significant accounting policies (continued)

(q) Taxation

(i) Current tax

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

(ii) Deferred tax

Deferred tax assets and liabilities are recognized 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 assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets and liabilities are 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.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(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.

(i) *As a lessee*

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

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

5 Net interest income

	1 January 2023 *31 December 2023*	*1 January 2022* *31 December 2022*
Interest income calculated using the effective interest method		
Loans to customers	5,208,880	4,331,854
Investment securities	2,349,468	2,022,645
Loans and advances to banks	424,013	351,288
Amounts receivable under reverse repurchase agreements	202,838	38,609
Other	615	334
	8,185,814	**6,744,730**
Interest expense		
Current accounts and deposits from customers	3,378,765	2,939,301
Subordinated loans from Parent	392,574	429,267
Loans and balances from banks	121,894	68,231
Lease	38,772	43,293
Other borrowed funds	22,288	27,103
Amounts payable under repurchase agreements	–	2,589
	3,954,293	**3,509,784**
	4,231,521	**3,234,946**

(thousands of Armenian drams)

6 Net fee and commission income

	1 January 2023 31 December 2023	*1 January 2022 31 December 2022*
Plastic card maintenance	213,858	102,572
Cash entry and withdrawal	48,675	48,280
Remittances	36,459	24,395
Account servicing	31,314	27,294
Issuance of letter of guarantees and letter of credits	12,074	10,207
Custodial services	5,533	4,873
Other	8,866	6,210
Fee and commission income	**356,779**	**223,831**
Plastic card maintenance	171,840	120,453
Remittances	32,948	17,101
Enquiries to registers	7,798	6,683
Other	8,928	16,818
Fee and commission expense	**221,514**	**161,055**
	135,265	**62,776**

7 Reversal of credit loss expense

	1 January 2023 31 December 2023	*1 January 2022 31 December 2022*
Loans to customers and loan commitments	168,852	73,363
Investment securities and other financial assets	(9,975)	36,576
	158,877	**109,939**

8 Other general administrative expenses

	1 January 2023 31 December 2023	*1 January 2022 31 December 2022*
Advertising and marketing	356,586	226,233
Depreciation and amortization	248,323	231,356
Professional services	158,858	66,520
Maintenance of computer applications	141,692	118,351
Repairs and maintenance	113,021	107,946
Insurance	76,654	59,772
Taxes other than on income	50,652	44,242
Trainings	29,538	3,331
Security	27,484	31,810
Legal services	22,417	26,129
Communications and information services	21,950	21,006
Office supplies	9,234	7,604
Membership expenses	8,750	8,879
Maintenance of cars	6,708	7,902
Travel expenses	3,368	–
Other	47,776	36,451
	1,323,011	**997,532**

Fees for the audit of Bank’s financial statements for the year ended 31 December 2023 amounted to AMD 32,900 thousand including VAT (2022: AMD 19,960 thousand including VAT). Fees for other assurance services (interim financial statement review) provided by the Bank’s external auditors in 2023 amounted to AMD 14,400 thousand including VAT (2022: AMD 9,000 thousand including VAT). No non-audit services were provided by the Bank’s external auditors during 2023.

(thousands of Armenian drams)

9 Income taxes

	1 January 2023 31 December 2023	*1 January 2022 31 December 2022*
Current year tax expense	(318,673)	(319,909)
Origination and reversal of temporary differences	45,179	38,234
Total income tax expense	**(273,494)**	**(281,675)**

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

Reconciliation of effective tax rate for the year ended 31 December 2023:

	2023	*%*	*2022*	*%*
Profit before income tax	1,772,850	100,0%	1,202,782	100,0%
Tax at the applicable tax rate	(319,113)	-18.0%	(216,501)	-18.0%
Tax exempt income/ (Non-deductible costs)	45,619	2.6%	(65,174)	-5.4%
	(273,494)	**-15.4%**	**(281,675)**	**-23.4%**

(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 year ended as at 31 December 2023 and 2022 are presented as:

31 December 2023.

	1 January 2023	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*31 December 2023*
Cash and cash equivalents	(4,525)	3,391	–	(1,134)
Investment securities	160,329	1,837	(131,348)	30,818
Amounts receivable under reverse repurchase agreements	–	(38)	–	(38)
Loans and advances to banks	(4,221)	(12,627)	–	(16,848)
Loans to customers	(101,909)	(1,757)	–	(103,666)
Property, equipment and intangible assets	(67,881)	(9,674)	–	(77,555)
Right of use assets	–	(49,743)	–	(49,743)
Other assets	22,229	273	–	22,502
Lease liabilities	–	63,590	–	63,590
Other liabilities	(12,493)	49,927	–	37,434
	(8,471)	**45,179**	**(131,348)**	**(94,640)**

(thousands of Armenian drams)

9. Income taxes (continued)

(a) Deferred tax assets and liabilities (continued)

31 December 2022

	1 January 2022	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*31 December 2022*
Cash and cash equivalents	(6,612)	2,087	–	(4,525)
Investment securities	23,890	(3,373)	139,812	160,329
Loans and advances to banks	(10,205)	5,984	–	(4,221)
Loans to customers	(161,172)	59,263	–	(101,909)
Property, equipment and intangible assets	(36,835)	(31,046)	–	(67,881)
Other assets	16,093	6,136	–	22,229
Other liabilities	(11,676)	(817)	–	(12,493)
	(186,517)	**38,234**	**139,812**	**(8,471)**

(b) Income tax recognized in other comprehensive income/(loss)

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

December 2023

	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of investment securities at FVOCI	729,712	(131,348)	598,364
Other comprehensive income/(loss)	**729,712**	**(131,348)**	**598,364**

December 2022

	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of investment securities at FVOCI	(776,731)	139,812	(636,919)
Other comprehensive income/(loss)	**(776,731)**	**139,812**	**(636,919)**

10 Cash and cash equivalents

	31 December 2023	*31 December 2022*
Cash on hand	1,423,891	989,781
Nostro accounts with the CBA, including obligatory reserves (not restricted part, see Note 12)	4,186,141	9,402,520
Nostro accounts with other banks		
-Rated B to BB-	1,184	964
-Not Rated	657,334	2,623,060
Total nostro accounts with other banks	**658,518**	**2,624,024**
Total gross cash and cash equivalents	**6,268,550**	**13,016,325**
Credit loss allowance	(284)	(1,101)
Total net cash and cash equivalents	**6,268,266**	**13,015,224**

(thousands of Armenian drams)

10. Cash and cash equivalents (continued)

As of 31 December 2023, current accounts with Central Bank of Armenia include obligatory reserve with local currency in the amount of AMD 3,270,561 thousand (2022: AMD 2,974,762 thousand).

No cash and cash equivalents are past due.

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

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

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

Nostro accounts with the CBA

Nostro accounts with the CBA are related to settlement activity and are available for withdrawal at the end of the year.

11 Amounts receivable under reverse repurchase agreements

	31 December 2023	*31 December 2022*
- Amounts receivable rated B+ to BB-	4,640,092	5,440,573
- Amounts receivable from not rated banks	801,035	1,025,612
	5,441,127	**6,466,185**

As at 31 December 2023 the Bank has one bank (31 December 2022: one), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2023 is AMD 4,039,315 thousand (31 December 2022: AMD 3,936,778 thousand).

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

Amounts receivable under reverse repurchase agreements are not past due.

Collateral

As at 31 December 2023 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of 5,876,524 thousand AMD (31 December 2022: 6,906,830 thousand).

12 Loans and advances to banks

	31 December 2023	*31 December 2022*
Balances with the CBA		
Credit card settlement deposit with the CBA	845,000	695,000
Deposit and other placements in the CBA including obligatory reserve (in foreign currency)	4,351,618	4,220,911
Total	**5,196,618**	**4,915,911**
Other receivables from banks	–	50,407
Loans and deposits with other banks		
- Rated A+	122,815	65,278
- Rated B+ to BB-	9,782,638	3,939,715
- Not Rated	1,602,071	–
Total loans and deposits with other banks	**11,507,524**	**4,004,993**
Total gross loans and advances to banks	**16,704,142**	**8,971,311**
Credit loss allowance	(21,472)	(16,597)
Total net loans and advances to banks	**16,682,670**	**8,954,714**

(thousands of Armenian drams)

12. Loans and advances to banks (continued)

No loans and advances to banks are past due or impaired and are fully in Stage 1 as at 31 December 2023 (as of 31 December 2022 there are AMD 50,407 thousand receivables in stage 2). All the loans and advance to banks are measured at amortized cost as at 31 December 2023 and 2022.

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

As at 31 December 2023 included in loans and deposits with A+ rated banks is AMD 122,815 thousand (31 December 2022: AMD 65,278 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Balances with the CBA

Balances with the Central Bank of Armenia include credit card settlement deposit, that is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 4% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 6% is maintained in AMD and 12% in the respective currency of funds attracted. The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average daily amount of reserve sanctions may be applied. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 9) 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.

As of 31 December 2023, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 4,351,618 thousand (2022: AMD 4,220,911 thousand).

(b) Concentration of loans and advances to banks

As at 31 December 2023 the Bank has two banks (31 December 2022: no bank), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2023 is AMD 7,881,155 thousand (31 December 2022: nill).

13 Loans to customers

	31 December 2023	**31 December 2022**
Loans to customers at amortized cost		
Loans to corporate customers		
Loans to large corporates	20,234,099	27,642,012
Loans to small and medium sized companies	828,243	963,510
Total loans to corporate customers	**21,062,342**	**28,605,522**
Loans to retail customers		
Mortgage loans	24,174,202	19,617,713
Individual entrepreneur and other small business loans	1,680,236	1,245,724
Credit cards	1,006,627	784,148
Consumer loans with salary domiciliation	948,027	655,287
Consumer loans secured by real estate	797,411	765,110
Auto loans	375,061	169,508
Other loans	731,709	550,222
Total loans to retail customers	**29,713,273**	**23,787,712**
Gross loans to customers at amortized cost	**50,775,615**	**52,393,234**
Credit loss allowance	(203,030)	(350,184)
Net loans to customers at amortized cost	**50,572,585**	**52,043,050**

(thousands of Armenian drams)

13. 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	**Stage 2**	**Stage 3**	**Total loans**
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment:				
- not overdue	20,224,293	–	–	**20,224,293**
Impaired loans:	–	–	–	**–**
- overdue more than 365 days	–	–	9,806	**9,806**
Total Gross Loans to large corporate	**20,224,293**	**–**	**9,806**	**20,234,099**
Credit loss allowance	**(103,432)**	**–**	**(8,146)**	**(111,578)**
Total net loans to large corporate customers	**20,120,861**	**–**	**1,660**	**20,122,521**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	828,243	–	–	**828,243**
Total Gross Loans to small and medium size companies	**828,234**	**–**	**–**	**828,243**
Credit loss allowance	**(2,741)**	**–**	**–**	**(2,741)**
Total net loans to small and medium size companies	**825,502**	**–**	**–**	**825,502**
Gross loans to corporate customers	**21,052,536**	**–**	**9,806**	**21,062,342**
Total credit loss allowance on corporate customers	**(106,173)**	**–**	**(8,146)**	**(114,319)**
Total net loans to corporate customers	**20,946,363**	**–**	**1,660**	**20,948,023**
Loans to retail customers				
Mortgage loans				
- not overdue	23,796,603	171,690	–	**23,968,293**
- overdue less than 30 days	55,794	5,621	–	**61,415**
- overdue 31-90 days	–	52,834	–	**52,834**
- overdue 91-180 days	–	–	44,183	**44,183**
- overdue 181-270 days	–	–	30,596	**30,596**
- overdue more than 271 days	–	–	16,881	**16,881**
Total Gross mortgage loan	**23,852,397**	**230,145**	**91,660**	**24,174,202**
Credit loss allowance	**(33,969)**	**(8,633)**	**(7,442)**	**(50,044)**
Total net mortgage loans	**23,818,428**	**221,512**	**84,218**	**24,124,158**
Individual entrepreneur and other small business loans				
- not overdue	1,676,351	2,099	–	**1,678,540**
- overdue less than 30 days	1,786	–	–	**1,786**
Total Gross Individual entrepreneur and other small business loans	**1,678,137**	**2,099**	**–**	**1,680,236**
Credit loss allowance	**(21,037)**	**(309)**	**–**	**(21,346)**
Total net Individual entrepreneur and other small business loans	**1,657,100**	**1,790**	**–**	**1,658,890**

(thousands of Armenian drams)

13. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	Total loans
Credit cards				
- not overdue	989,125	1,769	–	**990,894**
- overdue less than 30 days	6,228	755	–	**6,983**
- overdue 31-90 days	–	2,448	–	**2,448**
- overdue 91-180 days	–	–	5,327	**5,327**
- overdue 181-270 days	–	–	975	**975**
Total Gross Credit cards	**995,353**	**4,972**	**6,302**	**1,006,627**
Credit loss allowance	**(7,415)**	**(452)**	**(856)**	**(8,723)**
Total net credit cards	**987,938**	**4,520**	**5,446**	**997,904**
Consumer loans with salary domiciliation				
- not overdue	943,481	4,546	–	**948,027**
Total Gross Consumer loans with salary domiciliation	**943,481**	**4,546**	**–**	**948,027**
Credit loss allowance	**(3,650)**	**(470)**	**–**	**(4,120)**
Total net consumer loans with salary domiciliation	**939,831**	**4,076**	**–**	**943,907**
Consumer loans secured by real estate				
- not overdue	759,990	6,554	–	**766,544**
- overdue less than 30 days	11,060	161	–	**11,221**
- overdue 31-90 days	–	2,385	–	**2,385**
- overdue 91-180 days	–	–	5,890	**5,890**
- overdue 181-270 days	–	–	2,994	**2,994**
- overdue more than 271 days	–	–	8,377	**8,377**
Total Gross Consumer loans secured by real estate	**771,050**	**9,100**	**17,261**	**797,411**
Credit loss allowance	**(1,660)**	**(535)**	**(1,642)**	**(3,837)**
Total net consumer loans secured by real estate	**769,390**	**8,565**	**15,619**	**793,574**
Auto loans				
- not overdue	375,061	–	–	**375,061**
Total gross Auto loans	**375,061**	**–**	**–**	**375,061**
Credit loss allowance	**(641)**	**–**	**–**	**(641)**
Total net auto loans	**374,420**	**–**	**–**	**374,420**
Other retail loans				
- not overdue	731,709	–	–	**731,709**
Total gross other retail loans	**731,709**	**–**	**–**	**731,709**
Credit loss allowance	**–**	**–**	**–**	**–**
Total net other retail loans	**731,709**	**–**	**–**	**731,709**
Gross retail loans	**29,347,188**	**250,862**	**115,223**	**29,713,273**
Total credit loss allowance on retail loans	**(68,372)**	**(10,399)**	**(9,940)**	**(88,711)**
Total net retail loans	**29,278,816**	**240,463**	**105,283**	**29,624,562**
Total Gross loans to customers	**50,399,724**	**250,862**	**125,029**	**50,775,615**
Total credit loss allowance on loans to customers	**(174,545)**	**(10,399)**	**(18,086)**	**(203,030)**
Total net loans to customers	**50,225,179**	**240,463**	**106,943**	**50,572,585**

(thousands of Armenian drams)

13. Loans to customers (continued)

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

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

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total loans**
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment:				
- not overdue	27,529,686	–	–	**27,529,686**
Impaired loans:				
- overdue more than 365 days	–	–	112,326	**112,326**
Total Gross Loans to large corporate	**27,529,686**	**–**	**112,326**	**27,642,012**
Credit loss allowance	**(273,132)**	**–**	**(23,381)**	**(260,513)**
Total net loans to large corporate customers	**27,292,554**	**–**	**88,945**	**27,381,499**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	963,510	–	–	**963,510**
Total gross Loans to small and medium size companies	**963,510**	**–**	**–**	**963,510**
Credit loss allowance	**(4,260)**	**–**	**–**	**(4,260)**
Total net loans to small and medium size companies	**959,250**	**–**	**–**	**959,250**
Gross loans to corporate customers	**28,493,196**	**–**	**112,326**	**28,605,522**
Total credit loss allowance on corporate customers	**(241,392)**	**–**	**(23,381)**	**(264,773)**
Total net loans to corporate customers	**28,251,804**	**–**	**88,945**	**28,340,749**
Loans to retail customers				
Mortgage loans				
- not overdue	19,183,267	175,349	–	**19,358,616**
- overdue less than 30 days	33,535	11,172	–	**44,707**
- overdue 31-90 days	–	66,878	–	**66,878**
- overdue 91-180 days	–	–	126,472	**126,472**
- overdue 181-270 days	–	–	1,704	**1,704**
- overdue more than 271 days	–	–	19,336	**19,336**
Total Gross Mortgage loans	**19,216,802**	**253,399**	**147,512**	**19,617,713**
Credit loss allowance	**(28,048)**	**(13,875)**	**(5,301)**	**(47,224)**
Total net mortgage loans	**19,188,754**	**239,524**	**142,211**	**19,570,489**
Individual entrepreneur and other small business loans				
- not overdue	1,245,724	–	–	**1,245,724**
Total Gross Individual entrepreneur and other small business loans	**1,245,724**	**–**	**–**	**1,245,724**
Credit loss allowance	**(11,288)**	**–**	**–**	**(11,288)**
Total net Individual entrepreneur and other small business loans	**1,234,436**	**–**	**–**	**1,234,436**

(thousands of Armenian drams)

13. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	Total loans
Credit cards				
- not overdue	769,837	6,080	–	**775,917**
- overdue less than 30 days	2,266	1,377	–	**3,643**
- overdue 91-180 days	–	–	4,588	**4,588**
Total Gross Credit cards	**772,103**	**7,457**	**4,588**	**784,148**
Credit loss allowance	**(15,673)**	**(1,059)**	**(1,068)**	**(17,800)**
Total net credit cards	**756,430**	**6,398**	**3,520**	**766,348**
Consumer loans secured by real estate				
- not overdue	716,945	27,391	–	**744,336**
- overdue less than 30 days	–	770	–	**770**
- overdue 91-180 days	–	–	16,248	**16,248**
- overdue 181-270 days	–	–	115	**115**
- overdue more than 271 days	–	–	3,641	**3,641**
Total Gross Consumer loans secured by real estate	**716,945**	**28,161**	**20,004**	**765,110**
Credit loss allowance	**(1,003)**	**(1,467)**	**(1,388)**	**(3,858)**
Total net consumer loans secured by real estate	**715,942**	**26,694**	**18,616**	**761,252**
Consumer loans with salary domiciliation				
- not overdue	647,706	–	–	**647,706**
- overdue less than 30 days	1,710	–	–	**1,710**
- overdue 31-90 days	–	1,625	–	**1,625**
- overdue 91-180 days	–	–	2,527	**2,527**
- overdue 181-270 days	–	–	1,719	**1,719**
Total gross Consumer loans with salary domiciliation	**649,416**	**1,625**	**4,246**	**655,287**
Credit loss allowance	**(2,836)**	**(349)**	**(1,524)**	**(4,709)**
Total net consumer loans with salary domiciliation	**646,580**	**1,276**	**2,722**	**650,578**
Auto loans				
- not overdue	169,508	–	–	**169,508**
Total Gross Auto loans	**169,508**	–	–	**169,508**
Credit loss allowance	**(532)**	**–**	**–**	**(532)**
Total net auto loans	**168,976**	**–**	**–**	**168,976**
Other retail loans				
- not overdue	550,222	–	–	**550,222**
Total Gross Other retail loans	**550,222**	**–**	**–**	**550,222**
Credit loss allowance	**–**	**–**	**–**	**–**
Total net other retail loans	**550,222**	**–**	**–**	**550,222**
Gross retail loans	**23,320,720**	**290,642**	**176,350**	**23,787,712**
Total credit loss allowance on retail loans	**(59,380)**	**(16,750)**	**(9,281)**	**(85,411)**
Total net retail loans	**23,261,340**	**273,892**	**167,069**	**23,702,301**
Total Gross loans to customers	**51,813,916**	**290,642**	**288,676**	**52,393,234**
Total credit loss allowance on loans to customers	**(300,772)**	**(16,750)**	**(32,662)**	**(350,184)**
Total net loans to customers	**51,513,144**	**273,892**	**256,014**	**52,043,050**

(thousands of Armenian drams)

13. Loans to customers (continued)

(b) Analysis of collateral

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit impaired assets as at 31 December 2023

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario			Total collateral	Net exposure	Associated ECL
		Property	Vehicle	Surplus collateral			
Mortgage loans	91,660	330,748	–	(239,088)	91,660	–	7,442
Consumer loans secured by real estate	17,261	85,072	–	(67,810)	17,262	–	1,642
Loans to large corporates	9,806	–	3,270	–	3,270	6,535	8,146
Credit cards	6,302	–	–	–	–	6,302	856
Total	**125,029**	**415,820**	**3,270**	**(306,898)**	**112,192**	**12,837**	**18,086**

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit impaired assets as at 31 December 2022

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario			Total collateral	Net exposure	Associated ECL
		Property	Vehicle	Surplus collateral			
Mortgage loans	147,512	420,520	–	(273,008)	147,512	–	5,301
Loans to large corporates	112,326	166,545	3,745	(57,964)	112,326	–	23,381
Consumer loans secured by real estate	20,004	48,651	–	(28,648)	20,003	–	1,388
Credit cards	4,588	–	–	–	–	4,588	1,068
Consumer loans with salary domiciliation	4,246	–	–	–	–	4,246	1,524
Total	**288,676**	**635,716**	**3,745**	**(359,620)**	**279,841**	**8,834**	**32,662**

Repossessed collateral

As at 31 December 2023 and 31 December 2022 the repossessed collateral comprises:

	31 December 2023	31 December 2022
Real estate	147,727	109,052
Total repossessed collateral	**147,727**	**109,052**

Changes in repossessed collateral are presented below:

	31 December 2023	31 December 2022
Balance as at 1 January	109,052	283,448
Repossessed collateral during the year	145,008	-
Sold during the year	(104,974)	(139,673)
Impairment	(1,359)	(34,723)
Balance as at 31 December 2023	**147,727**	**109,052**

The Bank's intention is to sell these assets as soon as it is practicable.

During the year ended 31 December 2023 the Bank made net gain from sale of repossessed collateral of AMD 50,027 thousand (2022: AMD 90,327 thousand).

(c) Asset under lien

As at 31 December 2023 loans to customers with a gross value of AMD 416,735 thousand (31 December 2022: AMD 449,192 thousand) serve as collateral for loans and balances from banks and other borrowed funds (see note 18 and 20).

(thousands of Armenian drams)

13. Loans to customers (continued)

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 December 2023	31 December 2022
Loans to retail customers	29,713,273	23,787,712
Trade	4,562,415	2,974,797
Real estate	4,176,466	2,079,434
Energy	3,800,590	5,722,855
Construction	3,207,194	5,133,770
Services	3,372,701	8,398,819
Processing of agricultural produce	1,942,215	4,295,712
Manufacturing	761	135
	50,775,615	**52,393,234**
Credit loss allowance	(203,030)	(350,184)
	50,572,585	**52,043,050**

(e) Significant credit exposures

As at 31 December 2023 the Bank has two borrower or group of connected borrowers (as at 31 December 2022: four), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 December 2023 is AMD 7,472,313 thousand (as at 31 December 2022: AMD 15,550,925 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 24(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Investment securities

	31 December 2023	31 December 2022
Held by the Bank at FVOCI		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	20,780,867	17,505,708
Bonds issued by other institutions (foreign Governments, local banks)		
- Rated AA to AAA	9,390,638	-
- Rated B+ to BB-	1,421,261	905,869
	31,592,766	**18,411,577**
Equity instruments		
- Corporate shares	**17,517**	**17,517**
	31,610,283	**18,429,094**
Credit loss allowance	(70,785)	(60,577)
Carrying amount – fair value	**31,610,283**	**18,429,094**

None of investment securities are past due.

As at 31 December 2023 the Bank has one bond issuer besides Government of RA (31 December 2022: no bond issuer), investments in whose securities exceeded 10% of equity. The gross value of these balances as at 31 December 2023 is AMD 8,055,054 thousand (31 December 2022: nill).

Non-quoted equity investment securities designated at FVOCI

As at 31 December 2023 and 31 December 2022, the Bank has investments shown in the following table as equity securities as at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term.

(thousands of Armenian drams)

14. Investment securities (continued)

Non-quoted equity investment securities designated at FVOCI (continued)

Name and Country of incorporation	Main activity	% Controlled	31 December 2023 *AMD'000*	31 December 2022 *AMD'000*
ArCa - Republic of Armenia	Payment system	1.25%	16,500	16,500
SWIFT - Belgium	Money transfer	0%	1,017	1,017
			17,517	**17,517**

None of these investments was disposed of during year ended 31 December 2023, no dividend income recognized in year ended 31 December 2023 and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

15 Lease

The Bank leases a building for 10 years without an automatic option to renew the lease after that date. Information about leases for which the Bank is a lessee is presented below.

(a) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented below.

	31 December 2023 Land and buildings	31 December 2022 Land and buildings
Balance at 1 January	484,917	567,381
Depreciation charge	(68,503)	(70,015)
Modifications / additions in right-of-use assets	90	(12,449)
Balance at the end of the reporting period	**416,504**	**484,917**

(a) Amounts recognized in profit and loss

	1 January 2023 31 December 2023	1 January 2022 31 December 2022
Interest on lease liabilities	38,772	43,293

(b) Amounts recognized in statement of cash flows

	1 January 2023 31 December 2023	1 January 2022 31 December 2022
Lease payments	74,690	74,241

(thousands of Armenian drams)

16 Property, equipment and intangible assets

	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2023	2,062,211	875,659	558,528	45,097	410,286	**3,951,781**
Additions	1,946	109,817	23,050	−	160,484	**295,298**
Disposals	−	(28,220)	(24,600)	−	−	**(52,820)**
Balance as at 31 December 2023	**2,064,157**	**957,256**	**556,978**	**45,097**	**570,770**	**4,194,259**
Depreciation and amortization						
Balance at 1 January 2023	(336,410)	(398,748)	(325,920)	(32,998)	(123,341)	**(1,217,417)**
Depreciation and amortization for the period	(41,393)	(71,853)	(41,453)	(2,248)	(22,873)	**(179,821)**
Disposals	−	27,974	24,477	−	−	**52,451**
Balance as at 31 December 2023	**(377,803)**	**(442,627)**	**(342,896)**	**(35,247)**	**(146,214)**	**(1,344,787)**
Carrying amount						
At 31 December 2023	**1,686,354**	**514,629**	**214,082**	**9,850**	**424,556**	**2,849,472**
Cost						
Balance at 1 January 2022	2,058,711	831,321	549,354	45,097	291,882	**3,776,365**
Additions	3,500	44,338	9,174	−	118,404	**175,416**
Balance as at 31 December 2022	**2,062,211**	**875,659**	**558,528**	**45,097**	**410,286**	**3,951,781**
Depreciation and amortization						
Balance at 1 January 2022	**(295,067)**	**(343,988)**	**(283,747)**	**(26,918)**	**(106,356)**	**(1,056,076)**
Depreciation and amortization for the period	(41,343)	(54,760)	(42,173)	(6,080)	(16,985)	**(161,341)**
Balance as at 31 December 2022	**(336,410)**	**(398,748)**	**(325,920)**	**(32,998)**	**(123,341)**	**(1,217,417)**
Carrying amount						
At 31 December 2022	**1,725,801**	**476,911**	**232,608**	**12,099**	**286,945**	**2,734,364**

As of 31 December 2023 property, plant and equipment and intangible assets included fully depreciated and amortized in amount of AMD 582,789 thousand (2022: AMD 600,756 thousand).

17 Other assets

	31 December 2023	31 December 2022
Receivables under money transfer and clearing systems	65,414	47,218
Other receivables	66,337	87,724
Total other financial assets	**131,751**	**134,942**
Prepayments to taxes	25,759	24,901
Other prepayments	155,703	120,958
Other assets	23,342	29,612
Total other non-financial assets	**204,804**	**175,471**
Total other assets	**336,555**	**310,413**

(thousands of Armenian drams)

18 Loans and balances from banks

	31 December 2023	31 December 2022
Loans from Central Bank of Armenia	97,523	97,857
Loans from Armenian banks	–	3,044,225
	97,523	**3,142,082**

As at 31 December 2023 the Bank has no lender (31 December 2022: one), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2022 is AMD 3,044,225 thousand.

As at 31 December 2023 loans to customers with a gross value of AMD 56,704 thousand (as at 31 December 2022: AMD 86,358 thousand) serve as collateral for loans and balances from banks.

19 Current accounts and deposits from customers

	31 December 2023	31 December 2022
Current accounts and demand deposits		
- Individuals	5,751,963	5,346,385
- Legal entities	6,549,583	6,505,552
Term deposits		
- Individuals	31,494,692	27,057,561
- Legal entities	30,035,495	22,874,808
Total current accounts and deposits from customers	**73,831,733**	**61,784,306**

As at 31 December 2023 the Bank maintained customer deposit balances of AMD 2,601,268 thousand that serve as collateral for loans and credit related commitments granted by the Bank (as at 31 December 2022: AMD 2,110,774 thousand).

As at 31 December 2023 the Bank has four customers (as at 31 December 2022: four), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2023 is AMD 19,366,184 thousand (as at 31 December 2022: AMD 16,654,264 thousand).

20 Other borrowed funds

	31 December 2023	31 December 2022
Loans from National Mortgage Company	130,506	198,537
Loans from Home for Youth Company	148,443	100,466
	278,949	**299,003**

As at 31 December 2023 loans to customers with a gross value of AMD 360,031 thousand (as at 31 December 2022: AMD 362,834 thousand) serve as collateral for other borrowed funds.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Other borrowed funds	Subordinated Loans from the Parent	Total
Balance at 1 January 2023	**299,003**	**6,086,356**	**6,385,359**
Proceeds from other borrowed funds	12,294	-	**12,294**
Repayment of other borrowed funds	(31,769)	-	**(31,769)**
Total changes from financing cash flows	**(19,475)**	**-**	**(19,475)**
The effect of changes in foreign exchange rates	**–**	**316,486**	**316,486**
Interest expense	22,288	392,573	**414,861**
Interest paid	(22,867)	(384,258)	**(407,125)**
Balance at 31 December 2023	**278,949**	**6,411,157**	**6,690,106**

(thousands of Armenian drams)

20. Other borrowed funds (continued)

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

	Other borrowed funds	Subordinated Loans from the Parent	Total
Balance at 1 January 2022	**380,988**	**7,712,584**	**8,093,572**
Proceeds from other borrowed funds	11,000	–	**11,000**
Repayment of other borrowed funds	(97,513)	–	**(97,513)**
Total changes from financing cash flows	**(86,513)**	–	**(86,513)**
The effect of changes in foreign exchange rates	**–**	**(1,615,911)**	**(1,615,911)**
Interest expense	27,103	429,267	**456,370**
Interest paid	(22,575)	(439,584)	**(462,159)**
Balance at 31 December 2022	**299,003**	**6,086,356**	**6,385,359**

21 Other liabilities

	31 December 2023	31 December 2022
Salary and similar payables	171,598	154,409
Payables to suppliers	123,000	107,939
Other financial liabilities	418,639	162,254
Total financial liabilities	**713,237**	**424,602**
Other taxes payable	67,456	54,437
Other liabilities	6,408	7,895
Total other non-financial liabilities	**73,864**	**62,332**
Total other liabilities	**787,101**	**486,934**

As at 31 December 2023 other financial liabilities include AMD 384,687 thousand (31 December 2022: AMD 125,957 thousand) pending international transfers on behalf of the Bank and customers.

22 Subordinated loans from Parent

On 30 April 2015, on 30 September 2016 and on 13 December 2016 the Bank obtained subordinated loans from the Parent of USD 5,000 thousand, EUR 9,375 thousand and USD 5,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 10 years, at the option of the holder. The loans contain mandatory, voluntary and accelerated conversion options, representing forward and option financial instruments, respectively.

As of 31 December 2023 and 2022 the interest rates of subordinated loans in EUR and USD is 6.52%.

Subordinated loan issued on 30 April 2015 was converted into shares applying accelerated conversion option.

Management believes that the fair value of these embedded conversion options is not material as at 31 December 2023 and 31 December 2022.

23 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 262,491 ordinary shares (31 December 2022: 262,491 shares). All shares have a nominal value of AMD 100,000.

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.

(thousands of Armenian drams)

23. Share capital and reserves (continued)

(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 derecognized or impaired.

(c) Dividends

Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia.

24 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.

The Bank's risk management policies aim to identify, analyze 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 Board of Directors 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 Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

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 Management Committee 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.

In compliance with the Bank's internal documentation the Management Committee 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 for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments).

Corporate loan applications are originated and analyzed by the relevant relationship managers from the Commercial Banking 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 Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management Committee.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

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. The current market value of collateral is regularly assessed by independent appraisal companies or the Bank's specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits. Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department 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)(iv).

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.

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.

Credit risk grades

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

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

Corporate exposure

- 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
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

All exposures (corporate and retail exposures)

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilization of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Bank sets the maximum level of PDs equal to PD of the country's rating grade where the borrower operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 48 months.

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 or. 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.

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 return 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 during which the financial asset is required to demonstrate 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 recognizing lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

(thousands of Armenian drams)

24. 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 realizing security (if any is held);
- the borrower is past due more than 90 days 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.

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 identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts, changes in exchange rates and prices in real estate market.

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)(iii).

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.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

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 behavioral 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 behavior 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.

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".

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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 amortization. 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 and forward-looking forecasts. 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 Bank's Corporate Risk Management Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 10 using Moody's Risk Analyst (MRA). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. These information sources are first used to determine the stages of corporate customers. And based on staging the Bank determines its PDs which then adjusted for IFRS 9 ECL calculation. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

31 December 2023	Exposure	External benchmarks used PD	LGD
Debt investment securities at FVOCI	31,592,766	S&P default study	Moody's recovery studies
Loans to corporate customers (PD rate up to 3.0%)	3,792,291	S&P default study	Moody's recovery studies
Loans to corporate customers (PD rate of above 3.0%)	17,155,732	S&P default study	-

PD rate used for loans to corporate customers for two groups mentioned above differ from each other based on customer's industry and company's position. The Bank uses country's rating grade or one grade below.

31 December 2022	Exposure	External benchmarks used PD	LGD
Debt investment securities at FVOCI	18,411,577	S&P default study	Moody's recovery studies
Loans to corporate customers	8,212,953	S&P default study	Moody's recovery studies
Loans to corporate customers	20,127,796	S&P default study	-

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for the year ended 31 December 2023:

	31 December 2023 Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Balance at 1 January	**(1,101)**	**–**	**–**	**(1,101)**
New financial assets originated or purchased	(284)	–	–	**(284)**
Transfer to Stage 1	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**
Net remeasurement of loss allowance	1,101	–	–	**1,101**
Balance at 31 December 2023	**(284)**	**–**	**–**	**(284)**

	31 December 2023 Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks at amortized cost				
Balance at 1 January	**(9,960)**	**(6,637)**	**–**	**(16,597)**
New financial assets originated or purchased	(21,472)	–	–	**(21,472)**
Fully or partially repaid	9,960	6,637	–	**16,597**
Transfer to Stage 1	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**
Balance at 31 December 2023	**(21,472)**	**–**	**–**	**(21,472)**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	**(241,392)**	**–**	**(23,381)**	**(264,773)**
New financial assets originated or purchased	(25,206)	–	–	**(25,206)**
Fully or partially repaid	140,689	–	21,397	**162,086**
Net remeasurement of loss allowance	21,550	–	(6,023)	**15,527**
Foreign exchange revaluation effect on ECL	(1,814)	–	(139)	**(1,953)**
Balance at 31 December 2023	**(106,173)**	**–**	**(8,146)**	**(114,319)**

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	**(59,380)**	**(16,750)**	**(9,281)**	**(85,411)**
New financial assets originated or purchased	(24,455)	(470)	–	**(24,925)**
Fully or partially repaid	12,679	2,194	1,878	**16,751**
Transfer to Stage 1	(6,214)	3,180	3,034	**–**
Transfer to Stage 2	195	(492)	297	**–**
Transfer to Stage 3	3,228	8,451	(11,679)	**–**
Net remeasurement of loss allowance	6,033	(6,445)	(23,723)	**(24,135)**
Foreign exchange revaluation effect on ECL	(458)	(67)	(67)	**(592)**
Write-offs	–	–	29,601	**29,601**
Balance at 31 December 2023	**(68,372)**	**(10,399)**	**(9,940)**	**(88,711)**

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at 1 January	**(60,577)**	**–**	**–**	**(60,577)**
New financial assets originated or purchased	(27,708)	–	–	**(27,708)**
Transfer to Stage 1	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**
Net remeasurement of loss allowance	17,500	–	–	**17,500**
Balance at 31 December 2023	**(70,785)**	**–**	**–**	**(70,785)**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

The below tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for the year ended 31 December 2022:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	**(1,564)**	**–**	**–**	**(1,564)**
New financial assets originated or purchased	(1,101)	–	**–**	**(1,101)**
Transfer to Stage 1	–	–	**–**	**–**
Transfer to Stage 2	–	–	**–**	**–**
Transfer to Stage 3	–	–	**–**	**–**
Net remeasurement of loss allowance	1,564	–	**–**	**1,564**
Balance at 31 December 2022	**(1,101)**	**–**	**–**	**(1,101)**

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortized cost				
Balance at 1 January	**(38,621)**	**–**	**–**	**(38,621)**
New financial assets originated or purchased	**(225)**	**(6,637)**	**–**	**(6,862)**
Fully or partially repaid	**12,907**	**–**	**–**	**12,907**
Transfer to Stage 1	**–**	**–**	**–**	**–**
Transfer to Stage 2	**–**	**–**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Net remeasurement of loss allowance	**15,979**	**–**	**–**	**15,979**
Balance at 31 December 2022	**(9,960)**	**(6,637)**	**–**	**(16,597)**

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	**(222,532)**	**–**	**(96,688)**	**(319,220)**
New financial assets originated or purchased	(127,248)	–	–	**(127,248)**
Fully or partially repaid	219,608	–	96,688	**316,296**
Net remeasurement of loss allowance	(152,897)	–	(39,752)	**(192,649)**
Foreign exchange revaluation effect on ECL	41,677	–	16,371	**58,048**
Balance at 31 December 2022	**(241,392)**	**–**	**(23,381)**	**(264,773)**

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	**(47,660)**	**(40,928)**	**(22,935)**	**(111,523)**
New financial assets originated or purchased	(19,928)	(762)	(907)	**(21,597)**
Assets repaid	47,660	40,367	20,253	**108,280**
Transfer to Stage 1	(11,811)	6,493	5,318	**–**
Transfer to Stage 2	290	(1,005)	715	**–**
Transfer to Stage 3	93	15,613	(15,706)	**–**
Net remeasurement of loss allowance	(29,664)	(40,434)	(15,261)	**(85,359)**
Foreign exchange revaluation effect on ECL	1,640	3,906	1,743	**7,289**
Write-offs	–	–	17,499	**17,499**
Balance at 31 December 2022	**(59,380)**	**(16,750)**	**(9,281)**	**(85,411)**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

	31 December 2022 Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at 1 January	**(79,315)**	**–**	–	**(79,315)**
New financial assets originated or purchased	(5,928)	–	–	**(5,928)**
Transfer to Stage 1	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**
Net remeasurement of loss allowance	24,666	–	–	**24,666**
Balance at 31 December 2022	**(60,577)**	**–**	**–**	**(60,577)**

The following table provides reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the ‘impairment losses on debt financial assets’ and ‘impairment losses on loan commitments and financial guarantees’ line items in the statement of profit or loss and other comprehensive income.

Reconciliation for the year ended 31 December 2023:

	Cash and cash equivalents	Loans and advances to banks at amort cost	Loans to customers at amort. cost corporate customers	Loans to customers t amort. cost - retai customers	Debt investment securities at FVOCI	Other assets	Total
Net remeasurement of loss allowance and repayments	1,101	16,597	177,613	(7,384)	17,500	–	**205,427**
New financial assets originated or purchased	(284)	(21,472)	(25,206)	(24,925)	(27,708)	–	**(99,595)**
Subtotal	**817**	**(4,875)**	**152,407**	**(32,309)**	**(10,208)**	**–**	**105,832**
Recoveries of amounts previously written off	–	–	–	48,754	–	4,291	**53,045**
Total	**817**	**(4,875)**	**152,407**	**16,445**	**(10,208)**	**4,291**	**158,877**

Reconciliation for the year ended 31 December 2022:

	Cash and cash equivalents	Loans and advances to banks at amort cost	Loans to customers at amort. cost corporate customers	Loans to customers at amort. cost - retail customers	Debt investment securities at FVOCI	Other assets	Total
Net remeasurement of loss allowance and repayments	1,564	28,886	123,647	22,921	24,666	-	**201,684**
New financial assets originated or purchased	(1,101)	(6,862)	(127,248)	(21,597)	(5,928)	-	**(162,736)**
Subtotal	**463**	**22,024**	**(3,601)**	**1,324**	**18,738**	-	**38,948**
Recoveries of amounts previously written off	–	–	72,238	3,402	–	**(4,649)**	**70,991**
Total	**463**	**22,024**	**68,637**	**4,726**	**18,738**	**(4,649)**	**109,939**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

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 were as follows:

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers – gross carrying amount				
Balance at 1 January	**28,493,196**	**–**	**112,326**	**28,605,522**
New financial assets originated or purchased	5,627,529	–	–	**5,627,529**
Fully or partially repaid	(14,580,542)	–	(102,792)	**(14,683,334)**
Other changes	1,146,250	–	–	**1,146,250**
Foreign exchange revaluation effect	366,104	–	272	**366,375**
Balance at 31 December 2023	**21,052,536**	**–**	**9,806**	**21,062,342**

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost - retail customers – gross carrying amount				
Balance at 1 January	**23,320,720**	**290,642**	**176,350**	**23,787,712**
New financial assets originated or purchased	9,094,688	4,547	–	**9,099,235**
Fully or partially repaid	(3,521,429)	(38,392)	(27,661)	**(3,587,482)**
Transfer to Stage 1	141,131	(56,682)	(84,449)	**–**
Transfer to Stage 2	(71,267)	77,510	(6,243)	**–**
Transfer to Stage 3	(42,738)	(40,952)	83,690	**–**
Other changes	330,804	9,891	2,231	**342,926**
Foreign exchange revaluation effect	95,279	4,298	906	**100,483**
Write-offs	–	–	(29,601)	**(29,601)**
Balance at 31 December 2023	**29,347,188**	**250,862**	**115,223**	**29,713,273**

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:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers – gross carrying amount				
Balance at 1 January	**21,116,594**	**–**	**445,687**	**21,562,281**
New financial assets originated or purchased	14,883,702	–	–	**14,883,702**
Fully or partially repaid	(21,116,594)		(445,687)	**(21,562,281)**
Other changes	15,309,173	–	137,033	**15,446,206**
Foreign exchange revaluation effect	(1,699,679)	–	(24,707)	**(1,724,386)**
Balance at 31 December 2022	**28,493,196**	**–**	**112,326**	**28,605,522**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost - retail customers – gross carrying amount				
Balance at 1 January	**18,671,996**	**501,353**	**174,758**	**19,348,107**
New financial assets originated or purchased	8,419,588	9,465	2,527	**8,431,580**
Fully or partially repaid	(18,671,995)	(497,959)	(160,774)	**(19,330,728)**
Transfer to Stage 1	122,979	(76,624)	(46,355)	**–**
Transfer to Stage 2	(89,401)	95,637	(6,236)	**–**
Transfer to Stage 3	(6,279)	(154,794)	161,073	**–**
Other changes	15,606,907	444,207	97,605	**16,148,719**
Foreign exchange revaluation effect	(733,075)	(30,643)	(28,749)	**(792,467)**
Write-offs	–	–	(17,499)	**(17,499)**
Balance at 31 December 2022	**23,320,720**	**290,642**	**176,350**	**23,787,712**

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 31 December 2023. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The Bank does not have internal credit grading system to evaluate credit quality of retail loans to customers and manages credit risk based on information about overdue days.

The credit quality of corporate customers is managed by internal rating system, as described below, and based on these internal ratings the Bank classifies its corporate loans per stage 1, stage 2 and stage 3.

Internal ratings are derived from a comprehensive assessment of two core aspects:

- Financial assessment: The financial evaluation hinges on analysis of financial statements, notably the balance sheet and income statement. This assessment includes Debt Coverage, Operational Evaluation, Liquidity, and Capital Structure.
- Business assessment: Different factors such as Industry Risk, Company Standing, and other pertinent criteria are considered.

The inputs of financial assessments affect determination of internal ratings more significantly than business assessments.

Internal ratings corresponding to [1-5.5] and [5.6-10] indicates good and average financial assessment respectively for corporate customers.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

Explanation of the terms: Stage 1, Stage 2, Stage 3 are included in Note 4(e)(iv).

	31 December 2023			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and cash equivalents				
Rated B- to BB-	1,184	–	–	**1,184**
Not rated	4,843,475	–	–	**4,843,475**
	4,844,659	**–**	**–**	**4,844,659**
Loss allowance	**(284)**	**–**	**–**	**(284)**
Carrying amount	**4,844,375**	**–**	**–**	**4,844,375**
Loans and advances to banks at amortised cost				
Rated A+	122,815	–	–	**122,815**
Rated B+ to BB-	9,782,638	–	–	**9,782,638**
Not rated	6,798,689	–	–	**6,798,689**
	16,704,142	**–**	**–**	**16,704,142**
Loss allowance	**(21,472)**	**–**	**–**	**(21,472)**
Carrying amount	**16,682,670**	**–**	**–**	**16,682,670**
Loans to customers at amortised cost – corporate customers				
Loans without individual signs of impairment				
- With internal rating 1 - 5.5	20,886,640	–	–	**20,886,640**
- With internal rating 5.6 - 10	165,896	–	–	**165,896**
Impaired loans	–	–	9,806	**9,806**
	21,052,536	**–**	**9,806**	**21,062,342**
Loss allowance	**(106,173)**	**–**	**(8,146)**	**(114,319)**
Carrying amount	**20,946,363**	**–**	**1,660**	**20,948,023**
Loans to customers at amortised cost – retail customers				
- Not overdue	29,272,320	186,658	–	**29,458,978**
- Overdue less than 30 days	74,868	6,537	–	**81,405**
- Overdue 31-90 days	–	57,667	–	**57,667**
- Overdue 91-180 days	–	–	55,400	**55,400**
- Overdue 181-270 days	–	–	34,565	**34,565**
- Overdue more than 271 days	–	–	25,258	**25,258**
	29,347,188	**250,862**	**115,223**	**29,713,273**
Loss allowance	**(68,372)**	**(10,399)**	**(9,940)**	**(88,711)**
Carrying amount	**29,278,816**	**240,463**	**105,283**	**29,624,562**
Debt investment securities at FVOCI				
- Rated AA to AAA	9,390,638	–	–	**9,390,638**
- Rated B+ to BB-	22,202,128	–	–	**22,202,128**
	31,592,766	**–**	**–**	**31,592,766**
Loss allowance	**(70,785)**	**–**	**–**	**(70,785)**
Carrying amount– fair value	**31,592,766**	**–**	**–**	**31,592,766**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

	31 December 2023			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Loans and Credit line commitment				
− Not overdue	5,520,089	–	–	**5,520,089**
Carrying amount	**5,520,089**	**–**	**–**	**5,520,089**
Credit card commitment				
− Not overdue	1,753,153	–	–	**1,753,153**
Carrying amount	**1,753,153**	**–**	**–**	**1,753,153**
Guarantees and letter of credit				
− Not overdue	1,699,708	–	–	**1,699,708**
Carrying amount	**1,699,708**	**–**	**–**	**1,699,708**

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 31 December 2022.

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impared	Lifetime ECL credit-impaired	
Cash and cash equivalents				
Rated B to BBB-	964	–	–	**964**
Not rated	12,025,580	–	–	**12,025,580**
	12,026,544	**–**	**–**	**12,026,544**
Loss allowance	**(1,101)**	**–**	**–**	**(1,101)**
Carrying amount	**12,025,443**	**–**	**–**	**12,025,443**
Loans and advances to banks at amortised cost				
Rated A+	65,278	–	–	**65,278**
Rated B- to B+	3,939,715	–	–	**3,939,715**
Not rated	4,915,911	50,407	–	**4,966,318**
	8,920,904	**50,407**	**–**	**8,971,311**
Loss allowance	**(9,960)**	**(6,637)**	**–**	**(16,597)**
Carrying amount	**8,910,944**	**43,770**	**–**	**8,954,714**
Loans to customers at amortised cost – corporate customers				
Loans without individual signs of impairment				
- With internal rating 1 - 5.5	28,426,033	–	–	**28,426,033**
- With internal rating 5.6 - 10	67,163	–	–	**67,163**
Impaired loans	–	–	112,326	**112,326**
	28,493,196	**–**	**112,326**	**28,605,522**
Loss allowance	**(241,392)**	**–**	**(23,381)**	**(264,773)**
Carrying amount	**28,251,804**	**–**	**88,945**	**28,340,749**

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

Loans to customers at amortised cost – retail customers *				
- Not overdue	23,283,209	208,820	–	**23,492,029**
- Overdue less than 30 days	37,511	13,319	–	**50,830**
- Overdue 31-90 days	–	68,503	–	**68,503**
- Overdue 91-180 days	–	–	149,835	**149,835**
- Overdue 181-270 days	–	–	3,538	**3,538**
- Overdue more than 271 days	–	–	22,977	**22,977**
	23,320,720	**290,642**	**176,350**	**23,787,712**
Loss allowance	**(59,380)**	**(16,750)**	**(9,281)**	**(85,411)**
Carrying amount	**23,261,340**	**273,892**	**167,069**	**23,702,301**
Debt investment securities at FVOCI				
- Rated B- to B+	18,411,577	–	–	**18,411,577**
	18,411,577	–	–	**18,411,577**
Loss allowance	**(60,577)**	–	–	**(60,577)**
Carrying amount– fair value	**18,411,577**	–	–	**18,411,577**
Loans and Credit line commitment				
- Not overdue	4,709,035	–	–	**4,709,035**
Carrying amount	**4,709,035**	**–**	**–**	**4,709,035**
Credit card commitment				
- Not overdue	1,716,652	–	–	**1,716,652**
Carrying amount	**1,716,652**	**–**	**–**	**1,716,652**
Guarantees and letter of credit				
- Not overdue	1,209,370	–	–	**1,209,370**
Carrying amount	**1,209,370**	**–**	**–**	**1,209,370**

* Expected credit losses under IFRS 9 for loans to customers include ECL for undrawn loan commitments.

Collateral held and other credit enhancements

At 31 December 2023 and 31 December 2022 the Bank had financial instruments for which no loss allowance is recognised because of collateral.

	Exposure as at 31 December 2023	**Exposure as at 31 December 2022**
Amounts receivable under reverse repurchase agreements	5,441,127	6,466,185
Loans to corporate customers	8,726,762	5,774,243
Loans to retail customers	731,709	550,222

During the period, there was no change in the Bank's collateral policies.

Concentrations of credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2023	31 December 2022
Assets		
Cash and cash equivalents	4,844,375	12,025,443
Amounts receivable under reverse repurchase agreements	5,441,127	6,466,185
Loans and advances to banks	16,682,670	8,954,714
Loans to customers	50,572,585	52,043,050
Investment securities	31,610,283	18,429,094
Other financial assets	131,751	134,942
Total maximum exposure	**109,282,791**	**98,053,428**

Collateral generally is not held against investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 13.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 26.

As at 31 December 2023 the Bank has two debtors or groups of connected debtors (as at 31 December 2022: two), credit risk to whom regarding exposures of loans and advances to Central Bank of Armenia and Government securities of the Republic of Armenia exceeded 10% maximum credit risk exposure. The credit risk exposure for these counterparties as at 31 December 2023 is AMD 29,318,582 thousand (as at 31 December 2022: AMD 31,824,062 thousand).

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.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of 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 transitions upon the counterparty’s failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(thousands of Armenian drams)

24. Risk management (continued)

(b) Financial risk review (continued)

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

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	5,441,127	–	5,441,127	5,441,127	–
Total financial assets	**5,441,127**	**–**	**5,441,127**	**5,441,127**	**–**

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

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	6,466,185	–	6,466,185	6,466,185	–
Total financial assets	**6,466,185**	**–**	**6,466,185**	**6,466,185**	**–**

(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 debt 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, whilst optimizing the return on risk.

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

(thousands of Armenian drams)

24. Risk management (continued)

(c) Market risk (continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows as at 31 December 2023:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2023							
ASSETS							
Cash and cash equivalents	–	–	–	–	–	6,268,266	6,268,266
Amounts receivable under reverse repurchase agreements	5,441,127	–	–	–	–	–	5,441,127
Loans and advances to banks	9,346,526	–	–	2,016,711	122,815	5,196,618	16,682,670
Loans to customers	7,296,180	6,367,062	16,932,305	18,958,310	1,018,728	–	50,572,585
Investment securities	9,897,286	2,559,232	908,840	16,323,269	1,904,139	17,517	31,610,283
Other financial assets	–	–	–	–	–	131,751	131,751
	31,981,119	**8,926,294**	**17,841,145**	**37,298,290**	**3,045,682**	**11,614,152**	**110,706,682**
LIABILITIES							
Loans and balances from banks	–	16,954	14,571	65,998	–	–	97,523
Current accounts and deposits from customers	18,998,515	8,023,044	20,704,207	18,949,965	4,806	7,151,196	73,831,733
Lease liability	10,056	10,322	21,745	248,618	62,538	–	353,279
Other borrowed funds	17,719	18,374	37,803	139,776	65,277	–	278,949
Subordinated loans from Parent	107,186	–	–	6,303,971	–	–	6,411,157
Other financial liabilities	–	–	–	–	–	713,237	713,237
	19,133,476	**8,068,694**	**20,778,326**	**25,708,328**	**132,621**	**7,864,433**	**81,685,878**
	12,847,643	**857,600**	**(2,937,181)**	**11,589,962**	**2,913,061**	**3,749,719**	**29,020,804**

(thousands of Armenian drams)

24. Risk management (continued)

(c) Market risk (continued)

A summary of the interest gap position for major financial instruments is as follows as at 31 December 2022:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2022							
ASSETS							
Cash and cash equivalents	–	–	–	–	–	13,015,224	13,015,224
Amounts receivable under reverse repurchase agreements	6,466,185	–	–	–	–	–	6,466,185
Loans and advances to banks	1,966,880	1,962,875	–	–	–	5,024,959	8,954,714
Loans to customers	6,374,108	6,047,803	21,839,000	16,886,903	895,236	–	52,043,050
Investment securities	12,024	3,826,556	2,891,604	10,596,878	1,084,515	17,517	18,429,094
Other financial assets	–	–	–	–	–	134,942	134,942
	14,819,197	**11,837,234**	**24,730,604**	**27,483,781**	**1,979,751**	**18,192,642**	**99,043,209**
LIABILITIES							
Loans and balances from banks	–	3,099,938	8,429	33,715	–	–	3,142,082
Current accounts and deposits from customers	17,851,372	9,304,451	15,748,210	12,322,233	4,336	6,553,704	61,784,306
Lease liability	8,659	8,776	18,500	214,835	138,337	–	389,107
Other borrowed funds	18,878	20,567	42,126	179,049	38,383	–	299,003
Subordinated loans from Parent	101,729	–	–	5,984,627	–	–	6,086,356
Other financial liabilities	–	–	–	–	–	424,602	424,602
	17,980,638	**12,433,732**	**15,817,265**	**18,734,459**	**181,056**	**6,978,306**	**72,125,456**
	(3,161,441)	**(596,498)**	**8,913,339**	**8,749,322**	**1,798,695**	**11,214,336**	**26,917,753**

Average effective interest rates

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

	Average effective interest rate, %					
	31 December 2023			31 December 2022		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing liabilities						
Amounts receivable under reverse repurchase agreements	9.4%	4.5%	–	11.0%	2.5%	–
Loans and advances to banks	9.5%	5.5%	–	–	4.8%	–
Loans to customers	11.9%	7.5%	5.1%	11.5%	7.5%	5.2%
Investment securities	10.4%	5.1%	3.5%	9.5%	–	–
Interest bearing liabilities						
Loans and balances from banks	8.2%	–	–	10.7%	–	–
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.7%	0.8%	–	2.0%	0.5%	–
- Term deposits	7.3%	5.1%	2.3%	8.2%	4.3%	1.8%
Other borrowed funds	7.0%	–	–	8.0%	–	–
Subordinated loans frorn parent	–	6.5%	6.5%	–	6.5%	6.5%

(thousands of Armenian drams)

24. Risk management (continued)

(c) Market risk (continued)

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the fixed and floating rate non-trading financial assets held and liabilities at 31 December. The sensitivity of equity is calculated by revaluing fixed rate 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.

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets at FVOCI and non-trading financial assets due to changes in the interest rates based on positions existing at 31 December 2023 and 31 December 2022 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	31 December 2023		31 December 2022	
	Net profit or loss	**Equity**	**Net profit or loss**	**Equity**
100 bp parallel rise	81,085	(425,037)	(16,806)	(330,348)
100 bp parallel fall	(81,085)	425,037	16,806	330,348

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

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

	AMD	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
ASSETS						
Cash and cash equivalents	2,767,421	2,959,430	391,392	136,026	13,997	**6,268,266**
Amounts receivable under reverse repurchase agreements	2,403,106	3,038,021	–	–	–	**5,441,127**
Loans and advances to banks	6,350,696	10,157,400	174,574	–	–	**16,682,670**
Loans to customers	32,142,747	14,625,888	3,803,950	–	–	**50,572,585**
Investment securities	22,219,645	8,055,053	1,335,585	–	–	**31,610,283**
Other financial assets	111,175	20,554	22	–	–	**131,751**
Total assets	**65,994,790**	**38,856,346**	**5,705,523**	**136,026**	**13,997**	**110,706,682**
LIABILITIES						
Loans and balances from banks	97,523	–	–		–	**97,523**
Current accounts and deposits from customers	36,056,818	36,333,471	1,433,913	2,531	5,000	**73,831,733**
Lease liability	353,279	–	–	–	–	**353,279**
Other borrowed funds	278,949	–	–	–	–	**278,949**
Subordinated loans from Parent	–	2,140,642	4,270,515	–	–	**6,411,157**
Other financial liabilities	330,700	321,781	51,525	9,231	–	**713,237**
Total liabilities	**37,117,269**	**38,795,894**	**5,755,953**	**11,762**	**5,000**	**81,685,878**
Net position	**28,877,521**	**60,452**	**(50,430)**	**124,264**	**8,997**	**29,020,804**

(thousands of Armenian drams)

24. 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	USD	EUR	RUB	Other currencies	Total
ASSETS						
Cash and cash equivalents	2,796,381	7,847,615	2,348,190	3,029	20,009	**13,015,224**
Amounts receivable under reverse repurchase agreements	2,529,407	3,936,778	–	–	–	**6,466,185**
Loans and advances to banks	695,000	8,065,932	193,782	–	–	**8,954,714**
Loans to customers	32,735,609	16,536,764	2,770,677	–	–	**52,043,050**
Investment securities	18,429,094	–	–	–	–	**18,429,094**
Other financial assets	98,634	36,279	29	–	–	**134,942**
Total assets	**57,284,125**	**36,423,368**	**5,312,678**	**3.029**	**20,009**	**99,043,209**
LIABILITIES						
Loans and balances from banks	3,142,082	–	–	–	–	**3,142,082**
Current accounts and deposits from customers	25,988,888	34,441,194	1,337,875	1,132	15,217	**61,784,306**
Lease liability	389,107	–	–	–	–	**389,107**
Other borrowed funds	299,003	–	–	–	–	**299,003**
Subordinated loans from Parent	–	2,081,283	4,005,073	–	–	**6,086,356**
Other financial liabilities	326,561	97,650	391	–	–	**424,602**
Total liabilities	**30,145,641**	**36,620,127**	**5,343,339**	**1,132**	**15,217**	**72,125,456**
Net position	**27,138,484**	**(196,759)**	**(30,661)**	**1,897**	**4,792**	**26,917,753**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2023 and 31 December 2022 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis 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.

	31 December 2023	31 December 2022
10% appreciation of USD against AMD	6,045	(19,676)
10% appreciation of EUR against AMD	(5,043)	(3,066)
10% appreciation of RUB against AMD	12,426	189

A strengthening of the AMD against the above currencies at 31 December 2023 and 31 December 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 remain constant.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty 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 honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the ALCO Committee.

The Bank seeks to actively support a diversified and stable funding base comprising long-term 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 smoothly to unforeseen liquidity requirements.

(thousands of Armenian drams)

24. Risk management (continued)

(d) Liquidity risk (continued)

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation there to;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- 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 Unit 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 Unit then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances 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 Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

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 outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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

	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 outflow	Carrying amount
31 December 2023							
Loans and balances from banks	–	–	19,284	17,865	76,046	113,195	97,523
Current accounts and deposits from customers	20,719,957	5,633,719	8,503,688	21,907,571	20,537,431	77,302,366	73,831,733
Lease liability	6,372	12,745	19,117	38,697	396,448	473,379	353,279
Other borrowed funds	5,184	15,863	22,893	45,432	238,003	327,375	278,949
Subordinated loans from Parent	–	204,054	–	207,253	7,127,349	7,538,656	6,411,157
Other financial liabilities	418,638	–	–	–	294,599	713,237	713,237
Total	**21,150,151**	**5,866,381**	**8,564,982**	**22,216,818**	**28,669,876**	**86,468,208**	**81,685,878**
Credit related commitments	**8,972,950**	**–**	**–**	**–**	**–**	**8,972,950**	**8,972,950**

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

	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 outflow	Carrying amount
31 December 2022							
Loans and balances from banks	–	–	3,217,277	10,005	36,671	3,263,953	3,142,082
Current accounts and deposits from customers	16,179,838	8,474,062	9,694,430	16,522,992	12,881,928	63,753,250	61,784,306
Lease liability	6,186	12,374	18,560	37,576	473,173	547,869	389,107
Other borrowed funds	6,590	16,044	26,204	52,265	250,062	351,165	299,003
Subordinated loans from Parent	–	192,620	–	196,754	7,157,664	7,547,038	6,086,356
Other financial liabilities	–	–	–	–	424,602	424,602	424,602
Total	**16,192,614**	**8,695,100**	**12,956,471**	**16,819,592**	**21,224,100**	**75,887,877**	**72,125,456**
Credit related commitments	**7,635,057**	**–**	**–**	**–**	**–**	**7,635,057**	**7,635,057**

(thousands of Armenian drams)

24. Risk management (continued)

(d) Liquidity risk (continued)

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates.

The classification of principal balance of these deposits in accordance with their stated maturity dates is presented below:

	31 December 2023	31 December 2022
Less than 1 month	2,119,448	2,643,959
From 1 to 3 months	3,625,655	3,001,799
From 3 to 12 months	16,391,855	18,633,086
More than 1 year	8,881,624	2,776,868
	31,018,582	**27,055,712**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	6,268,266	–	–	–	–	–	–	6,268,266
Amounts receivable under reverse repurchase agreements	5,441,127	–	–	–	–	–	–	5,441,127
Loans and advances to banks	13,691,142	7,002	–	2,016,711	–	967,815		16,682,670
Loans to customers	528,281	4,935,079	8,463,123	16,726,190	19,896,664	–	23,248	50,572,585
Investment securities	6,051,076	3,846,210	3,468,072	16,323,269	1,904,139	17,517	–	31,610,283
Right-of-use assets	–	–	–	–	–	416,504	–	416,504
Property, equipment and intangible assets	–	–	–	–	–	2,849,472	–	2,849,472
Repossessed assets	–	–	–	–	–	147,727	–	147,727
Other assets	65,414	–	–	–	–	271,141	–	336,555
TOTAL ASSETS	**32,045,306**	**8,788,291**	**11,931,195**	**35,066,170**	**21,800,803**	**4,670,176**	**23,248**	**114,325,189**
LIABILITIES								
Loans and balances from banks	–	–	31,525	65,998	–	–	–	97,523
Current accounts and deposits from customers	20,633,809	5,395,018	28,818,398	18,979,612	4,896	–	–	73,831,733
Current tax liabilities	–	–	201,863	–	–	–	–	201,863
Lease liability	3,256	6,800	32,067	248,618	62,538	–	–	353,279
Other liabilities	418,638	–	–	–	–	368,463	–	787,101
Other borrowed funds	4,757	12,962	56,177	139,776	65,277	–	–	278,949
Deferred tax liabilities	–	–	–	–	–	94,640	–	94,640
Subordinated loans from Parent	–	107,186	–	6,303,971	–	–	–	6,411,157
TOTAL LIABILITIES	**21,060,460**	**5,521,966**	**29,140,030**	**25,737,975**	**132,711**	**463,103**	–	**82,056,245**
Net position	**10,984,846**	**3,266,325**	**(17,208,835)**	**9,328,195**	**21,668,092**	**4,207,073**	**23,248**	**32,268,944**

(thousands of Armenian drams)

24. Risk management (continued)

(d) Liquidity risk (continued)

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

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	13,015,224	–	–	–	–	–	–	13,015,224
Amounts receivable under reverse repurchase agreements	6,466,185	–	–	–	–	–	–	6,466,185
Loans and advances to banks	6,184,053	3,738	2,006,645	–	–	760,278	–	8,954,714
Loans to customers	374,321	4,338,427	10,842,500	18,998,781	17,368,621	–	120,400	52,043,050
Investment securities	–	12,024	6,718,160	10,596,878	1,084,515	17,517	–	18,429,094
Right-of-use assets	–	–	–	–	–	484,917	–	484,917
Property, equipment and intangible assets	–	–	–	–	–	2,734,364	–	2,734,364
Repossessed assets	–	–	–	–	–	109,052	–	109,052
Other assets	47,218	–	–	–	–	263,195	–	310,413
TOTAL ASSETS	**26,087,001**	**4,354,189**	**19,567,305**	**29,595,659**	**18,453,136**	**4,369,323**	**120,400**	**102,547,013**
LIABILITIES								
Loans and balances from banks	–	–	3,108,367	33,715	–	–	–	3,142,082
Current accounts and deposits from customers	16,091,848	8,278,076	25,058,145	12,351,811	4,426	–	–	61,784,306
Current tax liabilities	–	–	179,530	–	–			179,530
Lease liability	2,751	5,908	27,276	214,835	138,337	–	–	389,107
Other liabilities	–	–	–	–	–	486,934		486,934
Other borrowed funds	6,156	12,722	62,693	179,049	38,383	–	–	299,003
Deferred tax liabilities	–	–	–	–	–	8,471	–	8,471
Subordinated loans from Parent	–	101,729	–	5,984,627	–	–	–	6,086,356
TOTAL LIABILITIES	**16,100,755**	**8,398,435**	**28,436,011**	**18,764,037**	**181,146**	**495,405**	**–**	**72,375,789**
Net position	**9,986,246**	**(4,044,246)**	**(8,868,706)**	**10,831,622**	**18,271,990**	**3,873,918**	**120,400**	**30,171,224**

Overdue column represents only past due amounts of assets per contractual terms, but not the whole carrying value of the instruments on which delinquencies occurred. For more details about performance and quality of assets please see Note 13.

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 Armenia, CBA, sovereign bonds 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 ratio of highly liquid assets to demand liabilities at 31 December 2023 is 254.44% (31 December 2022: 195.08%).

The above ratio is also used to measure compliance with the liquidity limit established by the CBA (60% minimum).

(thousands of Armenian drams)

24. Risk management (continued)

(c) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

25 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 credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, banks have to maintain a ratio of Tier 1 core, Tier 1 and Total regulatory capital (2022: Tier 1 and Total capital) to risk weighted assets (statutory capital ratio) above the prescribed minimum level 6.2%, 8.3% and 11% (2022: 9% and 12% respectively). The Bank is in compliance with the statutory capital ratios as at 31 December 2023 and 31 December 2022.

Starting from June 2023 the composition of Tier 1 and Tier 2 capital elements has been changed and these elements include FVOCI revaluation reserve which transferred from Tier 2 to Tier 1, and credit loss general reserve which added in Tier 2 with a maximum level of 1.25% included in the calculation of risk weighted assets.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2023 and 31 December 2022:

	31 December 2023	31 December 2022
Tier 1 capital		
Share capital	26,249,100	26,249,100
Share premium	257,149	257,149
General reserve	128,028	128,028
Retained earnings	5,201,738	3,719,027
Fair value reserve for investment securities	(183,032)	–
Deductions	(43,324)	(900,097)
Total tier 1 capital	**31,609,659**	**29,453,207**
Tier 2 capital		
Credit loss general reserve	637,343	–
Fair value reserve for investment securities	–	(718,429)
Subordinated loans	3,478,129	3,580,994
Total tier 2 capital	**4,115,472**	**2,862,565**
Total capital	**35,725,131**	**32,315,772**
Total risk weighted assets	**93,306,491**	**87,200,309**
Total capital expressed as a percentage of risk-weighted assets (Total capital ratio)	**38.29%**	**37.06%**
Total tier 1 core capital expressed as a percentage of risk-weighted assets (Tier 1 core capital ratio)	**33.88%**	–
Total tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital ratio)	**33.88%**	**33.78%**

(thousands of Armenian drams)

25. Capital management (continued)

The 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 unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

26 Commitments and Contingencies

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 one year.

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 recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2023	**31 December 2022**
Contracted amount		
Loan and credit line commitments	5,520,089	4,709,035
Credit card commitments	1,753,153	1,716,652
Guarantees and letters of credit	1,699,708	1,209,370
	8,972,950	**7,635,057**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2023 of these credit related commitments, AMD 5,204,822 thousand (31 December 2022: AMD 5,049,300 thousand) are to eighteen customers (31 December 2022: fourteen customers). This exposure represents a significant credit risk exposure to the Bank.

(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 up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 110,000 thousand insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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.

(thousands of Armenian drams)

27 Related party transactions

(a) Control relationships

The Bank's parent Company is “Byblos Bank S.A.L”, which owns 100 % of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

(b) Transactions with the members of the Board of Directors and the Management Committee

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

	1 January 2023 31 December 2023	**1 January 2022 31 December 2022**
Short-term employee benefits	366,012	310,463

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

	31 December 2023	**Average effective interest rate, %**	**31 December 2022**	**Average effective interest rate, %**
Statement of financial position				
Loans issued (gross)	339,140	10.77%	292,914	10.18%
Expected credit loss allowance	(634)		(822)	
Deposits received	334,077	3.29%	219,054	1.81%

Loans to related parties are in Armenian Dram and foreign currency and repayable from 1 to 20 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in Note 13(b).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the year ended 31 December 2023 and 31 December 2022 are as follows:

	1 January 2023 31 December 2023	**1 January 2022 31 December 2022**
Profit or loss		
Interest income	35,706	28,325
Interest expense	(7,779)	(3,659)
Credit (loss)/release	188	(128)

(thousands of Armenian drams)

27. Related party transactions (continued)

(c) Transactions with other related parties

Other related parties include the Parent company and its fellow subsidiaries and non-controlling shareholders. 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 company	Average effective interest rate, %	Other subsidiaries of the parent company	Average effective interest rate, %	Other companies related with the parent company	Average effective interest rate, %	Total
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	455,669		4,078		–		**459,747**
- in EUR	167,381		2,943		–		**170,324**
- in other currencies	2,845		–		–		**2,845**
Liabilities							
Current accounts and deposits from customers							
- in USD	–		–		5,640,854	5.53%	**5,640,854**
Other borrowed funds							
- in USD	–		–		–	–	**–**
Subordinated loans from Parent							
- in USD	2,140,643	6.52%	–		–		**2,140,643**
- in EUR	4,270,514	6.52%	–		–		**4,270,514**
- in EUR							
Other liabilities							
- in USD	57,278		–		–		**57,278**
Profit or loss							
Interest income	–		–		–		**–**
Interest expense	(392,574)		–		(290,142)		**(682,716)**
Fee and commission income	11,059		–		–		**11,059**
Fee and commission expense	(25,762)		(42)		–		**(25,804)**
Professional services	(94,685)		–		–		**(94,685)**

(thousands of Armenian drams)

27. 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 3131 December 2022 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total
		Average effective interest rate, %		Average effective interest rate, %		Average effective interest rate, %	
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	976,755		3,964		–		**980,719**
- in EUR	466,284		1,157,516		–		**1,623,800**
- in other currencies	16,982		–		–		**16,982**
Liabilities							
Current accounts and deposits from customers							
- in USD	–		–		5,221,836	5.53%	**5,221,836**
Other borrowed funds							
- in USD	–		–		–	–	**–**
Subordinated loans from Parent							
- in USD	2,081,282	6.52%	–		–		**2,081,282**
- in EUR	4,005,074	6.52%	–		–		**4,005,074**
Other liabilities							
- in USD	26,045		–		–		**26,045**
Profit or loss							
Interest income	327		–				**327**
Interest expense	(429,267)		–		(306,976)		**(736,243)**
Fee and commission income	8,786		–		–		**8,786**
Fee and commission expense	(15,170)		(104)		–		**(15,274)**
Professional services	(28,800)		–		–		**(28,800)**

Cash and cash equivalents held with related parties are not secured.

28 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.

(thousands of Armenian drams)

28. Fair values of financial instruments (continued)

The estimated fair values of all financial instruments except for AMD denominated loans to customers and current accounts and term deposits from customers as at 31 December 2023 and 31 December 2022 approximate their carrying amounts.

	31 December 2023		31 December 2022	
	Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Loans to customers	48,587,414	50,572,585	51,703,411	52,043,050
Current accounts and deposits from customers	73,615,402	73,831,733	61,649,351	61,784,306

As at 31 December 2023 the fair value measurements of current accounts and term deposits from customers are categorized into Level 2 in the fair value hierarchy (31 December 2022: Level 2), loans to customers are categorized into Level 3 (31 December 2022: Level 2).

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

	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities				
- Debt instruments at FVOCI	9,390,638	22,202,128	–	**31,592,766**
- Corporate shares	–	–	17,517	**17,517**
- Embedded conversion option			–	**–**

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 categorized. The amounts are based on the values recognized in the statement of financial position:

	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities				
- Debt instruments at FVOCI	–	18,411,577	–	**18,411,577**
- Corporate shares	–	–	17,517	**17,517**
- Embedded conversion option			–	**–**

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.