Converse Bank Closed Joint-Stock Company

Consolidated financial statements

Period ended 31 December 2022

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as of 31 December 2022

(thousands of Armenian drams)

	Notes	*31 December 2022*	*31 December 2021*
Assets			
Cash and cash equivalents	6	50,293,614	56,470,480
Trading securities	7	823,400	854,438
Amounts due from banks	8	47,102,327	21,813,642
Derivative financial assets	16	197,014	6,862
Loans and advances to customers	9	223,808,567	234,288,706
Investment securities	10	125,362,770	40,638,892
Investment securities pledged under repurchase agreements	10	-	9,509,290
Property, plant and equipment and right-of-use assets	11	8,775,211	8,202,522
Intangible assets	12	653,241	567,275
Repossessed assets	13	2,200,230	2,529,398
Current income tax assets	19	-	-
Other assets	14	4,896,376	2,690,295
Total assets		**464,112,750**	**377,571,800**
Liabilities			
Amounts due to banks	15	2,341,009	12,978,711
Derivative financial liabilities	16	-	48,311
Amounts due to customers	17	341,850,325	261,422,606
Debt securities issued	18	14,692,148	17,235,691
Current income tax liabilities	19	3,260,111	699,521
Deferred income tax liabilities	19	135,369	904,643
Other borrowed funds	20	34,501,456	29,144,282
Lease liabilities	36	1,521,514	1,440,047
Subordinated debt	21	276,139	336,885
Provisions on commitments and contingencies	22	143,061	149,784
Other liabilities	14	2,683,558	1,610,054
Total liabilities		**401,404,690**	**325,970,535**
Equity	23		
Share capital		19,947,633	19,947,633
Share premium		63,233	63,233
Statutory general reserve		8,848,182	3,848,182
Revaluation surplus for land and buildings		3,669,287	3,233,483
Revaluation reserve for financial assets at FVOCI		(4,099,566)	(1,170,072)
Retained earnings		34,279,291	25,678,806
Total equity		**62,708,060**	**51,601,265**
Total equity and liabilities		**464,112,750**	**377,571,800**

Signed and authorised for release on behalf of the Management Board of the Bank.

Andranik Grigoryan — Chief Executive Officer – Chairman of Executive Management

Davit Azatyan — Chief Accountant

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of profit and loss

for the period ended 31 December 2022

(thousands of Armenian drams)

	Note	01/10/22-31/12/22	01/01/22-31/12/22	01/10/21-31/12/21	01/01/21-31/12/21
Interest revenue calculated using effective interest rate	24	8,218,001	30,177,374	6,777,110	26,504,995
Other interest revenue	24	25,967	98,043	23,292	97,298
Interest expense	24	(3,576,732)	(14,151,910)	(3,292,747)	(12,212,479)
Net interest income	24	**4,667,236**	**16,123,507**	**3,507,655**	**14,389,814**
Credit loss expense	25	(1,635,264)	(2,274,660)	734,506	(2,765,452)
Net interest income after credit loss expense		**3,031,972**	**13,848,847**	**4,242,161**	**11,624,362**
Fee and commission income	26	2,583,394	7,144,634	1,240,913	4,162,095
Fee and commission expense	26	(966,973)	(2,918,573)	(644,396)	(2,070,411)
Net trading income	27	3,492,436	13,626,696	451,797	1,834,962
Net gain from foreign currency translation		342,845	(1,501,871)	470,638	(444,904)
Gains less losses from investment securities measured at fair value through other comprehensive income		(3,438)	(143,340)	(1,495)	114,973
Other income	28	255,195	868,894	393,305	1,300,275
Non-interest income		**5,703,459**	**17,076,440**	**1,910,762**	**4,896,990**
Personnel expenses	29	(2,342,619)	(7,932,174)	(1,674,170)	(5,946,321)
Depreciation of property and equipment and right-of-use asset	11	(281,682)	(1,143,666)	(327,234)	(1,244,834)
Amortization of intangible assets	12	(17,765)	(64,571)	(11,530)	(49,733)
Administrative and other operating expenses	29	(1,160,616)	(4,001,030)	(916,898)	(3,925,433)
Other impairment and provisions		(5,886)	(5,886)	-	-
Non-interest expense		**(3,808,568)**	**(13,147,327)**	**(2,929,832)**	**(11,166,321)**
Profit before income tax expense		**4,926,863**	**17,777,960**	**3,223,091**	**5,355,031**
Income tax expense	19	(992,341)	(3,746,611)	(605,843)	(1,228,122)
Profit for the year		**3,934,522**	**14,031,349**	**2,617,248**	**4,126,909**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the period ended 31 December 2022

(thousands of Armenian drams)

	Note	*01/10/22-31/12/22*	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Profit for the year		**3,934,522**	**14,031,349**	**2,617,248**	**4,126,909**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
Revaluation of property and equipment		627,598	627,598	-	-
Income tax effect		(112,968)	(112,968)	-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**514,630**	**514,630**	**-**	**-**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Unrealised (losses)/gains on debt securities at FVOCI		(167,064)	(3,799,774)	(144,674)	(914,873)
Realised gains on debt securities at FVOCI transferred to profit or loss		3,438	143,340	1,495	(114,973)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		28,757	83,880	(38,059)	3,394
Income tax effect	19	24,277	643,060	32,622	184,761
Net other comprehensive loss to be reclassified subsequently to profit or loss		**(110,592)**	**(2,929,494)**	**(148,616)**	**(841,691)**
Other comprehensive (loss)/income for the year, net of tax		**404,038**	**(2,414,864)**	**(148,616)**	**(841,691)**
Total comprehensive income for the year		**4,338,560**	**11,616,485**	**2,468,632**	**3,285,218**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the period ended 31 December 2022

(thousands of Armenian drams)

	Note	*Share capital*	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2021		**19,947,633**	**63,233**	**3,627,805**	**(328,381)**	**3,360,688**	**21,645,069**	**48,316,047**
Issue of share capital								-
Distribution to general reserve				220,377			(220,377)	-
Dividends to shareholders							-	-
Transactions with owners		**-**	**-**	**220,377**	**-**	**-**	**(220,377)**	**-**
Profit for the year							4,126,909	4,126,909
Other comprehensive income for the year					(841,691)		-	(841,691)
Total comprehensive income for the year		-	-	-	(841,691)	-	4,126,909	3,285,218
Depreciation of revaluation reserve		-	-	-	-	(127,205)	127,205	-
Balance as at 31 December 2021		**19,947,633**	**63,233**	**3,848,182**	**(1,170,072)**	**3,233,483**	**25,678,806**	**51,601,265**
Balance as at 1 January 2022		19,947,633	63,233	3,848,182	(1,170,072)	3,233,483	25,678,806	51,601,265
Distribution to general reserve				5,000,000			(5,000,000)	-
Dividends to shareholders							(509,690)	(509,690)
Transactions with owners		-	-	5,000,000	-	-	(5,509,690)	(509,690)
Profit for the year							14,031,349	14,031,349
Other comprehensive income for the year					(2,929,494)	514,630	-	(2,414,864)
Total comprehensive income for the year		**-**	**-**	**-**	**(2,929,494)**	**514,630**	**14,031,349**	**11,616,485**
Depreciation of revaluation reserve		-	-	-	-	(78,826)	78,826	-
Balance as at 31 December 2022		**19,947,633**	**63,233**	**8,848,182**	**(4,099,566)**	**3,669,287**	**34,279,291**	**62,708,060**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the period ended 31 December 2022

(thousands of Armenian drams)

	Note	*31 December 2022*	*30 December 2021*
Cash flows from operating activities			
Interest received		31,997,700	25,707,177
Interest paid		(15,129,663)	(11,409,297)
Fees and commissions received		7,144,634	4,162,095
Fees and commissions paid		(2,918,573)	(2,070,411)
Net trading income received		13,640,488	1,963,574
Other income received		906,303	1,223,886
Personnel expenses paid		(7,159,567)	(5,616,708)
Administrative and other operating expenses paid		(3,767,225)	(3,856,793)
Cash flows from operating activities before changes in operating assets and liabilities		**24,714,097**	**10,103,523**
Net (increase)/decrease in operating assets			
Trading securities		199,480	2,527
Amounts due from banks		(33,058,255)	(5,994,818)
Loans and advances to customers		(16,462,547)	(20,454,659)
Repossessed assets		877,561	663,658
Other assets		(2,411,238)	(883,615)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		(8,304,175)	7,929,823
Amounts due to customers		123,282,184	48,335,368
Derivative financial liabilities		(420,780)	84,926
Other liabilities		76,398	79,309
Net cash used in operating activities before income tax		**88,492,725**	**39,866,042**
Income tax paid		(1,424,552)	(137,389)
Net cash used in operating activities		**87,068,173**	**39,728,653**
Cash flows from investing activities			
Purchase of investment securities		(87,034,114)	(20,471,975)
Proceeds from sale and redemption of investment securities		6,005,493	7,541,171
Purchase of property and equipment		682,544	(811,585)
Proceeds from sale of property and equipment		(277,705)	59,800
Purchase of intangible assets		(150,537)	(289,847)
Net cash from / (used) in investing activities		**(80,774,319)**	**(13,972,436)**
Cash flows from financing activities			
Dividents paid to shareholders		(509,690)	-
Proceeds from debt securities issued		8,214,949	8,218,900
Redemption of debt securities issued		(8,735,050)	(11,352,600)
Proceeds from other borrowed funds		11,654,735	10,943,758
Repayment of other borrowed funds		(6,256,980)	(5,190,879)
Repayment of subordinated loans		-	-
Repayment of lease liabilities		(1,211,103)	(581,853)
Net cash from financing activities		**3,156,861**	**2,037,326**
Net increase in cash and cash equivalents		**9,450,715**	**27,793,543**
Cash and cash equivalents at the beginning of the year		56,470,480	33,344,488
Effect of exchange rates changes on cash and cash equivalents		(15,630,746)	(4,659,971)
Effect of expected credit losses on cash and cash equivalents		3,165	(7,580)
Cash and cash equivalents at the end of the year	6	**50,293,614**	**56,470,480**

The accompanying notes form an integral part of these consolidated financial statements.

(thousands of Armenian drams)

1. Principal activities

"Converse Bank" CJSC (the "Bank") is the parent company in the Group. It was formed on 1994 as a closed joint-stock bank under the laws of the Republic of Armenia. The Bank operates under a general banking license issued by the Central Bank of Armenia (the "CBA") on 28 November 1994 and conducts its business under license number 57.

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

The Bank's main office is in Yerevan and its 34 branches are located in Yerevan and in different regions.

As of 31 December 2022, the number of Bank's employees is 864, the number of subsidiary's employees is 20.

Converse Collection was formed as a limited liability company under the laws of the Republic of Armenia on 20 April 2000. The company's principal activity is transportation of cash, cash equivalents and other assets. The company is a subsidiary of the Bank and was consolidated in these financial statements.

As of 31 December 2022, the shareholders of the Bank are:

Shareholder	***31 December 2022, %***	***31 December 2021, %***
Advanced Global Investments LLC	72.89	72.89
Haypost Trust Management BV	22.11	22.11
Mother See of Holy Etchmiadzin	5.00	5.00
Total	**100.0**	**100.0**

The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

Armenian business environment

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

2. Basis of preparation

Statement of compliance

The consolidated financial statements of the Group 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").

(thousands of Armenian drams)

2. Basis of preparation (continued)

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiary's functional and presentation currency is Armenian dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Group. The Group prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These consolidated financial statements are based on the Group's books and records as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

Changes in accounting policies

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. 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. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. 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.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'.

(thousands of Armenian drams)

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Basis of consolidation

Subsidiary, which is entity where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiary is consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group. Subsidiary has a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

(thousands of Armenian drams)

3. Summary of accounting policies

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from banks, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and under IFRS 9 – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), including the part of obligatory reserves and amounts due from other banks, which can be converted into cash at short notice.

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the consolidated statement of financial position. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

Repurchase and reverse repurchase agreements and securities lending

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

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

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

The Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases

i. Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below AMD 500,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. Operating − Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. Finance − Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, presented within Interest revenue calculated using effective interest rate in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Group’s activities. These taxes are included as a component of other expenses in the consolidated statement of comprehensive income.

Property and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation, except land and buildings. The Bank’s buildings are stated at revalued amounts. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at revalued amount. It has unlimited useful life and thus is not depreciated.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Useful life (years)	***Rate (%)***
Buildings	50	2
Computers	3	33.3
Network appliances	8	12.5
Vehicles	8	12.5
Equipment	8	12.5
Other fixed assets	8	12.5

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

Repairs and maintenance are charged to the consolidated statement of comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

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

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

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

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

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

Intangible assets

Intangible assets include computer software, licenses and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Repossessed assets

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Grants

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

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

Share capital

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

Share premium

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

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for investment securities

This reserve records fair value changes in available-for-sale-investments / investments at fair value through other comprehensive income.

Segment reporting

The Group’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the consolidated statement of profit or loss.

Fee and commission income

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

Dividend income

Revenue is recognised when the Group’s right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Armenian drams, which is the Group’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBA exchange rates at 31 December 2022 and 31 December 2021 were AMD 393.57 and AMD 480.14 to 1 USD, respectively.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

3. Significant accounting judgments and estimates

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

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

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method and income approach. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The Group engages independent experts for valuation of its premises.

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 31).

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID-19 pandemic, military conflict and related martial law in Armenia in September – November 2020 may have a significant impact on the Group's ECL measurement. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(thousands of Armenian drams)

4. Segment information

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 31 December 2022 or 31 December 2021.

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

As of 31 December 2022	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	15,098,717	7,634,118	7,444,539	**30,177,374**
Other interest revenue	37,947	17,243	42,853	**98,043**
Interest expense	(4,586,029)	(7,358,306)	(2,207,575)	**(14,151,910)**
Net interest income	**10,550,635**	**293,055**	**5,279,817**	**16,123,507**
Credit loss expense	(897,344)	(1,293,436)	(83,880)	**(2,274,660)**
Fee and commission income	4,408,623	2,644,526	91,485	**7,144,634**
Fee and commission expense	(2,096,528)	(814,082)	(7,963)	**(2,918,573)**
Other non-interest income	6,630,252	7,130,844	(910,717)	**12,850,379**
Non-interest expense	(4,878,747)	(5,338,387)	(2,930,192)	**(13,147,326)**
Segment profit	**13,716,890**	**2,622,521**	**1,438,549**	**17,777,960**
Income tax expense	(2,890,762)	(552,682)	(303,167)	**(3,746,611)**
Profit for the period	**10,826,128**	**2,069,839**	**1,135,383**	**14,031,349**

As of 31 December 2021	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	13,586,816	8,520,505	4,397,674	26,504,995
Other interest revenue	41,459	10,033	45,806	97,298
Interest expense	(3,887,891)	(5,770,013)	(2,554,575)	(12,212,479)
Net interest income	**9,740,384**	**2,760,525**	**1,888,905**	**14,389,814**
Credit loss expense	(1,222,152)	(1,501,948)	(41,352)	(2,765,452)
Fee and commission income	3,421,713	702,461	37,921	4,162,095
Fee and commission expense	(1,758,422)	(311,462)	(527)	(2,070,411)
Other non-interest income	864,893	2,015,336	(74,923)	2,805,306
Non-interest expense	(4,560,372)	(4,919,482)	(1,686,467)	(11,166,321)
Segment profit	**6,486,044**	**(1,254,570)**	**123,557**	**5,355,031**
Income tax expense	(1,483,603)	292,523	(37,042)	(1,228,122)
Profit for the period	**5,002,441**	**(962,047)**	**86,515**	**4,126,909**

(thousands of Armenian drams)

5. Segment information (continued)

The following table presents segment assets of the Group's operating segments:

	As of 31 December 2022				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
Assets	132,087,237	91,721,330	147,146,153	93,158,030	**464,112,750**
Liabilities	157,448,898	184,820,627	51,534,613	7,600,552	**401,404,690**

	As of 31 December 2021				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
Assets	124,456,677	109,832,029	55,102,947	88,180,147	**377,571,800**
Liabilities	119,279,565	142,629,709	59,406,995	4,654,266	**325,970,535**

Interest earning assets include financial assets through profit and loss, investment securities, loans to banks, loans and advances to customers.

Interest bearing financial liabilities include deposit and balances from banks, current accounts and deposits from customers, bonds issued by the Group, subordinated and other borrowings.

Geographic information

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

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the period ended 31 December 2022 or 31 December 2021 are as follows:

As of 31 December 2022	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	3,532,073	-	-	**3,532,073**
Wire transfer fees	292,216	299,922	1,561	**593,699**
Settlement operation	447,502	197,093	89,287	**733,882**
Loan accounts servicing fees	(296,702)	472,349	-	**175,647**
Guarantees and letters of credit	1,201	119,824	-	**121,025**
Other	432,333	1,555,338	637	**1,988,308**
Total revenue from contracts with customers	**4,408,623**	**2,644,526**	**91,485**	**7,144,634**

As of 31 December 2021	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	2,486,435	–	–	**2,486,435**
Wire transfer fees	472,554	246,559	789	**719,902**
Loan accounts servicing fees	79,559	140,479	36,773	**256,811**
Settlement operation	59,589	99,092	–	**158,681**
Guarantees and letters of credit	1,826	87,338	–	**89,164**
Other	321,750	128,993	359	**451,102**
Total revenue from contracts with customers	**3,421,713**	**702,461**	**37,921**	**4,162,095**

(thousands of Armenian drams)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2022	*31 December 2021*
Current accounts with the Central Bank, including obligatory reserves in AMD	25,701,816	41,092,366
Cash on hand	10,595,212	11,421,034
Placements with other banks	14,003,778	3,967,437
Less – allowance for impairment	(7,192)	(10,357)
Cash and cash equivalents	**50,293,614**	**56,470,480**

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	31 December 2022	*31 December 2021*
ECL allowance as at 1 January	**10,357**	**2,777**
Changes in ECL	(3,165)	7,580
At the end of the period	**7,192**	**10,357**

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 4% (2021: 4%) of the amounts attracted in Armenian drams and 18% (2021: 18%) of the amounts attracted in foreign currencies.

As of 31 December 2022, current accounts with Central Bank of Armenia include obligatory reserve in the amount of AMD 45,017,963 thousand (2021: AMD 35,710,972 thousand).

The banks are required to maintain 6% of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams (2021: 8%), and 12% – in the foreign currency (2021: 8%).The banks' ability to withdraw reserved amounts in foreign currency is restricted. Therefore, the Group classifies obligatory reserves deposited in foreign currency as amounts due from banks (Note 8).

As of 31 December 2022 placements with other banks in the amount of AMD 13,273,773 thousand (94.8%) were due from six banks (2021: AMD 3,705,838 thousand (93.4%) were due from four banks).

6. Trading securities

Trading securities owned comprise:

	31 December 2022	*31 December 2021*
Debt securities issued by the RA government	545,289	564,653
Investments in funds	278,111	289,785
Trading securities	**823,400**	**854,438**

7. Amounts due from banks

(thousands of Armenian drams)

Amounts due from banks comprise:

	31 December 2022	***31 December 2021***
Foreign currency obligatory reserves with CBA (Note 6)	26,142,344	17,713,315
Deposits and deposited funds with CBA	1,402,500	1,051,500
Receivables from payment and settlement operations	6,345,850	720,514
Reverse repurchase agreements	6,031,539	-
Loans and deposits to banks	4,629,721	390,316
Other amounts	2,582,639	1,959,005
	47,134,594	**21,834,650**
Less – allowance for impairment	(32,267)	(21,008)
Amounts due from banks	**47,102,327**	**21,813,642**

(thousands of Armenian drams)

8. Amounts due from banks (continued)

As at 31 December 2022 amounts receivable under reverse repurchase agreements were collateralized by RA government and corporate bonds with fair value of AMD 6,068,320 thousand (2021: There were no amounts receivable under reverse repurchase agreements).

As at 31 December 2022 the balances included loans and deposits to banks in amount of AMD 4,629,721 thousand due from three counterparties (2021: AMD 390,316 thousand due from one counterparty).

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

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the period ended 31 December 2022 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2022	**21,834,650**	**21,834,650**
New assets originated or purchased	31,859,607	31,859,607
Assets repaid	(68,263)	(68,263)
Foreign exchange adjustments	(6,491,400)	(6,491,400)
At 31 December 2022	**47,134,594**	**47,134,594**

	Stage 1	*Total*
ECL allowance as at 1 January 2022	**21,008**	**21,008**
New assets originated or purchased	70,747	70,747
Assets repaid	(59,777)	(59,777)
Changes to models and inputs used for ECL calculations	289	289
At 31 *December* 2022	**32,267**	**32,267**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the year ended 31 December 2021 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2021	**16,953,895**	**16,953,895**
New assets originated or purchased	7,036,393	**7,036,393**
Assets repaid	(730,263)	**(730,263)**
Foreign exchange adjustments	(1,425,375)	**(1,425,375)**
At 31 December 2021	**21,834,650**	**21,834,650**

	Stage 1	*Total*
ECL allowance as at 1 January 2021	**9,569**	**9,569**
New assets originated or purchased	14,779	**14,779**
Assets repaid	(5,876)	**(5,876)**
Changes to models and inputs used for ECL calculations	3,033	**3,033**
Foreign exchange adjustments	(497)	**(497)**
At 31 December 2021	**21,008**	**21,008**

(thousands of Armenian drams)

9. Loans and advances to customers

	31 December 2022	*31 December 2021*
Loans to customers	191,454,426	191,435,805
Overdrafts	31,013,243	37,253,612
Reverse repurchase agreements	6,673,850	10,737,761
Financial lease receivables	565,131	402,444
Factoring	-	-
Letter of credit	4,939	3,972
	229,711,588	**239,833,594**
Less − allowance for loan impairment	(5,903,021)	(5,544,888)
Total loans and advances to customers	**223,808,567**	**234,288,706**

	31 December 2022	*31 December 2021*
Large business loans	68,444,879	80,803,536
SME loans	29,809,629	35,446,861
Consumer loans	43,426,117	42,083,465
Mortgage loans	70,195,840	61,916,748
Gold loans	17,835,123	19,582,984
Gross loans and advances to customers	**229,711,588**	**239,833,594**
Less – allowance for impairment	(5,903,021)	(5,544,888)
Total loans and advances to customers	**223,808,567**	**234,288,706**

Allowance for impairment of loans and advances to customers

An analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans as of 31 December 2022:

Large business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**74,197,951**	**-**	**6,605,585**	**80,803,536**
New assets originated or purchased	21,981,072			**21,981,072**
Assets repaid	(23,001,542)	(30,183)	(419,061)	**(23,450,786)**
Transfers to Stage 2	(702,652)	702,652	-	**-**
Transfers to Stage 3	-	(438,933)	438,933	**-**
Recoveries			39,544	**39,544**
Amounts written off			(478,477)	**(478,477)**
Foreign exchange adjustments	(9,276,737)	-	(1,173,273)	**(10,450,010)**
At 31 December 2022	**63,198,091**	**233,537**	**5,013,251**	**68,444,879**

Large business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**258,260**	**-**	**1,122,646**	**1,380,905**
New assets originated or purchased	584,859			**584,859**
Assets repaid	(67,641)	-	(1,960)	**(69,602)**
Transfers to Stage 2	(443,808)	443,808	-	**-**
Transfers to Stage 3	-	(438,933)	438,933	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	328	-	**328**
Changes to models and inputs used for ECL calculations	22,497	-	483,906	**506,404**
Recoveries			39,544	**39,544**
Amounts written off			(478,477)	**(478,477)**
Foreign exchange adjustments	(28,105)	-	(205,428)	**(233,533)**
At 31 December 2022	**326,061**	**5,203**	**1,399,164**	**1,730,429**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to SME loans as of 31 December 2022:

SME loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**29,948,962**	**900,973**	**4,596,925**	**35,446,861**
New assets originated or purchased	10,346,616			**10,346,616**
Assets repaid	(10,630,138)	(126,525)	(1,502,454)	**(12,259,117)**
Transfers to Stage 1	355,710	(62,793)	(292,918)	**-**
Transfers to Stage 2	(1,160,212)	1,273,597	(113,385)	**-**
Transfers to Stage 3	(503,513)	(900,916)	1,404,428	**-**
Recoveries			742,840	**742,840**
Amounts written off			(1,389,274)	**(1,389,274)**
Foreign exchange adjustments	(2,389,715)	(55,117)	(633,464)	**(3,078,296)**
At 31 December 2022	**25,967,710**	**1,029,220**	**2,812,700**	**29,809,629**

SME loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**200,501**	**117,927**	**1,357,872**	**1,676,300**
New assets originated or purchased	742,669			**742,669**
Assets repaid	(42,598)	(1,496)	(96,074)	**(140,168)**
Transfers to Stage 1	169,145	(7,287)	(161,858)	**-**
Transfers to Stage 2	(642,578)	705,844	(63,266)	**-**
Transfers to Stage 3	(20,191)	(661,774)	681,965	**-**
Impact on period end ECL of exposures transferred between stages during the period	(166,589)	(32,022)	181,806	**(16,805)**
Unwinding of discount (recognised in interest revenue)			49,373	**49,373**
Changes to models and inputs used for ECL calculations	11,749	188,430	(266,821)	**(66,642)**
Recoveries			742,840	**742,840**
Amounts written off			(1,389,274)	**(1,389,274)**
Foreign exchange adjustments	(16,229)	(6,063)	(204,388)	**(226,679)**
At 31 December 2022	**235,880**	**303,558**	**832,174**	**1,371,613**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans as of 31 December 2022:

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**37,977,891**	**2,048,269**	**2,057,305**	**42,083,465**
New assets originated or purchased	19,376,990			**19,376,990**
Assets repaid	(14,101,013)	(922,476)	(1,737,020)	**(16,760,509)**
Transfers to Stage 1	190,326	(85,140)	(105,187)	**-**
Transfers to Stage 2	(488,354)	518,319	(29,965)	**-**
Transfers to Stage 3	(1,276,751)	(268,816)	1,545,567	**-**
Recoveries			2,014,845	**2,014,845**
Amounts written off			(1,679,427)	**(1,679,427)**
Foreign exchange adjustments	(1,400,772)	(94,390)	(114,084)	**(1,609,246)**
At 31 December 2022	**40,278,317**	**1,195,765**	**1,952,035**	**43,426,117**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**521,707**	**294,218**	**645,866**	**1,461,791**
New assets originated or purchased	190,114			**190,114**
Assets repaid	(136,586)	(68,477)	(353,894)	**(558,957)**
Transfers to Stage 1	37,882	(13,070)	(24,813)	**-**
Transfers to Stage 2	(8,160)	16,756	(8,596)	**-**
Transfers to Stage 3	(38,886)	(50,677)	89,563	**-**
Impact on period end ECL of exposures transferred between stages during the period	(36,842)	56,521	206,612	**226,291**
Unwinding of discount (recognised in interest revenue)			22,660	**22,660**
Changes to models and inputs used for ECL calculations	(163,467)	78,868	(237,168)	**(321,767)**
Recoveries			2,014,845	**2,014,845**
Amounts written off			(1,679,427)	**(1,679,427)**
Foreign exchange adjustments	(10,558)	(21,900)	(34,641)	**(67,098)**
At 31 December 2022	**355,206**	**292,239**	**641,007**	**1,288,452**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans as of 31 December 2022:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**57,872,612**	**2,107,696**	**1,936,439**	**61,916,748**
New assets originated or purchased	20,938,955			**20,938,955**
Assets repaid	(6,389,086)	163,716	(1,169,189)	**(7,394,560)**
Transfers to Stage 1	259,183	(140,529)	(118,655)	**-**
Transfers to Stage 2	(1,190,095)	1,238,599	(48,504)	**-**
Transfers to Stage 3	(639,517)	(893,176)	1,532,693	**-**
Recoveries			781,009	**781,009**
Amounts written off			(1,384,482)	**(1,384,482)**
Foreign exchange adjustments	(4,423,681)	(66,866)	(171,282)	**(4,661,830)**
At 31 December 2022	**66,428,370**	**2,409,440**	**1,358,029**	**70,195,840**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**63,037**	**51,116**	**827,881**	**942,034**
New assets originated or purchased	686,566			**686,566**
Assets repaid	(5,085)	(3,390)	(467,167)	**(475,642)**
Transfers to Stage 1	38,926	(9,202)	(29,724)	**-**
Transfers to Stage 2	(644,323)	(627,302)	(12,102)	**(1,283,726)**
Transfers to Stage 3	(24,580)	632,652	675,655	**1,283,726**
Impact on period end ECL of exposures transferred between stages during the period	(38,701)	57,172	184,972	**203,443**
Unwinding of discount (recognised in interest revenue)			16,464	**16,464**
Changes to models and inputs used for ECL calculations	(9,181)	668,825	(53,917)	**605,727**
Recoveries			781,009	**781,009**
Amounts written off			(1,384,482)	**(1,384,482)**
Foreign exchange adjustments	(4,813)	(3,009)	(50,759)	**(58,581)**
At 31 December 2022	**61,845**	**766,862**	**487,830**	**1,316,537**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold loans as of 31 December 2022:

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**18,978,750**	**444,595**	**159,639**	**19,582,985**
New assets originated or purchased	12,238,275			**12,238,275**
Assets repaid	(13,344,941)	(353,024)	(284,647)	**(13,982,611)**
Transfers to Stage 1	27,583	(18,628)	(8,955)	**-**
Transfers to Stage 2	(163,542)	167,539	(3,996)	**-**
Transfers to Stage 3	(272,129)	33,279	238,851	**-**
Recoveries			339,385	**339,385**
Amounts written off			(252,611)	**(252,611)**
Foreign exchange adjustments	(89,306)	-	(994)	**(90,300)**
At 31 December 2022	**17,374,690**	**273,761**	**186,672**	**17,835,123**

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**13,491**	**10,388**	**59,979**	**83,858**
New assets originated or purchased	42,207			**42,207**
Assets repaid	(7,670)	(6,391)	(97,194)	**(111,255)**
Transfers to Stage 1	4,240	(827)	(3,414)	**-**
Transfers to Stage 2	(7,616)	9,136	(1,520)	**-**
Transfers to Stage 3	(19,528)	(2,213)	21,742	**-**
Impact on period end ECL of exposures transferred between stages during the period	(4,221)	7,123	58,848	**61,750**
Unwinding of discount (recognised in interest revenue)			5,433	**5,433**
Changes to models and inputs used for ECL calculations	1,049	39,533	(13,011)	**27,571**
Recoveries			339,385	**339,385**
Amounts written off			(252,611)	**(252,611)**
Foreign exchange adjustments	(63)	-	(284)	**(348)**
At 31 December 2022	**21,889**	**56,749**	**117,354**	**195,991**

analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans as of 31 December 2021:

Large business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**80,852,454**	**2,811,768**	**5,363,490**	**89,027,712**
New assets originated or purchased	20,260,990	–	–	**20,260,990**
Assets repaid	(19,974,647)	–	(1,321,196)	**(21,295,843)**
Transfers to Stage 1	972,741	(972,741)	–	**–**
Transfers to Stage 3	(2,739,478)	(1,630,182)	4,369,660	**–**
Amounts written off	–	–	(1,348,963)	**(1,348,963)**
Foreign exchange adjustments	(5,174,109)	(208,845)	(457,406)	**(5,840,360)**
At 31 December 2021	**74,197,951**	**–**	**6,605,585**	**80,803,536**

Large business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**630,376**	**567,794**	**2,189,944**	**3,388,114**
New assets originated or purchased	79,698	–	–	**79,698**
Assets repaid	(158,032)	–	(455,708)	**(613,740)**
Transfers to Stage 1	299,189	(299,189)	–	**–**
Transfers to Stage 3	(37,698)	(228,498)	266,196	**–**

(thousands of Armenian drams)

Impact on period end ECL of exposures transferred between stages during the period	(291,257)	–	304,623	**13,366**
Unwinding of discount (recognised in interest revenue)	–	–	12,869	**12,869**
Changes to models and inputs used for ECL calculations	(221,517)	–	343,976	**122,459**
Amounts written off	–	–	(1,348,963)	**(1,348,963)**
Foreign exchange adjustments	(42,499)	(40,107)	(190,292)	**(272,898)**
At 31 December 2021	**258,260**	**–**	**1,122,645**	**1,380,905**

An analysis of changes in the gross carrying value and corresponding ECL in relation to SME loans as of 31 December 2021:

SME loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2021	**32,015,368**	**2,729,847**	**4,984,043**	**39,729,258**
New assets originated or purchased	12,699,412	–	–	**12,699,412**
Assets repaid	(12,289,159)	(999,682)	(405,741)	**(13,694,582)**
Transfers to Stage 1	610,481	(553,857)	(56,624)	**–**
Transfers to Stage 2	(373,097)	424,438	(51,341)	**–**
Transfers to Stage 3	(1,170,247)	(593,316)	1,763,563	**–**
Recoveries	–	–	884,404	**884,404**
Amounts written off	–	–	(2,186,741)	**(2,186,741)**
Foreign exchange adjustments	(1,543,796)	(106,457)	(334,637)	**(1,984,890)**
At 31 December 2021	**29,948,962**	**900,973**	**4,596,926**	**35,446,861**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**587,792**	**377,509**	**1,349,632**	**2,314,933**
New assets originated or purchased	146,829	–	–	**146,829**
Assets repaid	(143,566)	(75,093)	(56,585)	**(275,244)**
Transfers to Stage 1	114,674	(70,522)	(44,152)	**–**
Transfers to Stage 2	(10,821)	12,722	(1,901)	**–**
Transfers to Stage 3	(80,913)	(94,765)	175,678	**–**
Impact on period end ECL of exposures transferred between stages during the period	(111,591)	30,586	702,752	**621,747**
Unwinding of discount (recognised in interest revenue)	–	–	34,643	**34,643**
Changes to models and inputs used for ECL calculations	(273,069)	(49,658)	587,761	**265,034**
Recoveries	–	–	884,404	**884,404**
Amounts written off	–	–	(2,186,741)	**(2,186,741)**
Foreign exchange adjustments	(28,834)	(12,852)	(87,619)	**(129,305)**
At 31 December 2021	**200,501**	**117,927**	**1,357,872**	**1,676,300**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans as of 31 December 2021:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**36,535,692**	**1,831,980**	**2,421,813**	**40,789,485**
New assets originated or purchased	20,411,391	–	–	**20,411,391**
Assets repaid	(13,963,318)	(249,007)	(1,339,272)	**(15,551,597)**
Transfers to Stage 1	245,530	(156,169)	(89,361)	**–**
Transfers to Stage 2	(1,904,970)	1,939,506	(34,536)	**–**
Transfers to Stage 3	(2,464,909)	(1,285,291)	3,750,200	**–**
Recoveries	–	–	1,529,567	**1,529,567**
Amounts written off	–	–	(4,099,851)	**(4,099,851)**
Foreign exchange adjustments	(881,525)	(32,750)	(81,255)	**(995,530)**
At 31 December 2021	**37,977,891**	**2,048,269**	**2,057,305**	**42,083,465**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**668,559**	**330,080**	**1,094,339**	**2,092,978**
New assets originated or purchased	385,358	–	–	**385,358**
Assets repaid	(179,846)	(56,379)	(170,627)	**(406,852)**
Transfers to Stage 1	89,232	(33,409)	(55,823)	**–**
Transfers to Stage 2	(72,863)	95,454	(22,591)	**–**
Transfers to Stage 3	(106,850)	(218,317)	325,167	**–**
Impact on period end ECL of exposures transferred between stages during the period	(86,839)	181,560	925,604	**1,020,325**
Unwinding of discount (recognised in interest revenue)	–	–	108,981	**108,981**
Changes to models and inputs used for ECL calculations	(161,216)	(97)	1,039,124	**877,811**
Recoveries	–	–	1,529,567	**1,529,567**
Amounts written off	–	–	(4,099,851)	**(4,099,851)**
Foreign exchange adjustments	(13,828)	(4,674)	(28,024)	**(46,526)**
At 31 December 2021	**521,707**	**294,218**	**645,866**	**1,461,791**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans as of 31 December 2021:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**47,259,947**	**644,105**	**1,821,971**	**49,726,023**
New assets originated or purchased	22,062,411	–	–	**22,062,411**
Assets repaid	(6,413,923)	(116,836)	(578,711)	**(7,109,470)**
Transfers to Stage 1	372,872	(122,837)	(250,035)	**–**
Transfers to Stage 2	(2,078,956)	2,126,149	(47,193)	**–**
Transfers to Stage 3	(1,182,313)	(384,974)	1,567,287	**–**
Recoveries	–	–	588,747	**588,747**
Amounts written off	–	–	(1,053,329)	**(1,053,329)**
Foreign exchange adjustments	(2,147,426)	(37,910)	(112,298)	**(2,297,634)**
At 31 December 2021	**57,872,612**	**2,107,697**	**1,936,439**	**61,916,748**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**126,710**	**47,895**	**704,192**	**878,797**
New assets originated or purchased	24,055	–	–	**24,055**
Assets repaid	(10,674)	(5,248)	(84,334)	**(100,256)**
Transfers to Stage 1	78,317	(8,885)	(69,432)	**–**
Transfers to Stage 2	(3,634)	16,679	(13,045)	**–**
Transfers to Stage 3	(4,752)	(28,874)	33,626	**–**
Impact on period end ECL of exposures transferred between stages during the period	(77,970)	32,761	385,824	**340,615**
Unwinding of discount (recognised in interest revenue)	–	–	15,160	**15,160**
Changes to models and inputs used for ECL calculations	(62,175)	(379)	368,851	**306,297**
Recoveries	–	–	588,747	**588,747**
Amounts written off	–	–	(1,053,329)	**(1,053,329)**
Foreign exchange adjustments	(6,840)	(2,833)	(48,379)	**(58,052)**
At 31 December 2021	**63,037**	**51,116**	**827,881**	**942,034**

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold loans as of 31 December 2021:

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**18,654,928**	**299,860**	**218,899**	**19,173,687**
New assets originated or purchased	16,752,042	–	–	**16,752,042**
Assets repaid	(15,602,822)	(251,814)	(345,071)	**(16,199,707)**
Transfers to Stage 1	15,154	(10,731)	(4,423)	**–**
Transfers to Stage 2	(452,305)	453,369	(1,064)	**–**
Transfers to Stage 3	(330,633)	(44,690)	375,323	**–**
Recoveries	–	–	448,281	**448,281**
Amounts written off	–	–	(531,817)	**(531,817)**
Foreign exchange adjustments	(57,614)	(1,399)	(489)	**(59,502)**
At 31 December 2021	**18,978,750**	**444,595**	**159,639**	**19,582,984**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**26,448**	**28,483**	**120,791**	**175,722**
New assets originated or purchased	118,734	–	–	**118,734**
Assets repaid	(19,836)	(22,920)	(65,285)	**(108,041)**
Transfers to Stage 1	3,473	(1,021)	(2,452)	**–**
Transfers to Stage 2	(81,890)	82,484	(594)	**–**
Transfers to Stage 3	(25,915)	(79,949)	105,864	**–**
Impact on period end ECL of exposures transferred between stages during the period	(3,468)	3,559	29,210	**29,301**
Unwinding of discount (recognised in interest revenue)	–	–	7,838	**7,838**
Changes to models and inputs used for ECL calculations	(3,975)	(115)	(51,588)	**(55,678)**
Recoveries	–	–	448,281	**448,281**
Amounts written off	–	–	(531,817)	**(531,817)**
Foreign exchange adjustments	(80)	(133)	(269)	**(482)**
At 31 December 2021	**13,491**	**10,388**	**59,979**	**83,858**

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Concentration of loans and advances to customers

As at 31 December 2022 the Group had a concentration of loans totalling to AMD 44,045,875 thousand due from the ten largest groups of borrowers (19.17% of gross loan portfolio) (2021: AMD 53,394,554 thousand or 22.26% of gross loan portfolio). An allowance for impairment in amount of AMD 1,138,746 thousand (2021: AMD 753,702 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	31 December 2022	***31 December 2021***
Private companies	87,140,266	100,936,068
Individuals	134,888,217	126,944,360
Financial organizations	7,615,496	11,837,281
State companies	67,609	115,885
	229,711,588	**239,833,594**

Loans are made principally within Armenia in the following industry sectors:

	31 December 2022	***31 December 2021***
Consumer loans to individuals	61,261,240	61,666,450
Mortgage	70,195,840	61,916,748
Trade	28,118,732	34,082,274
Construction	22,543,438	22,535,299
Agriculture (including loans to individuals)	11,694,231	13,951,999
Services	4,830,327	6,831,029
Manufacturing	9,704,335	12,648,928
Energy	3,506,006	3,702,871
Transport and communication	2,688,657	3,412,654
Other	15,168,782	19,085,342
Gross loan portfolio	**229,711,588**	**239,833,594**
Less allowance for loan impairment	(5,903,021)	(5,544,888)
Total	**223,808,567**	**234,288,706**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2022 is as follows:

	31 December 2022	***31 December 2021***
Gross investment in finance lease, receivable		
Not later than 1 year	208,011	142,987
1-5 years	489,541	348,745
More than 5 years	7,571	22,104
	705,123	**513,836**
Unearned future finance income on finance lease	(139,992)	(111,392)
Net investment in financial lease, before impairment allowance	**565,131**	**402,444**
Impairment allowance	(201,485)	(51,155)
Net investment in finance lease	**363,646**	**351,289**

(thousands of Armenian drams)

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2022	*31 December 2021*
Debt securities at amortised cost		
RA government bonds	4,553,932	–
Foreign governments bonds	11,040,737	–
RA corporate bonds	2,813,248	1,233,261
Less – allowance for impairment	(15,339)	(24,351)
Debt securities at amortised cost	**18,392,578**	**1,208,910**
Debt securities at FVOCI		
RA government bonds	74,867,661	34,767,050
Foreign governments bonds	25,194,721	–
RA corporate bonds	6,827,254	4,582,377
Debt securities at FVOCI	**106,889,636**	**39,349,427**
RA government bonds	-	9,509,290
Debt securities at FVOCI pledged under repurchase agreements	-	**9,509,290**
Equity securities at FVOCI		
Equity shares of OECD countries	5,333	5,333
RA equity shares	75,222	75,222
Equity securities at FVOCI	80,555	80,555
Total	**125,362,770**	**50,148,182**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost including pledged under repurchase agreements is as follows:

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2022	**1,233,261**	**1,233,261**
New assets originated or purchased	17,986,129	17,986,129
Assets repaid	(811,473)	(811,473)
At 31 December 2022	**18,407,917**	**18,407,917**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2022	**24,351**	**24,351**
New assets originated or purchased	13,612	13,612
Assets repaid	(3,178)	(3,178)
Changes to models and inputs used for ECL calculations	(19,446)	(19,446)
At 31 December 2022	**15,339**	**15,339**

(thousands of Armenian drams)

10. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost at 31 December 2021 is as follows:

Debt securities at amortised cost	*Stage 1*	*Total*
Gross carrying value as at 1 January 2021	**2,344,637**	**2,344,637**
New assets originated or purchased	272,776	**272,776**
Assets repaid	(1,384,152)	**(1,384,152)**
At 31 December 2021	**1,233,261**	**1,233,261**

Debt securities at amortised cost	*Stage 1*	*Total*
ECLs as at 1 January 2021	**5,909**	**5,909**
New assets originated or purchased	20,591	**20,591**
Assets repaid	(273)	**(273)**
Changes to models and inputs used for ECL calculations	(1,876)	**(1,876)**
At 31 December 2021	**24,351**	**24,351**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI including pledged under repurchase agreements is as follows:

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying value as at 1 January 2022	**48,858,717**	**48,858,717**
New assets originated or purchased	71,362,470	71,362,470
Assets repaid	(3,197,929)	(3,197,929)
Assets sold	(5,595,835)	(5,595,835)
Net change in fair value	(4,537,787)	(4,537,787)
At 31 December 2022	**106,889,636**	**106,889,636**

Debt securities at FVOCI	*Stage 1*	*Total*
ECLs as at 1 January 2022	**99,134**	**99,134**
New assets originated or purchased	100,513	100,513
Assets repaid	(4,307)	(4,307)
Assets sold	(13,738)	(13,738)
Changes to models and inputs used for ECL calculations	1,412	1,412
At 31 December 2022	**183,014**	**183,014**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI 31 December 2021 is as follows:

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying value as at 1 January 2021	**36,311,100**	**36,311,100**
New assets originated or purchased	20,199,199	**20,199,199**
Assets repaid	(2,172,914)	**(2,172,914)**
Assets sold	(2,795,468)	**(2,795,468)**
Net change in fair value	(2,683,200)	**(2,683,200)**
At 31 December 2021	**48,858,717**	**48,858,717**

Debt securities at FVOCI	*Stage 1*	*Total*
ECLs as at 1 January 2021	**95,740**	**95,740**
New assets originated or purchased	51,898	**51,898**
Assets repaid	(2,568)	**(2,568)**
Assets sold	(7,822)	**(7,822)**
Changes to models and inputs used for ECL calculations	(38,114)	**(38,114)**
At 31 December 2021	**99,134**	**99,134**

(thousands of Armenian drams)

11. Property and equipment and right-of-use assets

The movements in property and equipment were as follows:

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2021	**5,183,379**	**760,151**	**249,960**	**4,520,618**	**1,227,728**	**1,459,875**	**2,486,093**	**15,887,804**
Additions	9,330	32,202	39,861	420,369	141,188	40,011	690,069	1,373,030
Disposals and write-offs	-	(18,223)	(24,500)	(217,453)	(11,013)	(6,517)	(186,415)	(464,121)
Effect of revaluation	112,688							112,688
Internal Flow	-	-	-	-	(94,603)	-	.	(94,603)
31 December 2022	**5,305,397**	**774,130**	**265,321**	**4,723,534**	**1,263,300**	**1,493,369**	**2,989,747**	**16,814,798**
Accumulated depreciation								
31 December 2021	**392,555**	**612,016**	**194,976**	**3,389,947**	**739,789**	**1,070,851**	**1,285,148**	**7,685,282**
Depreciation charge	122,457	42,324	11,248	364,476	38,243	108,057	456,861	1,143,666
Disposals and write-offs	-	(17,691)	(23,410)	(216,406)	(10,990)	(1,899)	(3,954)	(274,350)
Effect of revaluation	(515,012)							(515,012)
31 December 2022	**-**	**636,649**	**182,814**	**3,538,017**	**767,042**	**1,177,009**	**1,738,055**	**8,039,586**
Net book value								
31 December 2021	**4,790,824**	**148,135**	**54,984**	**1,130,671**	**487,939**	**389,024**	**1,200,945**	**8,202,522**
31 December 2022	**5,305,396**	**137,481**	**82,507**	**1,185,517**	**496,258**	**316,360**	**1,251,692**	**8,775,211**

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2020	**5,182,175**	**777,073**	**235,851**	**4,248,269**	**989,281**	**1,415,174**	**2,392,651**	**15,240,474**
Additions	1,204	30,343	27,326	386,713	321,240	44,759	293,824	**1,105,409**
Disposals and write-offs	–	(47,265)	(13,217)	(114,364)	(82,793)	(58)	(200,382)	**(458,079)**
31 December 2021	**5,183,379**	**760,151**	**249,960**	**4,520,618**	**1,227,728**	**1,459,875**	**2,486,093**	**15,887,804**
Accumulated depreciation								
31 December 2020	**196,128**	**614,726**	**202,616**	**3,134,457**	**716,169**	**949,967**	**821,298**	**6,635,361**
Depreciation charge	196,427	44,055	5,577	368,780	45,253	120,892	463,850	**1,244,834**
Disposals and write-offs	–	(46,765)	(13,217)	(113,290)	(21,633)	(8)	–	**(194,913)**
31 December 2021	**392,555**	**612,016**	**194,976**	**3,389,947**	**739,789**	**1,070,851**	**1,285,148**	**7,685,282**
Net book value								
31 December 2020	**4,986,047**	**162,347**	**33,235**	**1,113,812**	**273,112**	**465,207**	**1,571,353**	**8,605,113**
31 December 2021	**4,790,824**	**148,135**	**54,984**	**1,130,671**	**487,939**	**389,024**	**1,200,945**	**8,202,522**

Revaluation of assets

The buildings and land owned by the Group where revalued by an independent appraiser in 2022. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 726,272 thousand as of 31 December 2022 (2021: AMD 743,296 thousand).

(thousands of Armenian drams)

11. Property and equipment and right-of-use assets (continued)

Fully depreciated items

As of 31 December 2022 property, plant and equipment included fully depreciated assets in amount of AMD 3,556,716 thousand (2021: AMD 2,780,682 thousand).

Property, plant and equipment in the phase of installation

As of 31 December 2022 property, plant and equipment included assets in the phase of installation in amount of AMD 154,441 thousand (2021: AMD 63,070 thousand).

Restrictions on title of property, plant and equipment

As of 31 December 2022 and 31 December 2021, the Group did not pledge any property, plant and equipment as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

The movements in goodwill and other intangible assets were as follows:

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2021	**880,001**	**149,709**	**509,536**	**1,539,246**
Additions	141,214	-	9,323	150,537
Disposals and write-offs	-	-	-	-
31 December 2022	**1,021,215**	**149,709**	**518,859**	**1,689,783**
Accumulated amortization and impairment				
31 December 2021	774,360	60,791	136,820	971,971
Amortisation charge	24,026	2,535	38,010	64,571
31 December 2022	**798,386**	**63,326**	**174,830**	**1,036,542**
Net book value				
31 December 2021	**105,641**	**88,918**	**372,716**	**567,275**
31 December 2022	**222,829**	**86,383**	**344,029**	**653,241**

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2020	**846,740**	**149,461**	**256,845**	**1,253,046**
Additions	36,908	248	252,691	**289,847**
Disposals and write-offs	(3,647)	–	–	**(3,647)**
31 December 2021	**880,001**	**149,709**	**509,536**	**1,539,246**
Accumulated amortization and impairment				
31 December 2020	**750,383**	**58,261**	**113,594**	**922,238**
Amortisation charge	23,977	2,530	23,226	**49,733**
31 December 2021	**774,360**	**60,791**	**136,820**	**971,971**
Net book value				
31 December 2020	**96,357**	**91,200**	**143,251**	**330,808**
31 December 2021	**105,641**	**88,918**	**372,716**	**567,275**

Fully amortized items

As of 31 December 2022, intangible assets included fully amortized assets in amount of AMD 805,921 thousand (2021: AMD 791,164 thousand).

(thousands of Armenian drams)

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 December 2022 and 31 December 2021 are shown below:

	31 December 2022	*31 December 2021*
Land and buildings	2,162,039	2,491,207
Other assets	38,191	38,191
Total repossessed collateral	**2,200,230**	**2,529,398**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell. For the period ended 31 December 2022 the Group repossessed assets in amount of AMD 446,304 thousand (2021: AMD 1,466,586 thousand) and sold assets with carrying amount of AMD ֏ 768,336 thousand (2021: AMD 517,441 thousand).

14. Other assets and liabilities

Other assets comprise:

	31 December 2022	*31 December 2021*
Other financial assets		
Accounts receivables	567,907	553,933
Receivables from unsettled transactions	-	297,937
Receivables from cash transfers	90,752	59,248
Total other financial assets	**658,659**	**911,118**
Less – allowance for impairment of other financial assets	(30,177)	(11,892)
Total net other financial assets	**628,482**	**899,226**
Other non-financial assets		
Precious metals	810,838	1,086,438
Materials	186,986	186,948
Prepayments to suppliers	2,865,965	269,519
Other prepaid taxes	373,390	212,440
Unamortized insurance premium	27,939	32,731
Settlements with employees	911	1,128
Other	1,865	1,865
Total other non-financial assets	**4,267,894**	**1,791,069**
Other assets	**4,896,376**	**2,690,295**

An analysis of changes in the ECLs for other financial assets for the period ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2022	**11,232**	**60**	**600**	**11,892**
Transfers to Stage 1	36	(6)	(30)	-
Transfers to Stage 2	(3)	3	-	-
Transfers to Stage 3	(81)	(9)	91	-
ECL charge	19,596	(23)	54,520	74,092
Recoveries	-	-	29,164	29,164
Amounts written off	-	-	(83,909)	(83,909)
Foreign exchange adjustments	(975)	-	(88)	(1,063)
At 31 December 2022	**29,805**	**25**	**348**	**30,177**

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the period ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2021	**17,303**	**61**	**78**	**17,442**
Transfers to Stage 1	17	(15)	(2)	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(167)	(21)	188	**–**
ECL charge	(5,055)	33	10,776	**5,754**
Recoveries	–	–	10,791	**10,791**
Amounts written off	–	–	(21,228)	**(21,228)**
Foreign exchange adjustments	(864)	–	(3)	**(867)**
At 31 December 2021	**11,232**	**60**	**600**	**11,892**

Other liabilities comprise:

	31 December 2022	*31 December 2021*
Other financial liabilities		
Due to personnel	1,635,619	870,715
Accounts payables	515,819	451,571
Total other financial liabilities	**2,151,438**	**1,322,286**
Other non-financial liabilities		
Tax payable, other than income tax	500,076	266,275
Grants related to assets	13,892	16,316
Other	18,152	5,177
Total other non-financial liabilities	**532,120**	**287,768**
Total other liabilities	**2,683,558**	**1,610,054**

15. Amounts due to banks

Amounts due to banks comprise:

	31 December 2022	*31 December 2021*
Loans from banks	2,000,538	3,076,189
Repurchase agreements with CBA	-	9,005,841
Correspondent accounts of other banks	295,178	132,014
Other liabilities	45,293	764,667
Total amounts due to banks	**2,341,009**	**12,978,711**

As of 31 December 2022 the Group has received loans from 2 banks (2021: 2 banks).

As of 31 December 2022 94.5% of correspondent accounts of other banks are concentrated within 1 counterparty (2021: 94.9% within 2 counterparties).

As at 31 December 2022 there were no amounts receivable under reverse repurchase agreements with CBA (2021: amounts receivable under reverse repurchase agreements with CBA were collateralized by RA government bonds with fair value of AMD 9,509,290 thousand).

(thousands of Armenian drams)

16. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2022			*31 December 2021*		
		Fair values			*Fair value*	
Foreign exchange contracts	***Notional amount***	***Asset***	***Liability***	***Notional amount***	***Asset***	***Liability***
Swaps	12,752,240	197,014	-	7,835,373	6,862	48,311
Total derivative liabilities	**12,752,240**	**197,014**	**-**	**7,835,373**	**6,862**	**48,311**

As of 31 December 2022 and 31 December 2021, the Group has positions in the following types of derivatives:

Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates to make payments with respect specified notional amounts.

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2022	*31 December 2021*
Corporate customers		
Current/settlement accounts	115,131,180	67,538,983
Time deposits	69,413,308	74,753,841
	184,544,488	**142,292,824**
Retail customers		
Current/settlement accounts	76,304,620	42,093,741
Time deposits	81,001,217	77,036,041
	157,305,837	**119,129,782**
Amounts due to customers	**341,850,325**	**261,422,606**

As of 31 December 2022 included in amounts due to customers are deposits amounting to AMD 42,851,999 thousand (2021: AMD 43,306,092 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates their carrying amount.

As of 31 December 2022 the aggregate balance of top ten customers of the Group amounts to AMD 116,848,107 thousand (2021: AMD 97,396,493 thousand) or 34.18% of total customer accounts (2021: 37.26%).

(thousands of Armenian drams)

18. Debt securities issued

Debt securities issued consisted of the following:

	31 December 2022	*31 December 2021*
Domestic bonds in USD	8,694,932	12,136,584
Domestic bonds in AMD	5,997,216	5,099,107
Debt securities issued	**14,692,148**	**17,235,691**

The contractual maturity of AMD and USD bonds ranges from 2024-2025.. Coupon rates are 9.75% and 10.5% for bonds denominated in AMD, 3.75% and 5.25% for bonds denominated in USD. Bonds issued by the Bank are listed on Armenia Securities Exchange. In the 4th quarter of 2022, the Bank issued bonds in AMD and USD in the amount of AMD 3 billion and USD 10 million, which have not yet been fully allocated.

19. Taxation

The corporate income tax expense comprises:

	31 December 2022	*31 December 2021*
Current tax charge	3,985,795	1,053,745
Deferred tax charge/(credit) – origination and reversal of temporary differences	(239,184)	174,377
Total income tax expense	**3,746,611**	**1,228,122**

For year 2022 the corporate income tax within the Republic of Armenia is levied at the rate of 18% (2021: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

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

	31 December 2022	*31 December 2021*
Profit before tax	**17,777,960**	**5,355,031**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**3,200,033**	**963,906**
Non-deductible expenses / (tax exempt income)	546,578	336,747
Adjustment of current income tax of previous years	-	(72,531)
Income tax expense	**3,746,611**	**1,228,122**

Deferred tax assets and liabilities as of 31 December 2022 and 31 December 2021 and their movements for the respective periods comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 31 December 2020	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2021*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2022*
Other liabilities	89,549	56,494	–	146,043	138,269	–	284,312
Repossessed assets	52,199	–	–	52,199	–	–	52,199
Loans and advances to customers	(942,880)	(274,731)	–	(1,217,611)	129,849	–	(1,087,762)
Investment securities	85,392	3,906	184,761	274,059	13,476	643,059	930,594
Property, plant and equipment and right-of-use assets	(211,410)	17,661	–	(193,749)	(11,665)	(112,968)	(318,382)
Other impairment and provisions	14,942	23,213	–	38,156	(27,347)	-	10,809
Amounts due to customers	(2,821)	(920)		(3,741)	(3,399)		(7,140)

(thousands of Armenian drams)

Net deferred tax liabilities	(915,029)	(174,376)	184,761	(904,643)	239,182	530,091	(135,369)

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31 December 2022	*31 December 2021*
Loans from CBA	6,082,454	6,377,248
Loans from refinancing credit organizations	25,336,886	18,765,042
Loans from international financial institution	3,041,198	3,951,911
Loans from the Government of the RA	40,918	50,081
Other borrowed funds	**34,501,456**	**29,144,282**

As of 31 December 2022 Loan from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

Loans from international financial organizations include loans from Eurasian Development Bank and European Bank for Reconstruction and Development.

Loans from refinancing credit organizations include loans from National Mortgage Company and Home for Youth.

Covenants

As at 31 December 2022 and 31 December 2021 the Group was in compliance with all debt covenants.

21. Subordinated debt

Subordinated loans consisted of the following:

	31 December 2022	**31 December 2021**
Subordinated debt provided by related party	276,139	336,885
Subordinated loans	**276,139**	**336,885**

Subordinated debt represents a long term borrowing agreements, which, in case of the Group's default, would be subordinated to the Group's other obligations, including deposits and other debt instruments.

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity in January 2023 (2021: 7.12% and with contractual maturity in January 2023) (see Note 35).

22. Commitments and contingencies

Tax and legal matters

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

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

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Group, will not have a material adverse impact on the financial condition or results of future operations of the Group.

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

Commitments and contingencies

As of 31 December 2022 and 31 December 2021 the Group's commitments and contingencies comprised the following:

	31 December 2022	31 December 2021
Credit related commitments		
Undrawn loan commitments	16,277,823	12,294,513
Financial guarantees	7,209,682	5,436,059
Letters of credit	334,535	0
Commitments and contingencies	**23,822,040**	**17,730,572**
Provisions for ECL for credit related commitments	143,061	149,784

An analysis of changes in the ECLs at 31 December 2022 is as follows:

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2022	**100,975**	**100,975**
New exposures	49,582	49,582
Expired exposures	(46,479)	(46,479)
Changes to models and inputs used for ECL calculations	(48,049)	(48,049)
Foreign exchange adjustments	(6,447)	(6,447)
At 31 December 2022	**49,582**	**49,582**

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2022	**-**	**-**
New exposures	4,158	4,158
Expired exposures	-	-
Changes to models and inputs used for ECL calculations	-	-
Foreign exchange adjustments	-	-
At 31 December 2022	**4,158**	**4,158**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2022	**48,809**	**48,809**
New exposures	70,240	70,240
Expired exposures	(23,556)	(23,556)
Changes to models and inputs used for ECL calculations	(5,093)	(5,093)
Foreign exchange adjustments	(1,078)	(1,078)
At 31 December 2022	**89,321**	**89,321**

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

An analysis of changes in the ECLs at 31 December 2021 is as follows:

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2021	**100,785**	**100,785**
New exposures	52,449	**52,449**
Expired exposures	(47,033)	**(47,033)**
Changes to models and inputs used for ECL calculations	(2,075)	**(2,075)**
Foreign exchange adjustments	(3,151)	**(3,151)**
At 31 December 2021	**100,975**	**100,975**

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2021	**21,816**	**21,816**
Expired exposures	(18,520)	**(18,520)**
Foreign exchange adjustments	(3,296)	**(3,296)**
At 31 December 2021	**–**	**–**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2021	**108,031**	**108,031**
New exposures	30,986	**30,986**
Expired exposures	(69,596)	**(69,596)**
Changes to models and inputs used for ECL calculations	(19,683)	**(19,683)**
Foreign exchange adjustments	(929)	**(929)**
At 31 December 2021	**48,809**	**48,809**

(thousands of Armenian drams)

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 December 2022 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

23. Equity

As of 31 December 2022 the Bank's registered and paid-in share capital was AMD 19,947,633 thousand (2021: AMD 19,947,633 thousand).

In accordance with the Bank's statues, the share capital consists of 66,492 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2021: 66,492 ordinary shares and 333 privileged shares).

The respective shareholdings as at 31 December 2022 and 31 December 2021 may be specified as follows:

	31 December 2022		*31 December 2021*	
	Paid-in share capital	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	14,539,800	72.89	14,539,800	72.89
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	4,410,600	22.11	4,410,600	22.11
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	997,200	5.00	997,200	5.00
	19,947,633	**100**	**19,947,633**	**100**

(thousands of Armenian drams)

23. Equity (continued)

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

The preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

According to decision of Meeting of Shareholders dated on 28 June 2022 dividends declaredand paid by the Bank amounted to AMD 509,683.4 thousand for ordinary shares and AMD 6.6 thousand to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 7,665, and dividends per preference share amounted to AMD 19.8(2021: no dividends were declared and paid).

The share capital of the Bank was contributed by the shareholders in Armenian drams and they are entitled to dividends and any capital distribution in Armenian drams.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Republic of Armenia, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve is created in accordance with the Bank's charter, which requires creation of statutory general reserve.

Revaluation surplus for land and buildings

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

Revaluation reserve for financial assets at FVOCI

Revaluation reserve for financial assets at FVOCI records fair value changes on financial assets at FVOCI.

24. Net interest income

Net interest income comprises:

	01/10/22-31/12/22	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Financial assets measured at amortized cost				
Loans to customers	6,023,788	23,813,110	5,788,115	22,965,098
Amounts due from banks	123,736	251,009	10,597	40,512
Investment securities	289,518	1,244,308	816,806	2,808,569
Cash equivalents	32,909	60,196	1,433	3,376
Other interest income	4,015	9,974	64	204
Financial assets measured at fair value through other comprehensive income				
Debt securities at FVOCI	1,744,035	4,798,777	160,095	687,236
Interest revenue calculated using effective interest rate	**8,218,001**	**30,177,374**	**6,777,110**	**26,504,995**
Trading securities	10,757	42,853	10,777	45,806
Finance leases	15,210	55,190	12,515	51,492
Other interest revenue	**25,967**	**98,043**	**23,292**	**97,298**
Total interest revenue	**8,243,968**	**30,275,417**	**6,800,402**	**26,602,293**
Amounts due to customers	2,671,099	10,400,791	2,272,661	8,494,342
Other borrowed funds	581,250	2,155,626	434,148	1,573,513
Debt securities issued	233,747	1,036,087	282,767	1,168,463
Subordinated loans	4,940	21,342	5,974	24,674
Amounts due to banks	46,454	388,605	258,644	786,819
Lease liabilities	39,242	149,459	38,553	164,668
Interest expense	**3,576,732**	**14,151,910**	**3,292,747**	**12,212,479**
Net interest income	**4,667,236**	**16,123,507**	**3,507,655**	**14,389,814**

(thousands of Armenian drams)

25. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss at 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(3,165)	-	-	(3,165)
Amounts due from banks	8	10,970	-	-	10,970
Loans and advances to customers	9	3,653	981,933	1,131,505	2,117,091
Debt securities measured at amortised cost	10	(9,012)	-	-	(9,012)
Debt securities measured at FVOCI	10	83,880	-	-	83,880
Other financial assets	14	19,548	(35)	54,581	74,094
Financial guarantees	22	41,591	-	-	41,591
Loan commitments	22	(44,946)	-	-	(44,946)
Letters of credit	22	4,158	-	-	4,158
Total credit loss expense		**106,677**	**981,898**	**1,186,086**	**2,274,660**

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss at 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	7,580	–	–	**7,580**
Amounts due from banks	8	11,936	–	–	**11,936**
Loans and advances to customers	9	(1,050,357)	38,577	3,803,598	**2,791,818**
Debt securities measured at amortised cost	10	18,442	–	–	**18,442**
Debt securities measured at FVOCI	10	3,394	–	–	**3,394**
Other financial assets	14	(5,055)	33	10,776	**5,754**
Financial guarantees	22	(58,293)	–	–	**(58,293)**
Loan commitments	22	3,341	–	–	**3,341**
Letters of credit	22	(18,520)	–	–	**(18,520)**
Total credit loss expense		**(1,087,532)**	**38,610**	**3,814,374**	**2,765,452**

26. Net fee and commission income

Net fee and commission income comprises: Settlement operation

	01/10/22-31/12/22	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Plastic cards operations	1,201,036	3,532,073	751,075	2,486,435
Wire transfer fees	174,973	593,699	192,232	719,902
Settlement operation	237,276	733,882	77,522	256,810
Fees and commission income from loans	(152,310)	175,647	49,380	158,681
Guarantees and letters of credit	40,591	121,025	24,618	89,165
Other	1,081,829	1,988,308	146,086	451,102
Fee and commission income	**2,583,394**	**7,144,634**	**1,240,913**	**4,162,095**
Plastic cards operations	687,919	1,953,576	529,397	1,651,362
Wire transfer fees	36,635	125,241	43,491	160,345
Settlement operations	141,259	578,241	23,087	75,293
Guarantees and letters of credit	13,891	70,955	15,743	75,182
Other expenses	87,269	190,560	32,678	108,229
Fee and commission expense	**966,973**	**2,918,573**	**644,396**	**2,070,411**
Net fee and commission income	**1,616,421**	**4,226,061**	**596,517**	**2,091,684**

(thousands of Armenian drams)

27. Net trading income

	01/10/22-31/12/22	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Net gains from foreign currency transactions	3,352,221	13,879,025	656,944	2,113,652
Net loss on derivative financial instruments	(104,316)	(340,151)	(196,967)	(83,435)
Net (loss)/gain from trading securities	187,821	168,510	2,943	(21,752)
Net income from operations with precious metals	56,710	(80,688)	(11,123)	(173,503)
Total net trading income	**3,492,436**	**13,626,696**	**451,797**	**1,834,962**

28. Other income

	01/10/22-31/12/22	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Fines and penalties received	144,542	487,848	252,363	944,096
Income from cash collection services	4,512	21,030	5,782	18,050
Dividend income	-	247	-	270
Income from grants	606	2,424	606	2,424
Other income	105,535	357,345	134,554	335,435
Total other income	**255,195**	**868,894**	**393,305**	**1,300,275**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	01/10/22-31/12/22	*01/01/22-31/12/22*	*01/10/21-31/12/21*	*01/01/21-31/12/21*
Salaries	2,309,320	7,800,104	1,643,298	5,844,294
Other expenses	33,299	132,070	30,872	102,027
Personnel expenses	**2,342,619**	**7,932,174**	**1,674,170**	**5,946,321**
Advertising costs	173,303	546,545	78,342	382,555
Lease expenses	9,330	29,481	3,525	9,921
Insurance of deposits	105,425	413,384	96,437	313,721
Expenses related to Armenian Card payment system	103,066	349,995	91,938	314,127
Security	51,190	207,208	52,960	215,039
Software maintenance expenses	214,895	765,320	69,985	814,423
Fixed assets repair and maintenance expenses	69,430	259,313	65,423	214,641
Communications	68,171	233,779	61,708	209,699
Consulting	50,527	125,784	54,139	119,989
Insurance expenses	37,215	119,048	36,095	107,610
Utility expenses	21,824	109,882	19,361	96,841
Taxes, other than income tax, duties	67,084	178,827	55,803	264,082
Business trip expenses	11,438	44,807	4,035	11,708
Office supplies	13,513	43,751	11,414	36,836
Financial system mediator	9,328	37,310	8,222	32,889
Penalties paid	3,405	5,758	89	22,212
Other operating expenses	60,763	221,391	54,202	417,114
Other expenses	90,709	309,447	153,220	342,026
Other operating expenses	**1,160,616**	**4,001,030**	**916,898**	**3,925,433**

(thousands of Armenian drams)

The Group recognised rent expense from leases of low-value assets of AMD 29,481 for the year ended 31 December 2022 (2021 − rent expense from leases of low-value assets of AMD 9,921).

(thousands of Armenian drams)

30. Risk management

Introduction

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

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Group and is designed to improve the financial position and the reputation of the Group.

The aim of the risk management process is the assistance to the management of the Group in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Group and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Group's authorized body. The identification, measurement, supervision and monitoring of the Group's risks are ongoing and regular processes. The risk analysis is an integral part of the Group's strategic planning, as well as the evaluation of investment programs. The Group's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Group's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Group, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Board

The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- Approval of complex measures, in agreement with the Board, based on the Group's risk management, associated with the Group's profitability in the critical situations, as well as operating, strategic, reputational and legal risks;
- Determining prohibitions for several transactions;
- Determining limits for transactions without collateral in inter-bank markets;
- Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Group's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Group's liquidity financial risks. The Executive Board is designed to fulfil the functions of the Group's Assets and Liabilities Management Committee.

Risk management division

The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Group, as well as monitoring over their implementation;
- Analysis of the risk level of loans issued by the Group and the monitoring over the lending process in the framework of program loans;
- Monitoring of issued loans, identification of issues related to them and reporting;
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property;
- Organization of the insurance process of the Group's property;
- Management of the doubtful loans portfolio.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Board.

Risk measurement and reporting systems

Depending upon various factors, the Group divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Group are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Group using the rating of international rating agencies (Moody's, S&P, Fitch), granted to international banks and organizations. The risk management division monitors the rating of internal bank counterparties of the Group and quarterly presents to the Bank's Executive Board approval the limits for each bank and financial institution.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile, etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Group and its competitors.

The interest rate risk is managed by the Risk Management Division of the Group by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Group's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models for interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis.

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Group's Risk management division presents monthly analysis of the Group's expected repayments, amounts to be lent and the positions to the Group's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Group, limits of amounts attracted by the Group, their types or gross interest expenses, limits on concentrations of the financial sources used by the Group for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Group's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Group's assets and liabilities, the ways of coordinating the Group's other divisions activities, who can influence the Group's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.). The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti-money laundering legislation and Bank's internal legal acts.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

Excessive risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

For avoiding the excessive risk concentrations, the Group's policy and processes includes special principles aimed at maintaining diversified assets types, loan and securities portfolios.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 91 days past due on its contractual payments.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as the quality of credits due to affiliated parties, the state of being rescheduled which are approved by the management.

PD estimation process

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risks management division analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Loans customers

Bucketing

For stage 1 and stage 2 loans to customers, as well as for individually not significant stage 3 exposures, the Group calculates ECL on portfolio level. The following portfolios are segregated by the Group.

- Large business loans;
- SME loans;
- Consumer loans;
- Mortgage loans;
- Gold loans.

PDs for loans to customers are based on historic information and calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring to defaulted category during 12-month period from the total number of credits at the beginning of the period. In calculation of PDs the Group considers forward looking macroeconomic parameters that had significant impact on the probability of default estimated through time series regression analysis. The forecasts of PDs are evaluated based on the officially available forward-looking macroeconomic parameters.

Based on the estimated deviation of the historical forecasts of the selected macroeconomic parameters from the actual trends three scenarios of the forward-looking macroeconomic development are directed to the final outcome of three PD PIT transition matrices, which are weighted by 10%, 80% and 10% probabilities corresponding to the best, base and worst case scenarios.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP annual growth;
- USD/AMD exchange rate;
- Central Bank base rate growth;
- Unemployment rate.

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios.

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above.
The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

In the table below loans to customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises not past due loans below standard grade but not individually impaired.

(thousands of Armenian drams)

31 December 2022	***Note***		***High grade***	***Standard grade***	***Sub-standard grade***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand	6	Stage 1	2,052,697	37,652,897	–	–	**39,705,594**
Amounts due from banks	8	Stage 1	534,196	46,600,398	–	–	**47,134,594**
Loans to customers at amortised cost	11						
- SME		Stage 1	108,421	25,859,289	-	-	25,967,710
		Stage 2	-	-	1,029,220	-	1,029,220
		Stage 3	-	-	-	2,812,700	2,812,700
- Corporate lending		Stage 1	28,390,644	34,807,448	-	-	63,198,091
		Stage 2	-	-	233,537	-	233,537
		Stage 3	-	-	-	5,013,251	5,013,251
- Consumer lending		Stage 1	1,643,467	38,634,850	-	-	40,278,317
		Stage 2	-	-	1,195,765	-	1,195,765
		Stage 3	-	-	-	1,952,035	1,952,035
- Residential mortgages		Stage 1	-	66,428,370	-	-	66,428,370
		Stage 2	-	-	2,409,440	-	2,409,440
		Stage 3	-	-	-	1,358,029	1,358,029
- Other gold		Stage 1	-	17,374,690	-	-	17,374,690
		Stage 2	-	-	273,761	-	273,761
		Stage 3	-	-	-	186,672	186,672
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	106,889,636	–	–	106,889,636
- Measured at amortised cost		Stage 1		18,407,917	-	-	18,407,917
Debt investment securities pledged under repurchase agreements	10		–	-			-
Undrawn loan commitments	22	Stage 1	–	16,277,823	–	–	16,277,823
Letter of credits	22	Stage 1	–	334,535	–	–	334,535
Financial guarantees	22	Stage 1	–	7,209,682	–	–	7,209,682
Total			**32,729,424**	**416,477,534**	**5,141,724**	**11,322,687**	**465,671,369**

31 December 2021	***Note***		***High grade***	***Standard grade***	***Sub-standard grade***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand	6	Stage 1	1,353,813	43,705,990	–	–	**45,059,803**
Amounts due from banks	8	Stage 1	441,884	21,392,766	–	–	**21,834,650**
Loans to customers at amortised cost	9						
- SME		Stage 1	173,285	29,775,677	–	–	**29,948,962**
		Stage 2	–	–	900,973	–	**900,973**
		Stage 3	–	–	–	4,596,926	**4,596,926**
- Corporate lending		Stage 1	32,204,765	41,993,186	–	–	**74,197,951**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	6,605,585	**6,605,585**
- Consumer lending		Stage 1	1,201,264	36,776,627	–	–	**37,977,891**
		Stage 2	–	–	2,048,269	–	**2,048,269**
		Stage 3	–	–	–	2,057,305	**2,057,305**
- Residential mortgages		Stage 1	–	57,872,612	–	–	**57,872,612**
		Stage 2	–	–	2,107,697	–	**2,107,697**
		Stage 3	–	–	–	1,936,439	**1,936,439**
- Other gold		Stage 1	–	18,978,750	–	–	**18,978,750**
		Stage 2	–	–	444,595	–	**444,595**
		Stage 3	–	–	–	159,639	**159,639**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	39,349,427	–	–	**39,349,427**
- Measured at amortised cost		Stage 1	–	1,233,261	–	–	**1,233,261**
Debt investment securities pledged under repurchase agreements	10						
- Measured at FVOCI		Stage 1	–	9,509,290	–	–	**9,509,290**
Undrawn loan commitments	22	Stage 1	–	12,294,513	–	–	**12,294,513**
Letters of credit	22	Stage 1	–	–	–	–	**–**
Financial guarantees	22	Stage 1	–	5,436,059	–	–	**5,436,059**

(thousands of Armenian drams)

Total	**35,375,011**	**318,318,158**	**5,501,534**	**15,355,894**	**374,550,597**

30. Risk management (continued)

Credit risk (continued)

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2022 and 31 December 2021.

	31 December 2022			
	Armenia	***Other non-OECD countries***	***OECD countries***	***Total***
Assets				
Cash and cash equivalents	36,288,340	11,621,346	2,383,928	**50,293,614**
Trading securities	823,400			**823,400**
Amounts due from banks	37,060,939	9,507,359	534,029	**47,102,327**
Derivative financial assets	197,014	-	-	**197,014**
Loans and advances to customers	198,040,022	25,609,556	158,990	**223,808,567**
Investment securities	125,357,436	-	5,334	**125,362,770**
Investment securities pledged under repurchase agreements	-	-	-	**-**
Other financial assets	537,399	315	16	**537,730**
	398,304,550	**46,738,576**	**3,082,296**	**448,125,422**
Liabilities				
Amounts due to banks	297,849	41,126	2,002,034	**2,341,009**
Derivative financial liabilities	-	-	-	**-**
Amounts due to customers	260,105,275	70,594,358	11,150,692	**341,850,325**
Debt securities issued	13,429,730	863,590	398,828	**14,692,148**
Other borrowed funds	31,460,258	-	3,041,198	**34,501,456**
Lease liabilities	1,463,632	57,882	-	**1,521,514**
Subordinated debt	-	276,139	-	**276,139**
Other liabilities	2,064,398	-	87,036	**2,151,434**
	308,821,141	**71,833,095**	**16,679,788**	**397,334,025**
Net assets/(liabilities)	**89,483,408**	**(25,094,520)**	**(13,597,492)**	**50,791,397**

Other non-OECD counties as of 31 December 2022 are mostly represented by Russia, Georgia, Argentina, Uruguay, Bahamas, Panama, United Arab Emirates, Egypt, India, Lebanon.

	31 December 2021			
	Armenia	***Other non-OECD countries***	***OECD countries***	***Total***
Assets				
Cash and cash equivalents	52,502,386	2,552,876	1,415,218	**56,470,480**
Trading securities	854,438	–	–	**854,438**
Amounts due from banks	21,113,873	2,063	697,706	**21,813,642**
Derivative financial assets	–	6,862	–	**6,862**
Loans and advances to customers	201,616,891	32,481,359	190,456	**234,288,706**
Investment securities	40,633,559	–	5,333	**40,638,892**
Investment securities pledged under repurchase agreements	9,509,290	–	–	**9,509,290**
Other financial assets	542,614	286	356,326	**899,226**
	326,773,051	**35,043,446**	**2,665,039**	**364,481,536**
Liabilities				
Amounts due to banks	9,794,493	107,454	3,076,764	**12,978,711**
Derivative financial liabilities	–	14,535	33,776	**48,311**
Amounts due to customers	202,576,471	49,129,880	9,716,255	**261,422,606**
Debt securities issued	14,840,139	1,821,872	573,680	**17,235,691**
Other borrowed funds	25,193,250	1,161,177	2,789,855	**29,144,282**
Lease liabilities	1,440,047	–	–	**1,440,047**
Subordinated debt	–	336,885	–	**336,885**
Other liabilities	1,154,664	–	167,622	**1,322,286**
	254,999,064	**52,571,803**	**16,357,952**	**323,928,819**
Net assets/(liabilities)	**71,773,987**	**(17,528,357)**	**(13,692,913)**	**40,552,717**

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Other non-OECD counties as of 31 December 2021 are mostly represented by Russia, Georgia, Argentina, Uruguay, Bahamas, Panama, United Arab Emirates, Egypt, India, Lebanon.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Group denominated in Armenian drams and 6% on certain obligations of the Group denominated in foreign currency in Armenian drams and 12% on certain obligations of the Group denominated in foreign currency. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia. As at 31 December 2022 and 31 December 2021, these ratios were as follows:

	Threshold	*31 December 2022, %*	*31 December 2021, %*
N21 “General Liquidity Ratio” (highly liquid assets / total assets)	Min 15%	46.92	38.04
N22 “Current Liquidity Ratio” (highly liquid assets / liabilities payable on demand)	Min 60%	106.22	105.50

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. See Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

	31 December 2022					
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to banks	281,435	1,062,553	896,984	58,997	59,036	**2,359,004**
Derivative liabilities	0					**0**
Amounts due to customers	197,119,308	20,547,649	78,138,197	47,941,436	1,254,780	**345,001,370**
Other borrowed funds	689,346	425,450	4,621,022	19,703,786	18,930,124	**44,369,728**
Debt securities issued	0	0	185,235	16,219,785	0	**16,405,020**
Lease liabilities	61,968	122,720	487,415	1,329,302	319,271	**2,320,676**
Subordinated debt	276,562	0	0	0	0	**276,562**
Total undiscounted financial liabilities	**198,428,619**	**22,158,372**	**84,328,852**	**85,253,306**	**20,563,210**	**410,732,358**
Commitments and contingent liabilities	23,822,040	–	–	–	–	23,822,040

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	31 December 2021					
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to banks	9,830,501	1,331,335	1,608,864	157,550	72,021	**13,000,271**
Derivative liabilities	48,311	–	–	–	–	**48,311**
Amounts due to customers	115,848,109	30,274,041	67,219,130	50,217,169	1,315,675	**264,874,124**
Other borrowed funds	263,488	1,247,073	5,063,636	15,699,780	14,743,461	**37,017,438**
Debt securities issued	–	–	10,148,469	8,618,261	–	**18,766,730**
Lease liabilities	55,741	107,376	393,124	947,223	239,478	**1,742,942**
Subordinated debt	–	–	23,605	337,387	–	**360,992**
Total undiscounted financial liabilities	**126,046,150**	**32,959,825**	**84,456,828**	**75,977,370**	**16,370,635**	**335,810,808**
Commitments and contingent liabilities	**17,730,573**	**–**	**–**	**–**	**–**	**17,730,573**

The maturity analysis does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period "Demand and less than 1 month" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

Interest rate risk

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

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

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

Currency	*Increase in basis points 31 December 2022*	*Sensitivity of net interest income 31 December 2022*	*Sensitivity of equity 31 December 2022*
AMD	1.50%	(20,976)	(3,399,749)
USD	1.25%	-	(634,488)
EUR	0.20%	-	(18,541)

Currency	*Decrease in basis points 31 December 2022*	*Sensitivity of net interest income 31 December 2022*	*Sensitivity of equity 31 December 2022*
AMD	1.50%	20,976	3,399,749
USD	0.25%	-	126,898
EUR	0.20%	-	18,541

(thousands of Armenian drams)

30. Risk management (continued)

Market risk (continued)

Currency	***Increase in basis points 2021***	***Sensitivity of net interest income 2021***	***Sensitivity of equity 2021***
AMD	1.50%	(28,341)	(2,322,887)
USD	1.25%	−	(338,247)
EUR	0.20%	−	(1,780)

Currency	***Decrease in basis points 2021***	***Sensitivity of net interest income 2021***	***Sensitivity of equity 2021***
AMD	1.50%	28,341	2,322,887
USD	0.25%	−	67,649
EUR	0.20%	−	1,780

(thousands of Armenian drams)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management has set limits on positions by currency.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2022 and 31 December 2021 on its non-trading monetary assets and liabilities. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	31 December 2022		***31 December 2021***	
Currency	***Change in currency rate in %***	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
USD	5.0%	(172,583)	5.0%	(13,065)
USD	(5.0%)	172,583	(5.0%)	13,065
EUR	8.5%	(8,705)	8.5%	(12,876)
EUR	(8.5%)	8,705	(8.5%)	12,876

Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Group. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Group are prepared by the Group’s Legal Department by cooperating with the Group’s appropriate departments and are approved by the Group’s Executive Board. In the Group’s day-to-day operations non-standard contracts between the Group and third parties are allowed only in case of appropriate conclusion from the Group’s Legal Department.

The IT risks are managed in accordance with internal legal acts.

(thousands of Armenian drams)

30. Risk management (continued)

Operational risk (continued)

The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts;
- Physical protection of the Group's assets and critical documents (including loan contracts);
- Establishing and maintaining limits;
- Common preservation of property and records;
- Implementation and archiving of data journals;
- Implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Group's risks and supervises the Group's activity and operational risks.

The Group's compliance with the standards is accompanied by the internal auditor's periodic observations. The results of those observations are discussed by the Group's management's appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

31. Fair value measurements

Fair value measurement procedures

The Group's management determines the policies and procedures for both recurring fair value measurement, such as trading and FVOCI securities, derivatives and for non-recurring measurement, such as repossessed assets.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(thousands of Armenian drams)

31. Fair value measurements (continued)

Financial instruments that are not measured at fair value

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

	31 December 2022				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	216,871,292	**216,871,292**	**223,808,567**
Cash and cash equivalents	50,293,614	–	–	**50,293,614**	**50,293,614**
Amounts due from banks	–	–	47,102,327	**47,102,327**	**47,102,327**
Investment securities at amortised cost	7,012,418	9,307,696	–	**16,320,114**	**18,392,578**
Other financial assets	–	–	628,482	**628,482**	**628,482**
Financial liabilities					
Amounts due to customers	–	–	341,850,325	**341,850,325**	**341,850,325**
Other borrowed funds	–	–	34,501,456	**34,501,456**	**34,501,456**
Amounts due to banks	–	–	2,341,009	**2,341,009**	**2,341,009**
Debt securities issued	–	14,700,166	–	**14,700,166**	**14,692,148**
Lease liabilities	–	–	1,521,514	**1,521,514**	**1,521,514**
Subordinated debt	–	–	276,139	**276,139**	**276,139**
Other financial liabilities	–	–	2,151,438	**2,151,438**	**2,151,438**

	31 December 2021				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	227,614,599	**227,614,599**	**234,288,706**
Cash and cash equivalents	56,470,480	–	–	**56,470,480**	**56,470,480**
Amounts due from banks	–	–	21,813,642	**21,813,642**	**21,813,642**
Investment securities at amortised cost	–	1,244,075	–	**1,244,075**	**1,208,910**
Other financial assets	–	–	899,226	**899,226**	**899,226**
Financial liabilities					
Amounts due to customers	–	–	261,422,606	**261,422,606**	**261,422,606**
Other borrowed funds	–	–	29,144,282	**29,144,282**	**29,144,282**
Amounts due to banks	–	–	12,978,711	**12,978,711**	**12,978,711**
Debt securities issued	–	17,435,130	–	**17,435,130**	**17,235,691**
Lease liabilities	–	–	1,440,047	**1,440,047**	**1,440,047**
Subordinated debt	–	–	336,885	**336,885**	**336,885**
Other financial liabilities	–	–	1,322,286	**1,322,286**	**1,322,286**

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 3% to 22% per annum (2021: 3% to 22% per annum).

(thousands of Armenian drams)

31. Fair value measurements (continued)

Financial instruments that are measured at fair value (continued)

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

	31 December 2022		
	Level 1	***Level 2***	***Total***
Financial assets			
Trading securities	–	823,400	**823,400**
Derivative financial assets	–	197,014	**197,014**
Investment securities at FVOCI	18,926,118	88,044,074	**106,970,192**
Investment securities at FVOCI pledged under repurchase agreements	–	-	**-**
Total	**18,926,118**	**89,064,488**	**107,990,606**
Financial liabilities			
Derivative financial liabilities	–	-	**-**
Total	**–**	**-**	**-**
Net fair value	**18,926,118**	**89,064,488**	**107,990,606**

	31 December 2021		
	Level 1	***Level 2***	***Total***
Financial assets			
Trading securities	–	854,438	**854,438**
Derivative financial assets	–	6,862	**6,862**
Investment securities at FVOCI	–	39,429,982	**39,429,982**
Investment securities at FVOCI pledged under repurchase agreements	–	9,509,290	**9,509,290**
Total	**–**	**49,800,572**	**49,800,572**
Financial liabilities			
Derivative financial liabilities	–	48,311	**48,311**
Total	**–**	**48,311**	**48,311**
Net fair value	**–**	**49,752,261**	**49,752,261**

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

Fair value measurement of non-financial assets and liabilities

	31 December 2022	
	Level 3	***Total***
Non-financial assets		
Land and buildings	5,305,396	**5,305,396**
Total	**5,305,396**	**5,305,396**

	31 December 2021	
	Level 3	***Total***
Non-financial assets		
Land and buildings	4,790,824	**4,790,824**
Total	**4,790,824**	**4,790,824**

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement of non-financial assets and liabilities (continued)

Fair value measurements in Level 3

The Group's non-financial assets classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

Non-financial assets	***Land and buildings***	***Total***
Balance as at 1 January 2022	**4,790,824**	**4,790,824**
Purchases	9,330	9,330
Disposals	–	–
Effect of revaluation	627,700	627,700
Depreciation charge	(122,457)	(122,457)
Net fair value at 31 December 2022	**5,305,396**	**5,305,396**

Non-financial assets	***Land and buildings***	***Total***
Balance as at 1 January 2021	**4,986,047**	**4,986,047**
Purchases	1,204	**1,204**
Depreciation charge	(196,427)	**(196,427)**
Net fair value at 31 December 2021	**4,790,824**	**4,790,824**

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

The appraisal was carried out using a comparative and income methods that reflect observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the premise in question, including plot size, location, encumbrances and current use.

The land and buildings were revalued during 2022. The land and buildings were previously revalued during 2019.

32. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognised a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, w hich instead records a separate asset for any cash given.

As at 31 December 2022 the Group does not have securities sold under repurchase agreements (2021: AMD 9,509,290 thousand).

33. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements which do not result in an offset in the consolidated statement of financial position:

(thousands of Armenian drams)

31 December 2022	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
Financial liabilities						
Amounts due to banks – repo	-	–	-	-	–	–
Total	**-**	**–**	**-**	**-**	**–**	**–**

31 December 2021	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
Financial liabilities						
Amounts due to banks – repo	9,005,841	–	9,005,841	(9,005,841)	–	–
Total	**9,005,841**	**–**	**9,005,841**	**(9,005,841)**	**–**	**–**

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 30 for the Group's contractual undiscounted repayment obligations.

	31 December 2022			*31 December 2021*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	50,293,614	0	**50,293,614**	56,470,480	–	**56,470,480**
Trading securities	7,433	815,967	**823,400**	7,435	847,003	**854,438**
Derivative assets	197,014	0	**197,014**	6,862	–	**6,862**
Amounts due from banks	43,117,188	3,985,139	**47,102,327**	18,426,796	3,386,846	**21,813,642**
Loans and advances to customers	82,167,547	141,641,020	**223,808,567**	88,619,862	145,668,844	**234,288,706**
Investment securities	44,444,360	80,918,410	**125,362,770**	3,868,708	36,770,184	**40,638,892**
Investment securities pledged under repurchase agreements	0	0	**0**	1,213,724	8,295,566	**9,509,290**
Property, plant and equipment	0	8,775,211	**8,775,211**	–	8,202,522	**8,202,522**
Intangible assets	0	653,241	**653,241**	–	567,275	**567,275**
Repossessed assets	2,200,230	0	**2,200,230**	2,529,398	–	**2,529,398**
Other assets	4,470,820	425,555	**4,896,375**	2,601,224	89,071	**2,690,295**
Total	**226,898,206**	**237,214,544**	**464,112,750**	**173,744,489**	**203,827,311**	**377,571,800**
Liabilities						
Amounts due to banks	2,227,534	113,476	**2,341,009**	12,760,945	217,766	**12,978,711**
Derivative liabilities	0	0	**0**	48,311	–	**48,311**
Amounts due to customers	293,250,978	48,599,347	**341,850,325**	210,577,862	50,844,744	**261,422,606**
Other borrowed funds	3,920,578	30,580,878	**34,501,456**	5,039,626	24,104,656	**29,144,282**
Debt securities issued	185,235	14,506,914	**14,692,149**	9,434,292	7,801,399	**17,235,691**
Lease liabilities	467,126	1,054,388	**1,521,514**	426,607	1,013,440	**1,440,047**
Current income tax liabilities	3,260,111	0	**3,260,111**	699,521	–	**699,521**
Deferred tax liabilities	0	135,369	**135,369**	–	904,643	**904,643**
Other liabilities	2,669,666	13,892	**2,683,558**	1,593,737	16,317	**1,610,054**
Provisions on commitments and contingencies	143,061	0	**143,061**	149,784	–	**149,784**
Subordinated debt	276,139	0	**276,139**	787	336,098	**336,885**
Total	**306,400,427**	**95,004,264**	**401,404,691**	**240,731,472**	**85,239,063**	**325,970,535**
Net position	**(79,502,221)**	**142,210,280**	**62,708,059**	**(66,986,983)**	**118,588,248**	**51,601,265**

The maturity analysis in the table above does not reflect the historical behavior and actual repayment pattern of term deposits. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The table below shows an analysis of assets and liabilities analysed according securities instant liquidity as at 31 December 2022.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

Highly liquid portion of investments at fair value through profit or loss and investments at fair value through other comprehensive income other than equity instruments are included in amounts due in the period "Demand and less than 1 month" as the Bank's management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities. Securities at amortised cost state securities are classified as demand and less than 1 month considering the availability of repo agreements.

	31 December 2022								
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*From 1 to 5 years*	*More than 5 years*	*Subtotal less over 12 months*	*No maturity*	*Total*
Cash and cash equivalents	50,293,614	0	0	**50,293,614**	0	0	**0**	0	**50,293,614**
Trading securities	537,856	0	7,433	**545,289**	0	278,111	**278,111**	0	**823,400**
Derivative financial assets	197,014	0	0	**197,014**	0	0	**0**	0	**197,014**
Amounts due from banks	16,421,363	0	553,481	**16,974,844**	0	0	**0**	30,127,483	**47,102,327**
Loans and advances to customers	15,013,965	12,737,972	54,415,610	**82,167,547**	71,882,396	69,758,624	**141,641,020**	0	**223,808,567**
Investment securities	92,521,172	4,036,139	16,778,269	**113,335,580**	9,950,742	1,996,094	**11,946,835**	80,354	**125,362,770**
Investment securities pledged under repurchase agreements	0	0	0	**0**	0	0	**0**	0	**0**
Property, plant and equipment	0	0	0	**0**	0	0	**0**	8,775,211	**8,775,211**
Intangible assets	0	0	0	**0**	0	0	**0**	653,241	**653,241**
Repossessed assets	0	0	2,200,230	**2,200,230**	0	0	**0**	0	**2,200,230**
Other assets	3,672,746	28,356	769,718	**4,470,820**	183,843	239,848	**423,690**	1,865	**4,896,375**
Total assets	178,657,730	16,802,467	74,724,741	270,184,938	82,016,980	72,272,676	154,289,657	39,638,154	464,112,750
Liabilities									
Amounts due to banks	281,435	1,056,239	889,860	**2,227,534**	54,440	0	**54,440**	59,036	**2,341,009**
Derivative financial liabilities	0	0	0	**0**	0	0	**0**	0	**0**
Amounts due to customers	197,054,993	19,948,506	76,247,480	**293,250,978**	47,352,849	1,246,498	**48,599,347**	0	**341,850,325**
Other borrowed funds	636,233	233,551	3,050,793	**3,920,578**	14,040,461	16,540,417	**30,580,878**	0	**34,501,456**
Debt securities issued	0	0	185,235	**185,235**	14,506,914	0	**14,506,914**	0	**14,692,149**
Lease liabilities	42,575	85,150	339,401	**467,126**	886,970	167,418	**1,054,388**	0	**1,521,514**
Current income tax liabilities	0	0	3,260,111	**3,260,111**	0	0	**0**	0	**3,260,111**
Deferred tax liabilities	0	0	0	**0**	135,369	0	**135,369**	0	**135,369**
Other liabilities	176,141	247,154	2,246,371	**2,669,666**	0	13,892	**13,892**	0	**2,683,558**
Provisions on commitments and contingencies	143,061	0	0	**143,061**	0	0	**0**	0	**143,061**
Subordinated debt	276,139	0	0	**276,139**	0	0	**0**	0	**276,139**
Total liabilities	198,610,577	21,570,600	86,219,251	306,400,427	76,977,003	17,968,225	94,945,228	59,036	401,404,691
Net position	(19,952,847)	(4,768,132)	(11,494,510)	(36,215,489)	5,039,978	54,304,451	59,344,429	39,579,118	62,708,058
Accumulated gap	(19,952,847)	(24,720,979)	(36,215,489)		(31,175,511)	23,128,940			

(thousands of Armenian drams)

	31 December 2021								
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal less over 12 months	No maturity	Total
Cash and cash equivalents	56,470,480	–	–	56,470,480	–	–	–	–	56,470,480
Trading securities	557,216	–	7,436	564,652	–	289,786	289,786	–	854,438
Derivative financial assets	6,862	–	–	6,862	–	–	–	–	6,862
Amounts due from banks	707,278	–	6,203	713,481	376,341	–	376,341	20,723,820	21,813,642
Loans and advances to customers	18,304,449	36,329,770	33,985,643	88,619,862	82,066,186	63,602,658	145,668,844	–	234,288,706
Investment securities	23,740,434	180,924	3,251,035	27,172,393	12,722,649	663,295	13,385,944	80,555	40,638,892
Investment securities pledged under repurchase agreements	–	737,726	475,998	1,213,724	–	8,295,566	8,295,566	–	9,509,290
Property, plant and equipment	–	–	–	–	–	–	–	8,202,522	8,202,522
Intangible assets	–	–	–	–	–	–	–	567,275	567,275
Repossessed assets	–	–	2,529,398	2,529,398	–	–	–	–	2,529,398
Other assets	2,306,030	33,895	261,299	2,601,224	23,682	63,523	87,205	1,866	2,690,295
Total assets	102,092,749	37,282,315	40,517,012	179,892,076	95,188,858	72,914,828	168,103,686	29,576,038	377,571,800
Liabilities									
Amounts due to banks	9,830,500	1,328,860	1,601,585	12,760,945	145,745	–	145,745	72,021	12,978,711
Derivative financial liabilities	48,311	–	–	48,311	–	–	–	–	48,311
Amounts due to customers	115,773,932	29,836,363	64,967,567	210,577,862	49,536,700	1,308,044	50,844,744	–	261,422,606
Other borrowed funds	214,520	1,078,081	3,747,025	5,039,626	11,174,424	12,930,232	24,104,656	–	29,144,282
Debt securities issued	–	–	9,434,292	9,434,292	7,801,399	–	7,801,399	–	17,235,691
Lease liabilities	42,620	82,340	301,647	426,607	775,764	237,676	1,013,440	–	1,440,047
Current income tax liabilities	–	–	699,521	699,521	–	–	–	–	699,521
Deferred tax liabilities	–	–	–	–	904,643	–	904,643	–	904,643
Other liabilities	776,585	128,203	688,949	1,593,737	–	16,317	16,317	–	1,610,054
Provisions on commitments and contingencies	149,784	–	–	149,784	–	–	–	–	149,784
Subordinated debt	–	–	787	787	336,098	–	336,098	–	336,885
Total liabilities	126,836,252	32,453,847	81,441,373	240,731,472	70,674,773	14,492,269	85,167,042	72,021	325,970,535
Net position	(24,743,503)	4,828,468	(40,924,361)	(60,839,396)	24,514,085	58,422,559	82,936,644	29,504,017	51,601,265
Accumulated gap	(24,743,503)	(19,915,035)	(60,839,396)		(36,325,311)	22,097,248			

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

35. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of these consolidated financial statements, related parties include the Parent, entities under common control, members of Group's Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

The outstanding balances of related party transactions are as follows:

(thousands of Armenian drams)

35. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	31 December 2022			*31 December 2021*		
	Parent	***Entities under common control***	***Key management personnel and their close family members***	***Parent***	***Entities under common control***	***Key management personnel and their close family members***
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	**4,648**	**37,948,054**	**292,780**	**128**	**38,478,523**	**464,979**
Loans issued during reporting period	81,838	15,453,031	810,453	90,982	15,218,151	837,294
Loan repayments during reporting period	(74,767)	(23,298,073)	(872,478)	(86,462)	(15,748,620)	(1,009,493)
Loans outstanding at the end of the reporting period, gross	**11,719**	**30,103,012**	**230,755**	**4,648**	**37,948,054**	**292,780**
Less: allowance for loan impairment	(145)	(47,687)	(1,399)	(42)	(42,502)	(1,705)
Loans outstanding at the end of the reporting period, net	**11,574**	**30,055,325**	**229,356**	**4,606**	**37,905,552**	**291,075**
Amounts due to customers						
Deposits at 1 January	**173,543**	**59,007,765**	**1,041,183**	**273,832**	**56,348,198**	**1,302,617**
Deposits received during reporting period	992,054	190,544,006	6,064,298	221,225	172,226,170	6,369,121
Deposits repaid during reporting period	(946,004)	(211,480,293)	(5,995,043)	(321,514)	(169,566,603)	(6,630,555)
Deposits at the end of the reporting period	**219,593**	**38,071,478**	**1,110,438**	**173,543**	**59,007,765**	**1,041,183**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	-	336,885		-	366,607	
Redemption of subordinated loans	-	-	-	-	-	-
Net result from FX revaluation	-	(62,010)	-	-	(30,090)	-
Other movements		1,264	-		368	-
Subordinated debt at the end of the reporting period	**-**	**276,139**	**-**	**-**	**336,885**	**-**
Items not recognised in the consolidated statement of financial position						
Guarantees given	-	-	-	-	-	-
Consolidated statement of comprehensive income						
Interest income	-	2,753,980	37,279	–	3,205,122	31,326
Fee and commission income	138	25,951	6,246	129	19,984	1,713
Other income	3,106	144,336	5,619	174	77,705	2,636
Interest expense	(2,680)	(21,342)	-	(3,460)	(2,107,255)	(76,505)
Impairment charge	(103)	(5,185)	306	(40)	41,827	3,311
Other expenses	-	(57,278)	(24,793)	–	(27,878)	(32,749)

Compensation of key management personnel was comprised of the following:

	31 December 2022	*31 December 2021*
Salaries and other short-term benefits	690,230	746,485
Total key management personnel compensation	**690,230**	**746,485**

(thousands of Armenian drams)

36. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Lease liabilities*	*Total liabilities from financing activities*
Carrying amount at 31 December 2020	18, 20, 21	**21,527,117**	**23,518,467**	**366,607**	**1,761,890**	**47,174,081**
Proceeds from issue		8,218,900	10,943,758	–	–	19,162,658
Redemption		(11,352,600)	(5,190,879)	–	(581,853)	(17,125,332)
Foreign currency translation		(1,066,415)	(149,204)	(29,716)	–	(1,245,335)
Non-cash transactions		–	–	–	95,334	95,334
Other		(91,311)	22,140	(6)	164,676	95,499
Carrying amount at 31 December 2021	18, 20, 21	**17,235,691**	**29,144,282**	**336,885**	**1,440,047**	**48,156,905**
Proceeds from issue		8,214,949	11,654,735	-	507,609	20,377,293
Redemption		(8,735,050)	(6,256,980)	-	(575,601)	(15,567,631)
Foreign currency translation		(1,995,518)	(133,265)	(62,010)	-	(2,190,792)
Non-cash transactions		-	-	-	-	-
Other		(27,924)	92,684	1,264	149,459	215,482
Carrying amount at 31 December 2022	18, 20, 21	**14,692,148**	**34,501,456**	**276,139**	**1,521,514**	**50,991,257**

The "Other" line includes origination of new lease liabilities and lease modifications being non-cash movements. It also includes the effect of accrued interest on debt securities issued, other borrowed funds, subordinated loans and lease liabilities.

37. Capital adequacy

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

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

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

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets, as well as a ratio of core capital to risk weighted assets (capital adequacy ratios N1.1 and N1.2) above the prescribed minimum levels. As at 31 December 2022 and 31 December 2021 this minimum levels of N1.1 and N1.2 ratios were accordingly 9% and 12%, The Group is in compliance with the statutory capital ratio as at 31 December 2022 and 31 December 2021.

The following table shows the composition of capital position calculated in accordance with requirements set by the Central Bank of Armenia, as at 31 December 2022 and 31 December 2021:

	31 December 2022	*31 December 2021*
Tier 1 capital	54,567,397	40,060,395
Tier 2 capital	(508,244)	2,246,488
Total capital	**54,059,153**	**42,306,883**
Risk-weighted assets	**331,804,294**	**296,678,473**
Capital adequacy ratio N1.1	**16.45%**	**13.50%**
Capital adequacy ratio N1.2	**16.29%**	**14.26%**

(thousands of Armenian drams)

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

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