Ameriabank CJSC

Financial Statements

for the year ended 31 December 2022

Contents

KPMG Armenia LLC
Erebuni Plaza business center, 8th floor
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors of Ameriabank CJSC

Opinion

We have audited the financial statements of Ameriabank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses for loans to legal entities and individuals	
Please refer to the Note 19 in the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans and advances to customers represent 59% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used, as outlined below. The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas: – timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9")); – assessment of probability of default (PD) and loss given default (LGD); – assessment of adjustment to incorporate forward-looking information; – expected cash flows forecast, including from realisation of collateral for loans to customers classified in Stage 3. Due to the significant volume of loans to customers and complexity and subjectivity over estimating amount of ECL, this area is a key audit matter.	We analysed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of our internal credit risks specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate, our audit procedures included the following: – for loans to legal entities we assessed and tested the design, implementation and operating effectiveness of the controls over allocation of loans into Stages. – for loans to individuals we tested the design, implementation and operating effectiveness of controls over calculation of overdue days used as a basis for the allocation of loans into stages. – for a sample of loans to legal entities, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements applied by the Bank. – for loans to legal entities assigned to Stages 1 and 2, where ECL are assessed collectively, we assessed the appropriateness of the related models, and reconciled the model input data to primary sources, on a sample basis. – for loans to legal entities in Stages 1 and 2, where ECL are assessed individually, we assessed the appropriateness of the internal credit rating model, and reconciled the model input data to primary sources, on a sample basis. We assessed data inputs for LGD calculation, by agreeing collateral values to external valuation reports and testing the correctness and appropriateness of discounts applied. We have involved our internal valuation specialists to help us to assess the appropriateness of the values of pledged collateral used for LGD calculation, on a sample basis. – for a sample of Stage 3 loans to legal entities, where ECL are assessed individually, we assessed the assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements.

	– for loans to individuals, on a sample basis we checked the completeness and accuracy of data inputs into ECL calculation models. – for a sample of Stage 3 loans to individuals, where ECL are assessed individually, we assessed, by comparing to information available in the market, the assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. – we assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2022 with the actual results for 2022. – we assessed the accuracy and relevance of macroeconomic forecasts used in the adjustment to incorporate forward looking information by reperforming regression analysis and agreeing macroeconomic data to publicly available sources. – we also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Gevorgyan
Engagement Partner

KPMG Armenia

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Tigran Gasparyan
Director of KPMG Armenia LLC

KPMG Armenia LLC
2 March 2023

	Notes	2022 AMD'000	2021 AMD'000
Interest income calculated using effective interest rate	6	82,169,087	69,992,691
Other interest income	6	3,951,595	3,144,325
Interest expense	6	(35,661,046)	(32,662,210)
Net interest income		**50,459,636**	**40,474,806**
Fee and commission income	7	11,729,478	7,144,770
Fee and commission expense	7	(2,594,247)	(2,053,290)
Net fee and commission income		**9,135,231**	**5,091,480**
Net gain on financial instruments at fair value through profit or loss	8	5,875,774	2,465,815
Net foreign exchange gain	9	35,460,500	5,920,451
Net gain/(loss) on investment securities measured at fair value through other comprehensive income		3,709	(106,457)
Other operating income	10	939,702	588,832
Other operating expenses	11	(5,289,389)	(3,805,377)
Operating income		**96,585,163**	**50,629,550**
Net impairment losses on financial instruments	12	(4,587,713)	(6,157,183)
Other impairments and provisions		(112,215)	(65,466)
Operating income after impairment		**91,885,235**	**44,406,901**
Personnel expenses		(28,327,332)	(13,303,851)
Other general administrative expenses	13	(8,688,985)	(7,231,329)
Profit before income tax		**54,868,918**	**23,871,721**
Income tax expense	14	(10,599,631)	(4,455,654)
Profit for the year		**44,269,287**	**19,416,067**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve for investment securities:			
– net change in fair value		(1,204,167)	(386,132)
– net amount reclassified to profit or loss		(3,041)	87,295
Total items that are or may be reclassified subsequently to profit or loss		(1,207,208)	(298,837)
Other comprehensive loss for the year, net of income tax		**(1,207,208)**	**(298,837)**
Total comprehensive income for the year		**43,062,079**	**19,117,230**
Earnings per share			
Basic	29	378.36	166.04
Diluted	29	378.36	166.04

The financial statements as set out on pages 7 to 92 were approved by the Management Board on 2 March 2023 and were signed on its behalf by:

Artak Hanesyan
Chairman of Management Board – General Director

Mher Kandalyan
Deputy Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2022 AMD'000	2021 AMD'000
ASSETS			
Cash and cash equivalents	15	113,641,023	264,090,145
Financial assets measured at fair value through profit or loss	16(a)		
− Held by the Bank		10,721,168	8,223,960
Investment securities measured at fair value through other comprehensive income	16(b)		
− Held by the Bank		57,363,607	7,920,255
− Pledged under sale and repurchase agreements		-	4,096,530
Investment securities measured at amortised cost	16(c)		
− Held by the Bank		152,304,277	37,915,734
− Pledged under sale and repurchase agreements		4,397,608	15,770,574
Loans and advances to banks	17	94,094,839	43,333,261
Amounts receivable under reverse repurchase agreements	18	47,116,435	7,533,683
Loans and advances to customers	19	735,543,120	673,086,264
Property, equipment and intangible assets	20	12,022,885	10,649,082
Right of use asset	21	10,558,974	11,163,102
Deferred tax asset	14	2,470,217	-
Repossessed assets	19	910,030	1,326,280
Other assets	22	10,685,623	11,278,135
Total assets		**1,251,829,806**	**1,096,387,005**
LIABILITIES			
Derivative financial liabilities	16(a)	69,563	92,827
Deposits and balances from banks	23	62,685,039	56,649,761
Amounts payable under repurchase agreements	28	3,936,778	18,011,594
Current accounts and deposits from customers	24	784,634,192	600,614,296
Debt securities issued	25	92,125,513	111,074,943
Other borrowed funds	26	58,124,688	127,712,418
Subordinated borrowings	26	28,155,324	27,393,716
Current tax liability		11,302,060	454,831
Deferred tax liability	14	-	664,044
Provision for credit related commitments	32	303,276	244,929
Lease liability	21	11,852,055	12,106,310
Other liabilities	27	26,589,773	12,436,087
Total liabilities		**1,079,778,261**	**967,455,756**
EQUITY	29		
Share capital		54,414,765	54,385,935
Share premium		204,113	174,726
Revaluation reserve for investment securities		(1,473,167)	(265,959)
Retained earnings		118,905,834	74,636,547
Total equity		**172,051,545**	**128,931,249**
Total liabilities and equity		**1,251,829,806**	**1,096,387,005**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2022 AMD'000	2021 AMD'000
Cash flows from operating activities			
Interest receipts		84,642,851	73,975,542
Interest payments		(33,346,815)	(32,080,253)
Fee and commission receipts		11,729,478	7,144,770
Fee and commission payments		(2,594,247)	(2,053,290)
Net receipts from financial assets at fair value through profit or loss		1,891,015	290,078
Net receipts from foreign exchange transactions	9	41,806,684	7,647,683
Other operating payments		(4,349,687)	(3,805,377)
Salaries and other payments to employees		(15,014,274)	(9,491,879)
Other general administrative expenses payments		(4,885,856)	(3,798,652)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(3,610,739)	1,022,948
Loans and advances to banks		(51,589,475)	(7,696,239)
Amounts receivable under reverse repurchase agreements		(39,934,615)	9,809,681
Loans and advances to customers		(149,487,982)	(33,699,271)
Other assets		(615,695)	124,158
(Decrease)/increase in operating liabilities			
Financial instruments at fair value through profit or loss		3,524,728	1,676,826
Deposits and balances from banks		11,607,765	4,962,739
Amounts payable under repurchase agreements		(14,029,245)	(2,000,002)
Current accounts and deposits from customers		267,851,405	37,699,399
Other liabilities		1,801,314	1,773,309
Net cash from operating activities before income tax paid		**105,396,610**	**51,502,170**
Income tax paid		(2,621,666)	(4,853,245)
Cash flows from operating activities		**102,774,944**	**46,648,925**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets		(4,155,780)	(2,580,288)
Acquisition of investment securities measured at fair value through other comprehensive income		(165,804,584)	(5,199,788)
Proceeds from sale and repayment of investment securities measured at fair value through other comprehensive income		115,316,180	4,708,651
Acquisition of investment securities measured at amortised cost		(166,997,040)	(15,248,444)
Proceeds from repayment of investment securities measured at amortised cost		59,281,794	13,009,591
Cash flows used in investing activities		**(162,359,430)**	**(5,310,278)**
Cash flows from financing activities			
Repayment of lease liabilities	21	(2,044,969)	(1,988,756)
Proceeds from issue of share capital	29	58,217	108,417
Receipt of other borrowed funds and subordinated liabilities	26	40,097,953	60,442,469
Repayment of other borrowed funds and subordinated liabilities	26	(82,461,252)	(63,438,777)
Proceeds from debt securities issued	25	31,976,529	113,175,030
Repayment of debt securities issued	25	(36,336,737)	(99,882,931)
Cash flows (used in)/from financing activities		**(48,710,259)**	**8,415,452**
Net (decrease)/increase in cash and cash equivalents		**(108,294,745)**	**49,754,099**
Effect of changes in exchange rates on cash and cash equivalents		(42,116,463)	(20,034,617)
Effect of changes in impairment allowance		(37,914)	(42,149)
Cash and cash equivalents as at the beginning of the year		264,090,145	234,412,812
Cash and cash equivalents as at the end of the year	15	**113,641,023**	**264,090,145**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2021	37,386,880	17,065,364	32,878	55,220,480	109,705,602
Profit for the year	-	-	-	19,416,067	19,416,067
Other comprehensive loss					
Fair value reserve for investment securities					
− net change in fair value	-	-	(386,132)	-	(386,132)
− net amount reclassified to profit or loss	-	-	87,295	-	87,295
Total comprehensive income for the year	**-**	**-**	**(298,837)**	**19,416,067**	**19,117,230**
Transactions with owners, recorded directly in equity					
Issue of share capital	16,999,055	(16,890,638)	-	-	108,417
Total transactions with owners	**16,999,055**	**(16,890,638)**	**-**	**-**	**108,417**
Balance as at 31 December 2021	**54,385,935**	**174,726**	**(265,959)**	**74,636,547**	**128,931,249**
Balance as at 1 January 2022	54,385,935	174,726	(265,959)	74,636,547	128,931,249
Profit for the year	-	-	-	44,269,287	44,269,287
Other comprehensive loss					
Fair value reserve for investment securities					
− net change in fair value	-	-	(1,204,167)	-	(1,204,167)
− net amount reclassified to profit or loss	-	-	(3,041)	-	(3,041)
Total comprehensive income for the year	**-**	**-**	**(1,207,208)**	**44,269,287**	**43,062,079**
Transactions with owners, recorded directly in equity					
Issue of share capital	28,830	29,387	-	-	58,217
Total transactions with owners	**28,830**	**29,387**	**-**	**-**	**58,217**
Balance as at 31 December 2022	**54,414,765**	**204,113**	**(1,473,167)**	**118,905,834**	**172,051,545**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Ameriabank CJSC (formerly Armimpexbank CJSC) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%.

During the years 2015-2020 Ameria Group (CY) sold part of its share to European Bank of Reconstruction and Development (EBRD), Asian Development Bank (ADB), ESPS Holding Limited and Afeyan Foundation for Armenia Inc. On 14 July 2020 Ameria Group (CY) was renamed to Imast Group (CY).

On 9 March 2021, ESPS Holding Limited purchased in full additionally issued 125 shares of the Bank with nominal value of AMD 320,000 per share for AMD 867,339 per share.

On 29 April 2021 the General Meeting of Shareholders of the Bank, approved increase of share capital by transferring share premium of AMD 16,891 million to share capital. After this transaction nominal value of 1 share increased from AMD 320 thousand to AMD 465 thousand.

On 25 April 2022, ESPS Holding Limited purchased in full additionally issued 62 shares of the Bank with nominal value of AMD 465,000 per share for AMD 938,987 per share.

As at 31 December 2022 and 2021 the Bank's shareholding structure was as follows:

	2022	2021
Imast Group (CY)	48.87%	48.90%
European Bank of Reconstruction and Development (EBRD)	17.73%	17.74%
Asian Development Bank (ADB)	13.92%	13.93%
ESPS Holding Limited	11.98%	11.92%
Afeyan Foundation for Armenia Inc.	7.5%	7.51%
	100.00%	**100.00%**

As at 31 December 2022 and 2021 the Bank had no ultimate controlling party.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank's assets and liabilities are located in Armenia.

The Bank has 24 branches (2021: 23 branches) from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 2 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia.

The number of the Bank's employees as at 31 December 2022 was 1,427 (2021: 1,157).

Related party transactions are detailed in Note 34.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development and tend to improve over the last years.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

Armenian economy has successfully resisted existing global turbulences and managed to register impressive macroeconomic indicators in 2022, mainly due to tourism, reallocation of number of companies into Armenia and significant increase of remittances. All the mentioned factors have resulted in 12.6% increase in GDP in 2022, which is significantly higher than it was anticipated at the beginning of the year. Per International Monetary Fund's (IMF) performance review, an economic rebound will continue. Government projects 7% growth for 2023. The government's 2021-2026 economic program seeks to advance an export-oriented and investment-driven growth model through a broad-based reform effort.

Standard & Poor's credit rating for Armenia stands at B+ with stable outlook dated 24 November 2022. Fitch credit rating for Armenia stands at B+, and was updated to positive outlook on 10 February 2023.

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

The AMD is also the presentation currency for the purposes of these financial statements. The official CBA exchange rates as at 31 December 2022 and 2021, were AMD 393.57 and AMD 480.14 to USD 1, and AMD 420.06 and AMD 542.61 to EUR 1, respectively.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i);
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition.

Assumptions and estimations uncertainty

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

- impairment of financial instruments: selection of model used to measure ECL, determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 30(c);
- estimates of fair values of financial assets and liabilities – Note 35.

3 Changes in significant accounting policies

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective for these financial statements.

Certain amendments and interpretations apply for the first time in 2022, but do not have significant impact on the Bank's financial statements and accounting policies.

4 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments at FVOCI, unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with the CBA, including obligatory reserves denominated in AMD, unrestricted balances (nostro accounts) held with other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

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

(d) Fees and commission

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

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are generated based on actual transactions with customers. The Bank classifies expenses directly attributable to revenue generation and not resulting from actual transactions with customers as other operating expenses. All other expenses are classified as general administrative expenses.

(e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

– interest income using the effective interest method;
– ECL and reversals; and
– foreign exchange gains and losses.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

– contingent events that would change the amount and timing of cash flows;
– leverage features;
– prepayment and extension terms;
– terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
– features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the CBA. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans (Note 4(e)(iii)).

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Interest rate benchmark reform

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

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

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Bank first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applied the policies on accounting for modifications to the additional changes.

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

– change the currency of the financial liability;
– change in collateral or other credit enhancement;
– inclusion of conversion option;
– change in the subordination of the financial liability.

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

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

iv. Impairment

See also Note 30(c).

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

– financial assets that are debt instruments;
– net investments in finance leases;
– financial guarantee contracts issued; and
– loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 30(c)).

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 30(c).

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 30(c)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

– *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
– *loan commitments and financial guarantee contracts*: generally, as a provision;
– *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
– *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

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

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

Non-integral financial guarantee contracts

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

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

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

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

(f) Loans and advances to customers

Loans and advances to customers caption in the statement of financial position include:

- loans to customers, receivables from factoring and receivables from letter of credit measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- net investments in finance leases.

(g) Deposits, debt securities issued and subordinated liabilities

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

(h) Financial guarantees and loan commitments

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

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

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

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

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

(i) Repurchase and reverse repurchase agreements

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

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

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

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

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

– leasehold improvements	5-20 years
– computers and communication equipment	5 to 10 years
– fixtures and fittings	5 to 10 years
– motor vehicles	7 years

(k) Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(l) Provisions

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

(m) Share capital

(i) Ordinary shares

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

(ii) Share premium

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

(iii) Dividends

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

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

(n) Repossessed property

Repossessed property is stated at lower of cost and net realisable value.

(o) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(p) Earnings per share

The Bank presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment reporting

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

(r) Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

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

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

(s) Leases

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

(i) As a lessee

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

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

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

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

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

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

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

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

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

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

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

(t) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

(i) Classification of Liabilities as Current or Non-Current (Amendment to IAS 1)

The amendments as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of 2020 amendments to no earlier than 1 January 2024. Due to these ongoing developments, the Bank is unable to determine the impact of these amendments on the financial statements in the period of initial application. The Bank is closely monitoring the developments.

(ii) Other standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) - The amendment is not expected to have a significant impact, as the Bank has disclosed the deferred tax assets and liabilities from Right of Use asset and Lease liability separately in previous financial statements (Note 14).
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts*. – The Bank has performed analysis of its portfolio of performance guarantees and has concluded that the performance guarantees outstanding as at 31 December 2022 are not insurance contracts per IFRS 17 *Insurance Contracts* requirements
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*

5 Segment information

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

Retail banking	Handling individual and small and micro legal entity customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate and investment banking	Handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and provision of investment banking services such as underwriting, financial consulting, etc.
Trading	Currency conversion transactions, management of bonds portfolio, attractions or disbursement of short-term funds through interbank loans and repo agreements for liquidity management, provision of brokerage services, etc.

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 allocated to operating segment based on proportion of profit before income tax.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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

2022	**Retail banking AMD'000**	**Corporate and investment banking AMD'000**	**Trading AMD'000**	**Total AMD'000**
Net interest income	19,876,191	19,494,498	11,088,947	50,459,636
Net non-interest income	8,517,839	14,893,549	22,714,139	46,125,527
Inter-segment income	7,957,469	1,994,664	(9,952,133)	-
Operating income	36,351,499	36,382,711	23,850,953	96,585,163
Net impairment losses on financial instruments	(1,420,132)	(3,167,581)	-	(4,587,713)
Other impairments and provisions	(56,105)	(56,110)	-	(112,215)
Depreciation and amortisation	(2,963,382)	(644,586)	(195,160)	(3,803,128)
Personnel and other general administrative expenses	(23,124,275)	(7,244,803)	(2,844,111)	(33,213,189)
Profit before income tax	8,787,605	25,269,631	20,811,682	54,868,918
Income tax expense	(1,697,598)	(4,881,612)	(4,020,421)	(10,599,631)
Profit for the year	**7,090,007**	**20,388,019**	**16,791,261**	**44,269,287**

2022	**Retail banking AMD'000**	**Corporate and investment banking AMD'000**	**Trading AMD'000**	**Total AMD'000**
Interest earning financial assets	329,820,434	421,071,507	290,653,908	1,041,545,849
Interest bearing financial liabilities	540,749,092	472,014,312	15,939,396	1,028,702,800

2021	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Net interest income	14,449,310	21,076,214	4,949,282	40,474,806
Net non-interest income	2,283,544	3,939,271	3,931,929	10,154,744
Inter-segment revenue	6,964,106	(2,854,350)	(4,109,756)	-
Operating profit	**23,696,960**	**22,161,135**	**4,771,455**	**50,629,550**
Net impairment losses on financial instruments	(1,502,253)	(4,654,930)	-	(6,157,183)
Other impairments and provisions	(32,733)	(32,733)	-	(65,466)
Depreciation and amortisation	(2,735,327)	(546,635)	(151,752)	(3,433,714)
Personnel and other general administrative expenses	(11,897,456)	(4,137,137)	(1,066,873)	(17,101,466)
Profit before income tax	**7,529,191**	**12,789,700**	**3,552,830**	**23,871,721**
Income tax expense	(1,405,323)	(2,387,196)	(663,135)	(4,455,654)
Profit for the year	**6,123,868**	**10,402,504**	**2,889,695**	**19,416,067**

2021	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Interest earning financial assets	261,792,092	428,180,027	90,093,635	780,065,754
Interest bearing financial liabilities	488,883,792	434,238,586	18,403,228	941,525,606

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortised cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2022 and 2021 was as follows:

2022	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Fee and commission income	9,326,533	2,174,833	228,112	11,729,478
Income from advisory and arrangement services	-	1,776	-	1,776
Income from deposit boxes	81,315	-	-	81,315
Total revenue from contracts with customers	**9,407,848**	**2,176,609**	**228,112**	**11,812,569**

2021	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Fee and commission income	4,987,194	1,855,623	301,953	7,144,770
Income from advisory and arrangement services	-	29,012	-	29,012
Income from deposit boxes	60,296	-	-	60,296
Total revenue from contracts with customers	**5,047,490**	**1,884,635**	**301,953**	**7,234,078**

Revenue from contracts with customers is generated primarily from customers in Armenia.

In 2022 and 2021 no customer represented more than 10% of the Bank's total revenue.

6 Net interest income

	2022 AMD'000	2021 AMD'000
Interest income calculated using effective interest rate		
Financial assets measured at amortised cost		
Loans and advances to customers	70,542,270	63,070,967
Investment securities measured at amortised cost	5,239,964	3,712,701
Amounts receivable under reverse repurchase agreements	2,103,112	664,777
Loans and advances to banks	1,005,549	104,483
Receivables from factoring	869,634	949,037
Receivables from letters of credit	437,229	663,644
Other	24,439	12,843
	80,222,197	**69,178,452**
Financial assets measured at fair value through other comprehensive income		
Investment securities measures at FVOCI	1,946,890	814,239
Interest income calculated using effective interest rate	**82,169,087**	**69,992,691**
Other interest income		
Receivables from finance leases	2,240,540	1,888,452
Investment securities measured at FVTPL	1,551,415	708,203
Derivative financial assets	159,640	547,670
Other interest income	**3,951,595**	**3,144,325**
Total interest income	**86,120,682**	**73,137,016**
Interest expense		
Current accounts and deposits from customers	18,359,801	14,605,028
Other borrowed funds and subordinated borrowings	6,728,084	6,520,139
Debt securities issued	6,052,010	6,471,167
Deposits and balances from banks	2,537,756	1,859,651
Lease liabilities	1,343,001	1,343,129
Payables under letters of credit and issued guarantees	364,028	408,246
Amounts payable under repurchase agreements	276,366	1,444,073
Other	-	10,777
Total interest expense	**35,661,046**	**32,662,210**
Net interest income	**50,459,636**	**40,474,806**

7 Net fee and commission income

	2022 AMD'000	2021 AMD'000
Fee and commission income		
Plastic card servicing fees	6,504,330	3,949,186
Cash withdrawal, account service and distance system services	1,980,166	853,484
Money transfers	1,706,323	925,905
Guarantee and letter of credit issuance	705,193	426,030
Settlement operations	300,696	212,819
Brokerage services and underwriting	223,830	609,604
Other	308,940	167,742
Total fee and commission income	**11,729,478**	**7,144,770**
Fee and commission expense		
Plastic card maintenance	1,753,852	1,610,638
Money transfers	423,873	279,707
Charges from cash and non-cash transactions with the Central Bank and other financial institutions	338,220	50,851
Guarantee and letter of credit issuance	39,496	71,130
Other	38,806	40,964
Total fee and commission expense	**2,594,247**	**2,053,290**
Net fee and commission income	**9,135,231**	**5,091,480**

(a) Revenue from contracts with customers

The Bank's revenue from contract with customers mainly comprises fee and commission income and revenue from provision of advisory and arrangement services. Bank recognises majority of revenue from fees and commission and from advisory and arrangement services at a point in time. Revenue from contracts with customers recognised in the statement of profit or loss and other comprehensive income for the years ended 31 December 2022 and 2021 comprised to:

	2022 AMD'000	2021 AMD'000
Fee and commission income	11,729,478	7,144,770
Income from deposit boxes	81,315	60,296
Income from advisory and arrangement services	1,776	29,012
	11,812,569	**7,234,078**

(b) Contract balances

The following table provides information about receivable from contracts with customers.

	2022 AMD'000	2021 AMD'000
Receivable included in other assets	**103,969**	**74,113**

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

	2022 AMD'000	2021 AMD'000
Net gain from currency and interest rate derivative instruments	4,824,124	2,205,984
Net gain from investment securities at fair value through profit or loss	1,051,650	259,831
	5,875,774	**2,465,815**

9 Net foreign exchange gain

	2022 AMD'000	2021 AMD'000
Net gain on spot transactions	41,806,684	7,647,683
Net loss from revaluation of financial assets and liabilities	(6,346,184)	(1,727,232)
	35,460,500	**5,920,451**

10 Other operating income

	2022 AMD'000	2021 AMD'000
Net income from sale of repossessed assets	284,538	59,654
Income from rendered services	230,466	174,011
Income from insurance agency	131,077	110,943
Income from deposit boxes	81,315	60,296
Income from reimbursement of legal cases	72,417	39,487
Income from payment terminals	53,319	30,282
Income from insurance	31,788	28,369
Income from advisory and arrangement services	1,776	29,012
Other	53,006	56,778
	939,702	**588,832**

11 Other operating expenses

	2022 AMD'000	2021 AMD'000
Payment system charges	2,360,582	1,283,681
Guarantee payments to Armenian Deposit Guarantee Fund	833,975	685,324
Software maintenance	481,184	418,844
Collateral registration charges	318,417	158,183
ATM service charge	118,114	100,935
Postal service charges	117,157	82,451
Credit register charges	111,652	110,957
Financial system mediator	109,588	110,019
Paid fees and penalties	94,568	18,426
Encashment	93,935	86,716
Depositary services	88,943	76,671
Fees for brokerage services	78,305	131,741
Other	482,969	541,429
	5,289,389	**3,805,377**

12 Net impairment losses on financial instruments

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

AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	(37,915)	-	-	(37,915)
Loans and advances to banks	78,434	-	-	78,434
Loans to legal entities and individuals	39,556	(2,304,726)	6,267,598	4,002,428
Receivables from finance leases	(1,153)	5,245	224,921	229,013
Receivables from factoring	(3,592)	-	-	(3,592)
Receivables from letter of credit	(26,061)	-	-	(26,061)
Investment securities measured at amortised cost	201,875	-	-	201,875
Investment securities measured at fair value through other comprehensive income	57,293	-	-	57,293
Other financial assets	5,649	(365)	22,607	27,891
Credit related commitments	62,578	214	(4,445)	58,347
Total credit loss expense	**376,664**	**(2,299,632)**	**6,510,681**	**4,587,713**

The table below shows the impairment losses on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	24,106	-	-	24,106
Amounts receivable under reverse repurchase agreements	(1)	-	-	(1)
Loans and advances to banks	(7,141)	-	-	(7,141)
Loans to legal entities and individuals	(1,756,611)	(1,395,808)	9,595,273	6,442,854
Receivables from finance leases	(13,091)	(15,317)	336,161	307,753
Receivables from factoring	(7,182)	-	-	(7,182)
Receivables from letter of credit	(12,863)	-	-	(12,863)
Investment securities measured at amortised cost	32,925	-	-	32,925
Investment securities measured at fair value through other comprehensive income	(22,038)	-	-	(22,038)
Other financial assets	4,654	304	(491,898)	(486,940)
Credit related commitments	(86,972)	(12,475)	(14,843)	(114,290)
Total credit loss expense	**(1,844,214)**	**(1,423,296)**	**9,424,693**	**6,157,183**

13 Other general administrative expenses

	2022 AMD'000	2021 AMD'000
Depreciation and amortisation	3,803,128	3,433,714
Advertising and marketing	911,886	831,369
Professional services	772,692	288,231
Staff training and other expenses	467,636	339,430
Repairs and maintenance	407,416	444,066
Unrecoverable taxes from lease agreements	364,565	348,517
Loan recovery charges	297,523	365,015
Security	264,160	238,604
Communications and information services	202,366	137,451
Other lease expense	189,222	184,568
Charity and sponsorship	180,145	117,736
Business trips and representation	162,024	28,882
Electricity and utilities	129,234	104,090
Insurance	101,433	87,629
Office supplies	73,681	67,764
Taxes other than on payroll and income	53,058	43,528
Other	308,816	170,735
	8,688,985	**7,231,329**

14 Income tax expense

	2022 AMD'000	2021 AMD'000
Current tax expense	(13,468,895)	(2,697,604)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	2,869,264	(1,758,050)
Total income tax expense	**(10,599,631)**	**(4,455,654)**

In 2022 the applicable tax rate for current tax is 18% (no change comparing with 2021).

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

	2022 AMD'000	%	2021 AMD'000	%
Profit before income tax	54,868,918		23,871,721	
Income tax at the applicable tax rate	(9,876,405)	(18.0)	(4,296,910)	(18.0)
Non-deductible expenses	(723,226)	(1.3)	(158,744)	(0.7)
Total income tax expense	**(10,599,631)**	**(19.3)**	**(4,455,654)**	**(18.7)**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax asset and net deferred tax liability accordingly as at 31 December 2022 and 2021.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2022 and 2021 are presented as follows:

AMD'000	Balance 1 January 2022	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2022
Financial instruments at fair value through profit or loss	1,011	(123,530)	-	(122,519)
Investment securities at fair value through other comprehensive income	66,849	(24,412)	264,997	307,434
Loans and advances to customers	(1,796,396)	280,623	-	(1,515,773)
Other financial instruments at amortised cost and provisions	(168,926)	212,628	-	43,702
Property and equipment	34,526	37,555	-	72,081
Right of use asset	(2,009,359)	108,744	-	(1,900,615)
Lease liabilities	2,179,136	(45,766)	-	2,133,370
Other assets	28,848	20,199	-	49,047
Other liabilities	1,089,650	2,402,575	-	3,492,225
Other borrowed funds	(89,383)	648	-	(88,735)
Total deferred tax (liability)/ asset	**(664,044)**	**2,869,264**	**264,997**	**2,470,217**

AMD'000	Balance 1 January 2021	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2021
Financial instruments at fair value through profit or loss	74,577	(73,566)	-	1,011
Investment securities at fair value through other comprehensive income	24,889	(23,637)	65,597	66,849
Loans and advances to customers	294,337	(2,090,733)	-	(1,796,396)
Other financial instruments at amortised cost and provisions	11,126	(180,052)	-	(168,926)
Property and equipment	13,667	20,859	-	34,526
Right of use asset	(1,915,901)	(93,458)	-	(2,009,359)
Lease liabilities	2,021,730	157,406	-	2,179,136
Other assets	32,175	(3,327)	-	28,848
Other liabilities	569,337	520,313	-	1,089,650
Other borrowed funds	(97,528)	8,145	-	(89,383)
Total deferred tax asset/ (liability)	**1,028,409**	**(1,758,050)**	**65,597**	**(664,044)**

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the Bank can utilise the benefits therefrom.

15 Cash and cash equivalents

	2022 AMD'000	2021 AMD'000
Cash on hand	21,346,412	22,847,846
Nostro accounts with the Central Bank of Armenia	53,464,849	227,124,335
Nostro accounts with other banks		
− rated Aa1 to Aa3	11,573,505	6,006,225
− rated A1 to A3	5,891,130	4,476,989
− rated from Baa1 to Baa3	5,178,893	2,753,282
− rated from Ba1 to Ba3	5,174,926	853,311
− not rated	11,015,542	70,306
Total nostro accounts with other banks	**38,833,996**	**14,160,113**
Total gross cash and cash equivalents	**113,645,257**	**264,132,294**
Credit loss allowance	(4,234)	(42,149)
Total net cash and cash equivalents	**113,641,023**	**264,090,145**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality. Included in the not rated category as at 31 December 2022 is a counterparty with outstanding balance of AMD 6,519,943 thousand which does not have credit rating per Moody's rating agency, however have been rated BBB- by Standard & Poor's rating agency

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2022 and 2021.

As at 31 December 2022 and 2021 the Bank had no placement with banks besides the Central Bank of Armenia whose balances exceeded 10% of the Bank's equity.

Nostro accounts with the Central Bank of Armenia are related to settlement activity (see Note 17) and are readily available for withdrawal.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for cash and cash equivalents for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	42,149	-	-	42,149
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(42,149)	-	-	(42,149)
New financial assets originated or purchased	4,234	-	-	4,234
Balance at 31 December	**4,234**	-	-	**4,234**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	18,043	-	-	18,043
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(18,043)	-	-	(18,043)
New financial assets originated or purchased	42,149	-	-	42,149
Balance at 31 December	**42,149**	-	-	**42,149**

16 Investment securities and derivative financial assets

(a) Financial instruments measured at fair value through profit or loss

	2022 AMD'000	2021 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	4,030,241	4,285,560
Government Eurobonds of the Republic of Armenia	3,680,115	637,242
Total government bonds	**7,710,356**	**4,922,802**
Corporate bonds of Armenian companies		
- rated from Ba1 to Ba3	1,198,583	1,449,305
- rated from B1 to B3	16,682	714,740
- not rated	1,093,178	1,059,391
Total corporate bonds	**2,308,443**	**3,223,436**
Total debt and other fixed-income instruments held by the Bank	**10,018,799**	**8,146,238**
Corporate shares	99,992	-
Total investment securities measured at fair value through profit or loss	**10,118,791**	**8,146,238**

	2022 AMD'000	2021 AMD'000
Derivative financial assets		
Currency swaps	602,377	77,722
Total derivative financial assets	**602,377**	**77,722**
Total financial assets measured at fair value through profit or loss	**10,721,168**	**8,223,960**
Derivative financial liabilities		
Currency swaps	69,563	92,827
Total derivative financial liabilities	**69,563**	**92,827**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through profit or loss.

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

	2022 AMD'000	2021 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	22,471,999	6,256,620
Government Eurobonds of the Republic of Armenia	10,664,483	616,137
Government securities of foreign countries rated Aaa	13,668,115	-
Government Eurobonds of foreign countries rated Ba2	1,075,828	-
Total government bonds	**47,880,425**	**6,872,757**
Corporate bonds of Armenian companies		
- rated from Ba1 to Ba3	-	6,883
- not rated	-	487,810
Corporate bonds of foreign companies		
- rated from Aaa	9,359,645	-
- rated from B1 to B3	-	474,498
- not rated	45,230	-
Total corporate bonds	**9,404,875**	**969,191**
Total debt and other fixed-income instruments	**57,285,300**	**7,841,948**
Equity investments		
Corporate shares	78,307	78,307
Total investment securities measured at fair value through other comprehensive income	**57,363,607**	**7,920,255**
Pledged under sale and repurchase agreements		
Government Eurobonds of the Republic of Armenia	-	4,096,530
Total government bonds	**-**	**4,096,530**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through other comprehensive income.

Investment securities measured at fair value through other comprehensive income are fully in Stage 1 as at 31 December 2022 and 2021.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at fair value through other comprehensive income for the years ended 31 December 2022 and 2021. The loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities measured at fair value through other comprehensive income is their fair value.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	30,960	-	-	30,960
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(70,177)	-	-	(70,177)
Assets repaid	(225,088)	-	-	(225,088)
Assets sold	(78,975)	-	-	(78,975)
New assets originated or purchased	431,533	-	-	431,533
Balance at 31 December	**88,253**	-	-	**88,253**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	52,998	-	-	52,998
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(25,492)	-	-	(25,492)
Assets repaid	(10,558)	-	-	(10,558)
Assets sold	(12,008)	-	-	(12,008)
New assets originated or purchased	26,020	-	-	26,020
Balance at 31 December	**30,960**	-	-	**30,960**

(i) Non-quoted equity investment securities designated at fair value through other comprehensive income

Included in financial assets at fair value through other comprehensive income are non-quoted equity securities as follows:

			% controlled			
Name	**Country of incorporation**	**Main activity**	**2022**	**2021**	**2022 AMD'000**	**2021 AMD'000**
ArCa	Republic of Armenia	Payment system	3.75%	3.75%	44,841	44,841
SWIFT	Belgium	Money transfer	0.00%	0.00%	33,466	33,466
					78,307	**78,307**

As at 31 December 2022 and 2021 investments primarily include mandatory shares in exchanges and clearing houses. The Bank's management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2022 and 2021.

(c) Investment securities measured at amortised cost

	2022 AMD'000	2021 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government bonds of the Republic of Armenia	49,988,420	36,440,646
Government securities of foreign countries rated Aaa	56,888,881	-
Government securities of foreign countries rated Aa2	3,355,592	-
Government Eurobonds of the Republic of Armenia	37,111,362	639,897
Total government bonds	**147,344,255**	**37,080,543**
Bonds of Investment Funds		
- not rated	4,099,593	-
Total bonds of Investment Funds	**4,099,593**	-
Corporate bonds of Armenian companies		
- not rated	1,192,917	965,804
Total corporate bonds	**1,192,917**	**965,804**
Total debt and other fixed-income instruments held by the Bank	**152,636,765**	**38,046,347**
Credit loss allowance	(332,488)	(130,613)
Total net investment securities measured at amortised cost held by the Bank	**152,304,277**	**37,915,734**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government bonds of the Republic of Armenia	4,397,608	8,324,800
Government Eurobonds of the Republic of Armenia	-	7,445,774
Total government bonds	**4,397,608**	**15,770,574**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at amortised cost.

For not rated bonds of investment funds the Bank has assessed the credit risk to approximate to external rating of B2 according to Moody's.

As at 31 December 2022 the Bank has one counterparty except for the Government of the Republic of Armenia, 10% of equity (2021: none). The balance as at 31 December 2022 comprised to AMD 56,888,881 thousand.

Investment securities measured at amortised cost are fully in Stage 1 as at 31 December 2022 and 2021.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at amortised cost for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	130,613	-	-	130,613
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(60,673)	-	-	(60,673)
Assets repaid	(154,984)	-	-	(154,984)
Assets sold	-	-	-	-
New assets originated or purchased	417,532	-	-	417,532
Balance at 31 December	**332,488**	**-**	**-**	**332,488**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	97,688	-	-	97,688
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	28,604	-	-	28,604
Assets repaid	(24,979)	-	-	(24,979)
Assets sold	-	-	-	-
New assets originated or purchased	29,300	-	-	29,300
Balance at 31 December	**130,613**	**-**	**-**	**130,613**

17 Loans and advances to banks

	2022 AMD'000	**2021 AMD'000**
Due from the Central Bank of Armenia		
Credit card settlement deposit with the Central Bank of Armenia	6,767,000	3,364,500
Deposit with the Central Bank of Armenia, obligatory reserves	68,909,513	31,416,814
Loans and deposits with other banks		
Armenian banks		
- rated from Ba1 to Ba3	199,888	487,895
Other banks		
- rated from Aa1 to Aa3	7,874,283	-
- rated from A1 to A3	10,503,434	-
- rated from Ba1 to Ba3	-	8,145,003
- not rated	106	-
Total loans and deposits with other banks	**18,577,711**	**8,632,898**
Total gross loans and advances to banks	**94,254,224**	**43,414,212**
Credit loss allowance	(159,385)	(80,951)
Total net loans and advances to banks	**94,094,839**	**43,333,261**

(a) Balances with the Central Bank of Armenia

The credit card settlement deposit with the Central Bank of Armenia is a non-interest bearing deposit calculated in accordance with regulations issued by the Central Bank of Armenia and withdrawability of which is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 4% (2021: 4%) and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 6% is maintained in AMD and 12% in the respective currency of funds attracted (2021: 10% in AMD and 8% in respective currency of funds attracted). The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. Obligatory reserves maintained in AMD in the amount of AMD 46,960,981 thousand (2021: AMD 48,865,689 thousand) are classified as cash and cash equivalents (see Note 15) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks. As at 31 December 2022, included in deposits with the Central Bank of Armenia is the amount of obligatory reserve of AMD 68,909,513 thousand for the amounts attracted in foreign currency (2021: AMD 31,416,814 thousand).

(b) Concentration of loans and advances to banks

As at 31 December 2022 and 2021 the Bank has no counterparty except for the Central Bank of Armenia, whose balances exceed 10% of equity.

No loans and advances to banks are past due or impaired. Loans and advances to banks are fully in Stage 1 as at 31 December 2022 and 2021. All the loans and advance to banks are measured at amortised cost as at 31 December 2022 and 2021.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans and advances to banks for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	80,951	-	-	80,951
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(80,951)	-	-	(80,951)
Amounts written off	-	-	-	-
Foreign currency adjustments	-	-	-	-
New assets originated or purchased	159,385	-	-	159,385
Balance at 31 December	**159,385**	**-**	**-**	**159,385**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	88,092	-	-	88,092
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(88,092)	-	-	(88,092)
Amounts written off	-	-	-	-
Foreign currency adjustments	-	-	-	-
New assets originated or purchased	80,951	-	-	80,951
Balance at 31 December	**80,951**	**-**	**-**	**80,951**

18 Amounts receivable under reverse repurchase agreements

	2022 AMD'000	2021 AMD'000
Amounts receivable from medium size Armenian banks, not rated	39,737,793	1,024,620
Amounts receivable from other small and medium Armenian financial institutions, not rated	7,378,642	6,509,063
Total gross amounts receivable under reverse repurchase agreements	**47,116,435**	**7,533,683**
Credit loss allowance	-	-
Total net amounts receivable under reverse repurchase agreements	**47,116,435**	**7,533,683**

As at 31 December 2022 the Bank has one counterparty, whose balance exceeded 10% of equity (2021: none). The amounts receivable of the counterparty balance as of 31 December 2022 is AMD 30,576,947 thousand.

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks and financial institutions. All of them are categorised under Stage 1 and are measured at amortised cost as at 31 December 2022 and 2021.

Collateral accepted as security for assets

As at 31 December 2022 amounts receivable under reverse repurchase agreements were collateralised by government securities with fair value of AMD 49,319,542 thousand (2021: AMD 8,478,694 thousand).

19 Loans and advances to customers

	Notes	2022 AMD'000	2021 AMD'000
Loans to legal entities	19(a)	437,067,371	428,111,574
Loans to individuals	19(a)	277,130,693	220,437,296
Receivables from factoring	19(b)	8,766,315	10,820,379
Receivables from letters of credit	19(c)	4,395,536	10,702,129
Total gross loans and advances to customers at amortised cost		**727,359,915**	**670,071,378**
Receivables from finance lease	19(d)	23,532,028	19,900,741
Credit loss allowance		(15,348,823)	(16,885,855)
Total net loans and advances to customers		**735,543,120**	**673,086,264**

(a) Loans to legal entities and individuals

	2022 AMD'000	2021 AMD'000
Loans to legal entities		
Loans to large companies	269,513,566	278,128,033
Loans to small and medium size companies	167,553,805	149,983,541
Total loans to legal entities	**437,067,371**	**428,111,574**
Loans to individuals		
Mortgage loans	186,044,427	141,193,211
Consumer loans to individuals	91,086,266	79,244,085
Total loans to individuals	**277,130,693**	**220,437,296**
Total gross loans to legal entities and individuals	**714,198,064**	**648,548,870**
Credit loss allowance	(15,116,388)	(16,405,548)
Total net loans to legal entities and individuals	**699,081,676**	**632,143,322**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to legal entities for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	400,834,628	10,060,482	17,216,464	428,111,574
New assets originated or purchased	407,565,057	-	-	407,565,057
Assets repaid	(324,140,195)	(1,952,887)	(2,025,696)	(328,118,778)
Transfer to Stage 1	5,906,684	(5,802,710)	(103,974)	-
Transfer to Stage 2	(1,859,085)	1,861,892	(2,807)	-
Transfer to Stage 3	(2,227,233)	(319,453)	2,546,686	-
Recoveries	-	-	1,159,987	1,159,987
Amounts written off	-	-	(4,409,990)	(4,409,990)
Net change in asset from interest and foreign exchange revaluation	(64,508,591)	(1,590,160)	(1,141,728)	(67,240,479)
Balance at 31 December	**421,571,265**	**2,257,164**	**13,238,942**	**437,067,371**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	446,950,704	15,682,799	23,585,021	486,218,524
New assets originated or purchased	173,960,921	-	-	173,960,921
Assets repaid	(200,569,161)	(1,718,048)	(1,218,871)	(203,506,080)
Transfer to Stage 1	2,282,319	(2,236,410)	(45,909)	-
Transfer to Stage 2	(2,645,707)	2,645,707	-	-
Transfer to Stage 3	(3,774,867)	(1,916,985)	5,691,852	-
Recoveries	-	-	1,792,329	1,792,329
Amounts written off	-	-	(9,098,554)	(9,098,554)
Net change in asset from interest and foreign exchange revaluation	(15,369,581)	(2,396,581)	(3,489,404)	(21,255,566)
Balance at 31 December	**400,834,628**	**10,060,482**	**17,216,464**	**428,111,574**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to legal entities for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	3,539,121	1,422,497	6,518,486	11,480,104
New assets originated or purchased	3,281,659	-	-	3,281,659
Assets repaid	(2,609,933)	(654,308)	(995,776)	(4,260,017)
Transfer to Stage 1	11,026	(9,173)	(1,853)	-
Transfer to Stage 2	(638,750)	640,317	(1,567)	-
Transfer to Stage 3	(625,307)	(31,927)	657,234	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	564,421	(599,645)	5,187,431	5,152,207
Recognized in statement of profit or loss	**(16,884)**	**(654,736)**	**4,845,469**	**4,173,849**
Unwinding of discount	-	-	360,724	360,724
Recoveries	-	-	1,159,987	1,159,987
Amounts written off	-	-	(4,409,990)	(4,409,990)
Foreign exchange adjustments	(127,848)	(11,507)	(1,966,777)	(2,106,132)
Balance at 31 December	**3,394,389**	**756,254**	**6,507,899**	**10,658,542**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	3,721,879	3,217,165	7,408,239	14,347,283
New assets originated or purchased	1,352,666	-	-	1,352,666
Assets repaid	(1,559,563)	(163,609)	(164,632)	(1,887,804)
Transfer to Stage 1	761,324	(713,967)	(47,357)	-
Transfer to Stage 2	(57,942)	57,942	-	-
Transfer to Stage 3	(100,758)	(971,034)	1,071,792	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(350,082)	20,411	5,161,174	4,831,503
Recognized in statement of profit or loss	**45,645**	**(1,770,257)**	**6,020,977**	**4,296,365**
Unwinding of discount	-	-	874,702	874,702
Recoveries	-	-	1,792,329	1,792,329
Amounts written off	-	-	(9,098,554)	(9,098,554)
Foreign exchange adjustments	(228,403)	(24,411)	(479,207)	(732,021)
Balance at 31 December	**3,539,121**	**1,422,497**	**6,518,486**	**11,480,104**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to individuals for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	209,136,862	6,876,696	4,423,738	220,437,296
New assets originated or purchased	137,739,301	-	-	137,739,301
Assets repaid	(63,122,162)	(3,132,049)	(987,751)	(67,241,962)
Transfer to Stage 1	755,019	(263,924)	(491,095)	-
Transfer to Stage 2	(507,039)	531,757	(24,718)	-
Transfer to Stage 3	(955,289)	(2,429,127)	3,384,416	-
Recoveries	-	-	3,400,799	3,400,799
Amounts written off	-	-	(3,759,030)	(3,759,030)
Change in balance of asset from interest and foreign exchange	(11,580,285)	(848,623)	(1,016,803)	(13,445,711)
Balance at 31 December	**271,466,407**	**734,730**	**4,929,556**	**277,130,693**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	183,194,635	7,215,470	6,212,539	196,622,644
New assets originated or purchased	83,482,559	-	-	83,482,559
Assets repaid	(42,308,626)	(71,777)	(429,322)	(42,809,725)
Transfer to Stage 1	149,569	(149,569)	-	-
Transfer to Stage 2	(5,426,429)	5,426,429	-	-
Transfer to Stage 3	(3,693,103)	(3,815,989)	7,509,092	-
Recoveries	-	-	1,388,061	1,388,061
Amounts written off	-	-	(6,937,279)	(6,937,279)
Change in balance of asset from interest and foreign exchange	(6,261,743)	(1,727,868)	(3,319,353)	(11,308,964)
Balance at 31 December	**209,136,862**	**6,876,696**	**4,423,738**	**220,437,296**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to individuals for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	1,625,275	1,867,085	1,433,084	4,925,444
New assets originated or purchased	1,109,058	-	-	1,109,058
Assets repaid	(508,251)	(1,049,382)	(485,551)	(2,043,184)
Transfer to Stage 1	7,890	(1,662)	(6,228)	-
Transfer to Stage 2	(130,063)	136,915	(6,852)	-
Transfer to Stage 3	(491,814)	(1,833,801)	2,325,615	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	69,620	1,097,940	(404,855)	762,705
Recognized in statement of profit or loss	**56,440**	**(1,649,990)**	**1,422,129**	**(171,421)**
Unwinding of discount	-	-	242,048	242,048
Recoveries	-	-	3,400,799	3,400,799
Amounts written off	-	-	(3,759,030)	(3,759,030)
Foreign exchange adjustments	(22,335)	(1,849)	(155,810)	(179,994)
Balance at 31 December	**1,659,380**	**215,246**	**2,583,220**	**4,457,846**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	3,573,341	1,509,225	3,536,814	8,619,380
New assets originated or purchased	2,413,070	-	-	2,413,070
Assets repaid	(1,702,753)	(63,193)	(136,503)	(1,902,449)
Transfer to Stage 1	8,662	(8,662)	-	-
Transfer to Stage 2	(180,549)	180,549		-
Transfer to Stage 3	(457,945)	(747,552)	1,205,497	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(1,882,741)	1,013,307	2,505,302	1,635,868
Recognized in statement of profit or loss	**(1,802,256)**	**374,449**	**3,574,296**	**2,146,489**
Unwinding of discount	-	-	251,952	251,952
Recoveries	-	-	1,388,061	1,388,061
Amounts written off	-	-	(6,937,279)	(6,937,279)
Foreign exchange adjustments	(145,810)	(16,589)	(380,760)	(543,159)
Balance at 31 December	**1,625,275**	**1,867,085**	**1,433,084**	**4,925,444**

(i) Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2022. Additional information about credit quality of corporate loans and advances to customers based on Internal Credit Rating model is disclosed in Note 30.

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Loans to large corporate customers				
− not overdue	258,933,054	1,705,216	4,398,108	265,036,378
− overdue less than 30 days	-	-	-	-
− overdue more than 30 days and less than 90 days	-	-	-	-
− overdue more than 90 days	-	-	4,477,188	4,477,188
Total gross loans to large corporate customers	**258,933,054**	**1,705,216**	**8,875,296**	**269,513,566**
Credit loss allowance	(1,432,205)	(576,862)	(5,390,996)	(7,400,063)
Total net loans to large corporate customers	**257,500,849**	**1,128,354**	**3,484,300**	**262,113,503**
Loans to small and medium size companies				
− not overdue	162,553,072	134,827	864,274	163,552,173
− overdue less than 30 days	85,139	23,854	3,376	112,369
− overdue more than 30 days and less than 90 days	-	393,267	13,194	406,461
− overdue more than 90 days	-	-	3,482,802	3,482,802
Total gross loans to small and medium size companies	**162,638,211**	**551,948**	**4,363,646**	**167,553,805**
Credit loss allowance	(1,962,184)	(179,392)	(1,116,903)	(3,258,479)
Total net loans to small and medium size companies	**160,676,027**	**372,556**	**3,246,743**	**164,295,326**
Total gross loans to corporate customers	**421,571,265**	**2,257,164**	**13,238,942**	**437,067,371**
Total net loans to corporate customers	**418,176,876**	**1,500,910**	**6,731,043**	**426,408,829**

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Mortgage loans				
− not overdue	182,830,618	194,732	2,120,821	185,146,171
− overdue less than 30 days	6,791	3,048	1,285	11,124
− overdue more than 30 days and less than 90 days	-	79,224	69,720	148,944
− overdue more than 90 days	-	-	738,188	738,188
Total gross mortgage loans	**182,837,409**	**277,004**	**2,930,014**	**186,044,427**
Credit loss allowance	(284,263)	(18,645)	(1,374,217)	(1,677,125)
Total net mortgage loans	**182,553,146**	**258,359**	**1,555,797**	**184,367,302**
Consumer loans to retail customers*				
− not overdue	88,322,570	184,475	1,100,822	89,607,867
− overdue less than 30 days	301,350	26,047	12,237	339,634
− overdue more than 30 days and less than 90 days	5,078	247,204	167,032	419,314
− overdue more than 90 days	-	-	719,451	719,451
Total gross consumer loans to retail customers	**88,628,998**	**457,726**	**1,999,542**	**91,086,266**
Credit loss allowance	(1,375,117)	(196,601)	(1,209,003)	(2,780,721)
Total net consumer loans to retail customers	**87,253,881**	**261,125**	**790,539**	**88,305,545**
Total gross loans to retail customers	**271,466,407**	**734,730**	**4,929,556**	**277,130,693**
Total net loans to retail customers	**269,807,027**	**519,484**	**2,346,336**	**272,672,847**
Total gross loans to customers	**693,037,672**	**2,991,894**	**18,168,498**	**714,198,064**
Total net loans to customers	**687,983,903**	**2,020,394**	**9,077,379**	**699,081,676**

The following table provides information on the credit quality loans to legal entities and individuals as at 31 December 2021:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large corporate customers				
− not overdue	257,737,871	7,827,475	5,653,431	271,218,777
− overdue more than 90 days	-	-	6,909,256	6,909,256
Total gross loans to large corporate customers	**257,737,871**	**7,827,475**	**12,562,687**	**278,128,033**
Credit loss allowance	(1,850,687)	(893,832)	(4,756,167)	(7,500,686)
Total net loans to large corporate customers	**255,887,184**	**6,933,643**	**7,806,520**	**270,627,347**
Loans to small and medium size companies				
− not overdue	141,150,683	1,503,444	587,321	143,241,448
− overdue less than 30 days	1,939,995	82,918	51,031	2,073,944
− overdue more than 30 days and less than 90 days	6,079	646,645	97,378	750,102
− overdue more than 90 days	-	-	3,918,047	3,918,047
Total gross loans to small and medium size companies	**143,096,757**	**2,233,007**	**4,653,777**	**149,983,541**
Credit loss allowance	(1,688,434)	(528,665)	(1,762,319)	(3,979,418)
Total net small and medium size companies	**141,408,323**	**1,704,342**	**2,891,458**	**146,004,123**
Total gross loans to corporate customers	**400,834,628**	**10,060,482**	**17,216,464**	**428,111,574**
Total net loans to corporate customers	**397,295,507**	**8,637,985**	**10,697,978**	**416,631,470**

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Mortgage loans				
− not overdue	135,500,246	2,776,866	717,052	138,994,164
− overdue less than 30 days	246,899	15,193	43,194	305,286
− overdue more than 30 days and less than 90 days	-	408,797	139,827	548,624
− overdue more than 90 days	-	-	1,345,137	1,345,137
Total gross mortgage loans	**135,747,145**	**3,200,856**	**2,245,210**	**141,193,211**
Credit loss allowance	(306,522)	(249,640)	(454,615)	(1,010,777)
Total net mortgage loans	**135,440,623**	**2,951,216**	**1,790,595**	**140,182,434**
Consumer loans to retail customers*				
− not overdue	72,905,482	3,218,589	733,287	76,857,358
− overdue less than 30 days	481,031	43,474	38,547	563,052
− overdue more than 30 days and less than 90 days	3,204	413,777	92,045	509,026
− overdue more than 90 days	-	-	1,314,649	1,314,649
Total gross consumer loans to retail customers	**73,389,717**	**3,675,840**	**2,178,528**	**79,244,085**
Credit loss allowance	(1,318,753)	(1,617,445)	(978,469)	(3,914,667)
Total net consumer loans to retail customers	**72,070,964**	**2,058,395**	**1,200,059**	**75,329,418**
Total gross loans to retail customers	**209,136,862**	**6,876,696**	**4,423,738**	**220,437,296**
Total net loans to retail customers	**207,511,587**	**5,009,611**	**2,990,654**	**215,511,852**
Total gross loans to customers	**609,971,490**	**16,937,178**	**21,640,202**	**648,548,870**
Total net loans to customers	**604,807,094**	**13,647,596**	**13,688,632**	**632,143,322**

* Consumer loans to retail customers in both periods mainly include credit cards and overdrafts to retail customers, online consumer loans and loans to retail customers for credit purchases.

(ii) Analysis of collateral and other credit enhancements

Loans to legal entities

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

The main types of collateral obtained are real estate properties, equipment, inventory and cash collateral.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Loans to individuals

Mortgage loans are secured by the underlying housing real estate.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Auto loans are secured by the underlying cars. As at 31 December 2022 consumer loans are secured by real estate, movable property, salary, cash and individual guarantees.

The following tables provide information on the collateral pledged for the loans to customers classified at Stage 3 as at 31 December 2022 and 2021.

31 December 2022	Gross carrying amount	Estimated market value of collateral					Uncovered amount	Associated ECL
		Real estate	Vehicles	Equip-ment	Surplus	Total collateral		
Loans to legal entities	13,238,942	9,446,874	132,515	4,669,556	(3,567,720)	10,681,225	2,557,717	6,507,899
Mortgage loans	2,930,014	2,137,721	7,003	7,872	(636,377)	1,516,219	1,413,796	1,374,217
Consumer loans	1,999,542	816,450	6,697	94,078	(406,107)	511,119	1,488,423	1,209,003
Total	**18,168,498**	**12,401,045**	**146,215**	**4,771,506**	**(4,610,204)**	**12,708,563**	**5,459,936**	**9,091,119**

31 December 2021	Gross carrying amount	Estimated market value of collateral					Uncovered amount	Associated ECL
		Real estate	Vehicles	Equip-ment	Surplus	Total collateral		
Loans to legal entities	17,216,464	11,635,063	1,744,565	6,029,044	(3,443,417)	15,965,255	1,251,209	6,518,486
Mortgage loans	2,245,210	2,668,337	84,730	12,590	(936,170)	1,829,487	415,723	454,615
Consumer loans	2,178,528	1,464,602	166,886	54,009	(593,110)	1,092,387	1,086,141	978,469
Total	**21,640,202**	**15,768,002**	**1,996,181**	**6,095,643**	**(4,972,697)**	**18,887,129**	**2,753,073**	**7,951,570**

Repossessed collateral

During the year ended 31 December 2022, the Bank obtained certain assets by taking possession of collateral for loans to customers with a carrying amount of AMD 355,073 thousand (2021: AMD 2,530,398 thousand). Part of the repossessed collateral in the amount of AMD 714,665 thousand was sold during the year ended 31 December 2022 (2021: AMD 2,962,540 thousand). As at 31 December 2022 and 2021, the repossessed collateral comprises:

	2022 AMD'000	2021 AMD'000
Real estate	986,014	1,315,382
Land	131,460	158,718
Other	7,557	10,523
Write down to net realisable value	(215,001)	(158,343)
Total repossessed collateral	**910,030**	**1,326,280**

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

(iii) Industry and geographical analysis of the loans to legal entities and individuals

Loans to customers were issued to finance in the following economic sectors:

	2022 AMD'000	**2021 AMD'000**
Construction	80,090,156	48,905,283
Wholesale trade	55,718,236	60,088,783
Agriculture, forestry and timber	48,145,479	42,468,352
Food and beverage	45,859,624	37,974,102
Mining/metallurgy	38,263,289	29,142,735
Retail trade	36,134,206	33,958,590
Energy	26,350,280	29,210,379
Transportation	24,171,964	37,835,056
Hotel services	20,312,596	31,295,097
Real estate	17,048,201	22,686,452
Communication services	10,464,070	20,400,077
Manufacturing	8,318,186	9,849,730
Finance and investment	54,909	9,931,454
Other	26,136,175	14,365,484
Loans to individuals	277,130,693	220,437,296
	714,198,064	**648,548,870**
Credit loss allowance	(15,116,388)	(16,405,548)
	699,081,676	**632,143,322**

The geographical concentration of Bank's loans to legal entities (net loans) is set out below:

	2022 AMD'000	**2021 AMD'000**
Armenia	425,015,023	415,181,330
OECD and EU	57	-
Other foreign countries	1,393,749	1,450,140
	426,408,829	**416,631,470**

(iv) Significant credit exposures

As at 31 December 2022 the Bank has two groups of connected borrowers (2021: one), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans as at 31 December 2022 is AMD 53,627,014 thousand (2021: AMD 14,216,785 thousand).

(v) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(b) Receivables from factoring

	2022 AMD'000	**2021 AMD'000**
Receivables from factoring	8,766,315	10,820,379
Credit loss allowance	(9,786)	(13,379)
	8,756,529	**10,807,000**

As at 31 December 2022 the Bank has no customers whose balances exceed 10% of the Bank's equity (2021: no customer).

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from factoring for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	10,820,379	-	-	10,820,379
New assets originated or purchased	26,827,120	-	-	26,827,120
Assets repaid	(26,900,321)	-	-	(26,900,321)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change in asset from interest and foreign exchange revaluation	(1,980,863)	-	-	(1,980,863)
Balance at 31 December	**8,766,315**	**-**	**-**	**8,766,315**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	11,352,912	-	-	11,352,912
New assets originated or purchased	28,994,422	-	-	28,994,422
Assets repaid	(28,344,726)	-	-	(28,344,726)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change in asset from interest and foreign exchange revaluation	(1,182,229)	-	-	(1,182,229)
Balance at 31 December	**10,820,379**	**-**	**-**	**10,820,379**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from factoring for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	13,379	-	-	13,379
New assets originated or purchased	29,948	-	-	29,948
Assets repaid	(30,029)	-	-	(30,029)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(3,511)	-	-	(3,511)
Balance at 31 December	**9,786**	**-**	**-**	**9,786**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	20,561	-	-	20,561
New assets originated or purchased	35,851	-	-	35,851
Assets repaid	(35,047)	-	-	(35,047)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(7,985)	-	-	(7,985)
Balance at 31 December	**13,379**	-	-	**13,379**

Receivables from factoring are secured by real estate, equipment and vehicles.

(c) Receivables from letters of credit

	2022 AMD'000	**2021 AMD'000**
Receivables from letters of credit from legal entities	4,395,536	10,702,129
Credit loss allowance	(16,538)	(42,599)
	4,378,998	**10,659,530**

As at 31 December 2022 the Bank has no customers (2021: none), whose balances exceed 10% of the Bank's equity.

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from letters of credit for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	10,702,129	-	-	10,702,129
New assets originated or purchased	10,769,135	-	-	10,769,135
Assets repaid	(15,372,473)	-	-	(15,372,473)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change in asset from interest and foreign exchange revaluation	(1,703,255)	-	-	(1,703,255)
Balance at 31 December	**4,395,536**	**-**	**-**	**4,395,536**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	12,859,539	-	-	12,859,539
New assets originated or purchased	17,750,093	-	-	17,750,093
Assets repaid	(18,328,411)	-	-	(18,328,411)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change in asset from interest and foreign exchange revaluation	(1,579,092)	-	-	(1,579,092)
Balance at 31 December	**10,702,129**	-	-	**10,702,129**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from letters of credit for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	42,599	-	-	42,599
New assets originated or purchased	40,518	-	-	40,518
Assets repaid	(57,838)	-	-	(57,838)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(8,741)	-	-	(8,741)
Balance at 31 December	**16,538**	**-**	**-**	**16,538**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	55,462	-	-	55,462
New assets originated or purchased	70,653	-	-	70,653
Assets repaid	(72,955)	-	-	(72,955)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(10,561)	-	-	(10,561)
Balance at 31 December	**42,599**	**-**	**-**	**42,599**

(d) Receivables from finance leases

	2022 AMD'000	**2021 AMD'000**
Gross investment in finance leases receivable		
Less than one year	7,782,554	6,477,120
Between one and five years	19,297,945	16,339,246
More than five years	3,128,488	2,028,022
	30,208,987	**24,844,388**
Unearned finance income	(6,676,959)	(4,943,647)
Gross investment in finance lease receivables	**23,532,028**	**19,900,741**
Impairment allowance	(206,111)	(424,329)
Net investment in finance leases	**23,325,917**	**19,476,412**
The net investment in finance leases comprises		
Less than one year	6,009,312	5,072,802
Between one and two years	5,416,996	4,574,317
Between two and three years	4,562,135	3,755,284
Between three and four years	3,083,394	2,844,554
Between four and five years	1,838,414	1,641,133
More than five years	2,415,668	1,588,322
	23,325,919	**19,476,412**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from finance leases for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	19,369,089	16,129	515,523	19,900,741
New assets originated or purchased	18,457,944	-	-	18,457,944
Assets repaid	(12,730,355)	(10,381)	(130,477)	(12,871,213)
The effect of changes in foreign exchange rates	(1,607,879)	21,260	23,877	(1,562,742)
Transfer to Stage 1	8,483	(8,483)	-	-
Transfer to Stage 2	(9,995)	9,995	-	-
Transfer to Stage 3	(99,336)	-	99,336	-
Write off amounts	-	-	(403,320)	(403,320)
Recoveries	-	-	10,618	10,618
Balance at 31 December	**23,387,951**	**28,520**	**115,557**	**23,532,028**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	12,363,152	91,744	578,610	13,033,506
New assets originated or purchased	15,958,518	-	-	15,958,518
Assets repaid	(7,572,653)	(4,103)	(48,773)	(7,625,529)
The effect of changes in foreign exchange rates	(1,442,117)	(24,719)	449,554	(1,017,282)
Transfer to Stage 1	77,701	(46,793)	(30,908)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(15,512)	-	15,512	-
Write off amounts	-	-	(586,870)	(586,870)
Recoveries	-	-	138,398	138,398
Balance at 31 December	**19,369,089**	**16,129**	**515,523**	**19,900,741**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from finance leases for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	148,683	3,620	272,026	424,329
New assets originated or purchased	162,430	-	-	162,430
Assets repaid	(112,027)	(2,470)	(111,049)	(225,546)
Transfer to Stage 1	53	(53)	-	-
Transfer to Stage 2	(3,638)	3,638	-	-
Transfer to Stage 3	(42,030)	-	42,030	-
Write off amounts	-	-	(403,320)	(403,320)
Recoveries	-	-	10,618	10,618
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(5,941)	4,130	293,940	292,129
The effect of changes in foreign exchange rates	(6,364)	(713)	(59,595)	(66,672)
Unwinding of discount	-	-	12,143	12,143
Balance at 31 December	**141,166**	**8,152**	**56,793**	**206,111**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	161,774	18,937	368,205	548,916
New assets originated or purchased	138,999	-	-	138,999
Assets repaid	(65,958)	(976)	(35,809)	(102,743)
Transfer to Stage 1	538	(323)	(215)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(12,897)	-	12,897	-
Write off amounts	-	-	(586,870)	(586,870)
Recoveries	-	-	138,398	138,398
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(73,773)	(14,018)	359,288	271,497
Unwinding of discount	-	-	16,132	16,132
Balance at 31 December	**148,683**	**3,620**	**272,026**	**424,329**

(i) Quality analysis of finance leases

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2022:

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Receivables from finance leases				
− not overdue	23,353,245	9,995	16,220	23,379,460
− overdue less than 30 days	34,706	-	-	34,706
- overdue between 30 and 90 days	-	18,525	-	18,525
− overdue more than 90 days	-	-	99,337	99,337
Total gross receivables from finance leases	**23,387,951**	**28,520**	**115,557**	**23,532,028**
Credit loss allowance	(141,166)	(8,152)	(56,793)	(206,111)
Total net receivables from finance leases	**23,246,785**	**20,368**	**58,764**	**23,325,917**

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2021:

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Receivables from finance leases				
- not overdue	19,251,813	16,129	-	19,267,942
- overdue less than 30 days	117,276	-	18,278	135,554
- overdue more than 90 days	-	-	497,245	497,245
Total gross receivables from finance leases	**19,369,089**	**16,129**	**515,523**	**19,900,741**
Credit loss allowance	(148,683)	(3,620)	(272,026)	(424,329)
Total net receivables from finance leases	**19,220,406**	**12,509**	**243,497**	**19,476,412**

(ii) Concentration of receivables from finance leases

As at 31 December 2022 the Bank has no customers whose balances exceed 10% of the Bank's equity (2021: nil).

(iii) Analysis of collateral

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as at 31 December 2022:

		Estimated market value of collateral						
	Gross carrying amount	**Real estate**	**Vehicles**	**Other**	**Surplus**	**Total collateral**	**Net exposure**	**Associated ECL**
31 December 2022								
Finance lease	115,557	-	8,900	76,000	(1,297)	83,603	31,954	56,793
Total	**115,557**	**-**	**8,900**	**76,000**	**(1,297)**	**83,603**	**31,954**	**56,793**

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as at 31 December 2021:

		Estimated market value of collateral						
	Gross carrying amount	**Real estate**	**Vehicles**	**Other**	**Surplus**	**Total collateral**	**Net exposure**	**Associated ECL**
31 December 2021								
Finance lease	515,523	-	601,278	-	(152,194)	449,084	66,439	272,026
Total	**515,523**	**-**	**601,278**	**-**	**(152,194)**	**449,084**	**66,439**	**272,026**

20 Property, equipment and intangible assets

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2022	5,045,997	8,016,991	2,858,710	321,154	4,672,367	20,915,219
Additions	320,809	964,864	194,382	5,429	2,670,296	4,155,780
Disposals/write-offs	(649,323)	(128,956)	(15,640)	-	(1,055,666)	(1,849,585)
Balance at 31 December 2022	**4,717,483**	**8,852,899**	**3,037,452**	**326,583**	**6,286,997**	**23,221,414**
Depreciation and amortisation						
Balance at 1 January 2022	2,058,943	5,040,776	1,000,033	168,612	1,997,773	10,266,137
Depreciation and amortisation for the year	316,577	997,525	249,282	41,951	1,123,888	2,729,223
Disposals/write-offs	(646,446)	(112,500)	(3,161)	-	(1,034,724)	(1,796,831)
Balance at 31 December 2022	**1,729,074**	**5,925,801**	**1,246,154**	**210,563**	**2,086,937**	**11,198,529**
Carrying amount						
At 31 December 2022	**2,988,409**	**2,927,098**	**1,791,298**	**116,020**	**4,200,060**	**12,022,885**

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2021	4,776,246	7,896,178	2,644,771	303,730	3,815,266	19,436,191
Additions	510,166	377,942	233,303	49,924	1,408,953	2,580,288
Disposals/write-offs	(240,415)	(257,129)	(19,364)	(32,500)	(551,852)	(1,101,260)
Balance at 31 December 2021	**5,045,997**	**8,016,991**	**2,858,710**	**321,154**	**4,672,367**	**20,915,219**
Depreciation and amortisation						
Balance at 1 January 2021	1,815,030	4,279,764	769,909	154,184	1,676,768	8,695,655
Depreciation and amortisation for the year	275,310	998,802	232,381	39,677	870,297	2,416,467
Disposals/write-offs	(31,397)	(237,790)	(2,257)	(25,249)	(549,292)	(845,985)
Balance at 31 December 2021	**2,058,943**	**5,040,776**	**1,000,033**	**168,612**	**1,997,773**	**10,266,137**
Carrying amount						
At 31 December 2021	**2,987,054**	**2,976,215**	**1,858,677**	**152,542**	**2,674,594**	**10,649,082**

21 Leases

The Bank leases assets such as head office, branch offices and other spaces. The lease of head office, branch office and other spaces typically run for a period of 10 to 20 years.

Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2022 AMD'000	2021 AMD'000
Balance at 1 January	11,163,102	10,643,891
Additions to right of use assets	408,254	763,001
Depreciation charge for the period	(1,073,905)	(1,017,247)
Lease contract modifications	61,523	773,457
Balance at 31 December	**10,558,974**	**11,163,102**

(b) Amounts recognised in profit or loss

	2022 AMD'000	2021 AMD'000
Depreciation of right of use asset	1,073,905	1,017,247
Interest on lease liabilities	1,343,001	1,343,129

(c) Amounts recognised in the statement of cash flows

	2022 AMD'000	2021 AMD'000
Total cash outflow for leases	2,044,969	1,988,756

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

	2022 AMD'000	2021 AMD'000
Balance at 1 January	**12,106,310**	**11,231,832**
Changes from financing cash flows		
Repayments	(2,044,969)	(1,988,756)
Total changes from financing cash flows	**(2,044,969)**	**(1,988,756)**
Other changes		
Additions to lease liability	408,254	763,001
Modification	61,523	742,320
Interest expense	1,343,001	1,343,129
The effect of change in foreign exchange rates	(22,064)	14,784
Balance at 31 December	**11,852,055**	**12,106,310**

22 Other assets

	2022 AMD'000	2021 AMD'000
Receivables from unsettled transactions	3,242,216	1,753,611
Brokerage accounts	146,499	1,214,055
Restricted accounts with clearing houses	912,326	573,370
Credit loss allowance	(26,658)	(24,903)
Total other financial assets at amortised cost	**4,274,383**	**3,516,133**
Prepayments to suppliers	5,704,726	6,563,381
Standard bullions of precious metals	-	1,031,181
Inventories	646,708	153,669
Other	59,806	13,771
Total other non-financial assets	**6,411,240**	**7,762,002**
Total other assets	**10,685,623**	**11,278,135**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for other financial assets for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	14,932	648	9,323	24,903
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	5,649	(365)	22,607	27,891
Write offs	-	-	(48,559)	(48,559)
Recoveries	-	-	22,423	22,423
Balance at 31 December	**20,581**	**283**	**5,794**	**26,658**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	10,278	344	59,812	70,434
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	4,654	304	(491,898)	(486,940)
Write offs	-	-	(67,099)	(67,099)
Recoveries	-	-	508,508	508,508
Balance at 31 December	**14,932**	**648**	**9,323**	**24,903**

23 Deposits and balances from banks

	2022 AMD'000	2021 AMD'000
Loans from the Central Bank of Armenia	28,196,715	21,216,786
Loans and term deposits from commercial banks		
− with initial maturity period of less than 12 months	5,904,628	4,331,441
− with initial maturity period of more than 12 months	11,911,962	14,414,774
Liabilities for letters of credit	11,176,278	16,364,003
Vostro accounts	5,495,456	322,757
	62,685,039	**56,649,761**

According to the agreement the Central Bank of Armenia provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2022 the Bank has no counterparty, except for the Central Bank of Armenia, whose balances exceed 10% of equity (2021: one counterparty). The gross value of the counterparty balances as 31 December 2021 is AMD 14,414,774 thousand.

24 Current accounts and deposits from customers

	2022 AMD'000	2021 AMD'000
Current accounts and demand deposits		
− Individuals	186,766,943	119,887,810
− Legal entities	300,584,306	189,457,843
Term deposits		
− Individuals	206,247,848	182,878,019
− Legal entities	91,035,095	108,390,624
	784,634,192	**600,614,296**

As at 31 December 2022, the Bank maintained customer current accounts and deposit balances that serve as collateral for loans and credit related commitments granted by the Bank amounting to AMD 16,198,781 thousand (2021: AMD 12,846,772 thousand).

As at 31 December 2022, the Bank has two customers (31 December 2021: three customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2022 is AMD 59,891,739 thousand (2021: AMD 81,659,035 thousand).

25 Debt securities issued

	2022 AMD'000	2021 AMD'000
Domestic bonds issued	74,474,072	88,283,791
Green bonds issued to international financial institutions	17,651,441	22,791,152
	92,125,513	**111,074,943**

In 2022 the Bank has issued and placed debt securities denominated in AMD and USD with nominal amount of AMD 29.1 billion and USD 44.8 million respectively (2021: AMD and USD denominated debt securities with nominal amount of AMD 35.5 billion and USD 52.0 million respectively). As at 31 December 2022 carrying value of the bonds is AMD 29,480,378 thousand and AMD 44,993,694 thousand accordingly (2021: AMD 36,017,636 thousand and AMD 52,266,155 thousand accordingly).

Bonds issued by the Bank are listed in Armenia Securities Exchange stock exchange.

In 2020 the Bank issued green bonds in the amount of EUR 42 million with interest rate 3.05% maturing on 26 November 2025. The green bonds are issued in close cooperation with FMO, the Dutch Entrepreneurial Development, that is also anchor investor in this transaction. The purpose of issued green bonds is financing green projects that contribute to environmental sustainability.

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

	2022 AMD'000	2021 AMD'000
Balance at 1 January	111,074,943	106,916,313
Changes from financing cash flows		
Sale of debt securities issued	31,976,529	113,175,030
Repayment of debt securities issued	(36,336,737)	(99,882,931)
Total changes from financing cash flows	**(4,360,208)**	**13,292,099**
The effect of changes in foreign exchange rates	**(14,351,018)**	**(8,882,959)**
Other changes		
Interest expense	6,052,010	6,471,167
Interest paid	(6,290,214)	(6,721,677)
Balance at 31 December	**92,125,513**	**111,074,943**

26 Other borrowed funds and subordinated borrowings

	2022 AMD'000	2021 AMD'000
Borrowings from international financial institutions	57,453,179	127,494,752
Borrowings from Armenian financial institutions	671,509	217,666
	58,124,688	**127,712,418**
Subordinated borrowings from international financial institutions	28,155,324	27,393,716
	28,155,324	**27,393,716**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2022, the Bank has no loans from financial institutions (31 December 2021: four), whose balances exceed 10% of equity. These balances as at 31 December 2021 are AMD 94,968,710 thousand.

(b) Subordinated borrowing

As at 31 December 2022 subordinated borrowings represent borrowings received from seven financial institutions:

– AMD 3,367,745 thousand maturing on 15 January 2026;
– AMD 5,600,709 thousand maturing on 15 January 2027;
– AMD 5,820,252 thousand maturing on 3 January 2031;
– AMD 200,640 thousand maturing on 3 January 2031;
– AMD 3,515,781 thousand maturing on 8 January 2029;
– AMD 3,339,671 thousand maturing on 2 January 2032;
– AMD 1,579,029 thousand maturing on 2 February 2032;
– AMD 4,731,497 thousand maturing on 2 February 2032.

The Bank considers borrowings received as subordinated borrowings, if in case of bankruptcy, the repayment of the borrowing will be made after repayment in full of all other liabilities of the Bank.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as at 31 December 2022 and 2021.

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

AMD '000	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2022	**127,712,418**	**27,393,716**
Changes from financing cash flows		
Receipt	36,771,928	3,326,025
Repayments	(82,461,252)	-
Total changes from financing cash flows	**(45,689,324)**	**3,326,025**
The effect of changes in foreign exchange rates	(23,732,666)	(2,669,611)
Other changes		
Interest expense	4,821,938	1,906,146
Interest paid	(4,987,678)	(1,800,952)
Balance at 31 December 2022	**58,124,688**	**28,155,324**

AMD '000	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2021	**128,907,362**	36,495,281
Changes from financing cash flows		
Receipt	51,265,871	7,280,620
Repayments	(63,438,777)	-
Total changes from financing cash flows	**(12,172,906)**	**7,280,620**
The effect of changes in foreign exchange rates	(15,055,988)	4,994,383
Transfer from subordinated borrowings to other borrowed funds	26,322,960	(26,322,960)
Other changes		
Interest expense	4,971,972	1,548,167
Interest paid	(5,260,982)	(1,267,216)
Balance at 31 December 2021	**127,712,418**	**27,393,716**

27 Other liabilities

	2022 AMD'000	2021 AMD'000
Payables to staff	19,517,360	6,204,477
Payables in transit	3,077,956	2,544,251
Tarde payables	917,162	795,497
Financial liabilities related to factoring contracts	469,418	726,794
Payables to deposit guarantee fund	229,377	175,312
Other payables	438,053	434,309
Total other financial liabilities	**24,649,326**	**10,880,640**
Other taxes payable	1,938,049	1,524,071
Deferred income	2,398	31,376
Total other non-financial liabilities	**1,940,447**	**1,555,447**
Total other liabilities	**26,589,773**	**12,436,087**

28 Amounts payable under repurchase agreements

	2022 AMD'000	2021 AMD'000
Amounts payable to the Central Bank of Armenia	-	18,011,594
Amounts payable to other Armenian banks	3,936,778	-
Total amounts payable under reverse repurchase agreements	**3,936,778**	**18,011,594**

(a) Concentration of amounts payable under repurchase agreements

As at 31 December 2022 and 2021, the Bank has no counterparty except for the Central Bank of Armenia whose balances exceed 10% of equity.

29 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2022 the authorised, issued and outstanding share capital comprises 117,021 ordinary shares (2021: 116,959). All shares have a nominal value of AMD 465 thousand (2021: AMD 465 thousand) and are fully paid.

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

(b) Nature and purpose of reserves

Revaluation reserve for investment securities

The revaluation reserve for investment securities comprises the cumulative net change in the fair value of investment securities measured at FVOCI, until the assets are derecognised.

(c) Dividends

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

The Bank did not declare and pay dividends in 2022 and 2021.

(d) Earnings per share

The calculation of basic earnings per share at 31 December 2022 was based on the profit attributable to ordinary shareholders of AMD 44,269,287 thousand (2021: AMD 19,416,067 thousand), and a weighted-average number of ordinary shares outstanding of 117,002 (2021: 116,936), calculated as shown below. The Bank has no dilutive potential ordinary shares.

	2022 Number of shares	2021 Number of shares
Issued shares at 1 January	116,959	116,834
Effect of shares issued in March	-	125
Effect of shares issued in April	62	-
Weighted average number of shares for the year ended 31 December	**117,002**	**116,936**
Earnings per share – basic in AMD '000	**378.36**	**166.04**
Earnings per share – diluted in AMD '000	**378.36**	**166.04**

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

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

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

(b) Market risk

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

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

Interest rate benchmark reform

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has exposures to IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Financial and Operational department monitors and manages the Bank's transition to alternative rates. The Financial and Operational department together with profit centres evaluates the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The Financial and Operational department reports to the Management Board and collaborates with other business functions as needed. It provides periodic reports to ALCO to support the management of interest rate risk.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the Bank has established policies to amend the contractual terms. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate if such amendment is allowed by local legislation.

The Bank approved a policy requiring that, with effect from 1 February 2022, all newly originated floating-rate loans to are linked to term SOFR rates published by CME for USD loans and EURIBOR for EUR loans.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

As at 31 December 2021, the IBOR reform in respect of currencies to which the Bank has exposure has been largely completed. The table below sets out the IBOR rates that the Bank had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	Benchmark before reform	Benchmark after reform	Status as at 31 December 2021
USD	USD LIBOR	SOFR	Completed
EUR	EUR LIBOR	EURIBOR reformed	Completed

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar settings will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

Non-derivative financial assets and loan commitments

During 2021, the Bank had the following principal IBOR exposures in respect of non-derivative financial assets and loan commitments subject to the reform:

- floating-rate loans to customers: USD LIBOR, EUR LIBOR held throughout its operations.

The following table shows the total amounts of unreformed non-derivative financial assets and those with appropriate fallback language at 31 December 2022 and 31 December 2021.

	USD LIBOR		EUR LIBOR	
AMD'000	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**
31 December 2022				
Loans to legal entities	34,699,588	10,941,252	-	-
Loans to individuals	22,292,267	14,407,106	-	-
31 December 2021				
Loans to legal entities	63,663,436	24,988,330	30,507,900	27,256,345
Loans to individuals	32,345,343	21,590,573	8,889,603	5,341,316

Non-derivative financial liabilities

The following table shows the total amounts of unreformed non-derivative financial liabilities and amounts that include appropriate fallback language at 31 December 2022 and 31 December 2021. The amounts shown in the table are the carrying amounts.

	USD LIBOR	
AMD'000	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**
31 December 2022		
Other borrowed funds	25,894,407	3,935,700
Subordinated liabilities	9,150,503	5,903,550
	35,044,910	**9,839,250**
31 December 2021		
Other borrowed funds	79,883,032	79,883,032
Subordinated liabilities	11,163,255	7,202,100
	91,046,287	**87,085,132**

For agreements of non-derivative financial assets and liabilities, which have fallback clause, the fallback clause will come into effect by 30 June 2023. Agreements not bearing a fallback clause will be amended to replace the LIBOR either with SOFR or to fix the interest rate.

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2022 and 31 December 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2022 Average effective interest rate, %			2021 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest earning assets						
Investment securities measured at fair value through profit or loss	11.0%	7.7%	0.9%	9.2%	6.4%	2.7%
Investment securities measured at fair value through other comprehensive income	10.8%	4.4%	-	8.9%	4.7%	-
Investment securities measured at amortised cost	8.6%	8.1%	-	8.0%	4.8%	-
Loans and advances to banks	-	4.6%	1.7%	-	7.1%	0.7%
Amounts receivable under reverse repurchase agreements	11.8%	-	-	9.2%	-	-
Loans and advances to customers	14.2%	8.4%	6.5%	14.0%	8.1%	6.5%
Receivables from finance leases	11.9%	7.7%	6.4%	11.4%	8.0%	6.1%
Receivables from factoring	18.7%	10.2%	9.5%	15.9%	9.9%	19.1%
Receivables from letter of credit	-	6.8%	4.7%	-	5.0%	5.1%
Interest bearing liabilities						
Deposits and balances from banks	6.1%	5.7%	2.3%	6.2%	2.9%	0.6%
Amounts payable under repurchase agreements	-	2.5%	-	7.8%	-	-
Debt securities issued	9.9%	4.2%	3.1%	10.0%	4.9%	3.2%
Term deposits from customers	9.3%	3.1%	1.5%	9.3%	3.5%	1.8%
Subordinated borrowings	-	10.9%	6.2%	-	6.4%	6.5%
Other borrowed funds	9.0%	7.6%	3.0%	11.0%	2.8%	3.3%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities, except for interest bearing cash and cash equivalents and current accounts and demand deposits from customers, and existing as at 31 December 2022 and 2021, is as follows:

	2022 AMD'000	2021 AMD'000
100 bp parallel rise	(406,256)	(610,497)
100 bp parallel fall	406,256	610,497

An analysis of the sensitivity of equity as a result of changes in the fair value of financial instruments at fair value through other comprehensive income, based on positions existing as at 31 December 2022 and 2021 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2022	2021
	Equity AMD'000	**Equity AMD'000**
100 bp parallel rise	(603,412)	(212,596)
100 bp parallel fall	603,412	212,596

Currency risk

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

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

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	23,168,887	27,313,583	15,514,964	65,997,434
Investment securities at fair value through profit or loss	5,894,760	86,014	-	5,980,774
Investment securities at fair value through other comprehensive income	34,813,300	-	-	34,813,300
Investment securities at amortised cost	95,101,418	3,355,592	-	98,457,010
Loans and advances to banks	73,975,112	24,055,365	2,675	98,033,152
Loans and advances to customers	243,103,900	82,434,348	438,119	325,976,367
Receivables from letters of credit	1,318,708	3,060,290	-	4,378,998
Receivables from finance leases	2,610,657	3,105,344	-	5,716,001
Receivables from factoring	5,403,897	1,499,528	165,898	7,069,323
Other financial assets	2,195,990	22,027	60,007	2,278,024
Total assets	**487,586,629**	**144,932,091**	**16,181,663**	**648,700,383**

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
LIABILITIES				
Deposits and balances from banks	25,925,175	12,453,005	1,521,037	39,899,217
Current accounts and deposits from customers	365,263,226	78,585,879	14,713,881	458,562,986
Debt securities issued	44,993,694	17,651,441	-	62,645,135
Subordinated borrowings	9,360,563	18,794,761	-	28,155,324
Other borrowed funds	40,107,568	16,708,862	-	56,816,430
Amounts payable under repurchase agreements	3,936,778	-	-	3,936,778
Lease liability	74,643	-	-	74,643
Other financial liabilities	823,424	719,071	3,930	1,546,425
Total liabilities	**490,485,071**	**144,913,019**	**16,238,848**	**651,636,938**
Net position	**(2,898,442)**	**19,072**	**(57,185)**	**(2,936,555)**
Effect of derivatives	(2,744,842)	(1,257,081)	-	(4,001,923)
Net position	**(5,643,284)**	**(1,238,009)**	**(57,185)**	**(6,938,478)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2021.

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	132,971,234	59,480,233	4,190,504	196,641,971
Investment securities at fair value through profit or loss	2,738,543	57,407	-	2,795,950
Investment securities at fair value through other comprehensive income	5,681,858	-	-	5,681,858
Investment securities at amortised cost	9,051,475	-	-	9,051,475
Loans and advances to banks	28,977,049	11,596,034	97,334	40,670,417
Loans and advances to customers	260,854,673	102,480,675	1,896,971	365,232,319
Receivables from letters of credit	5,617,441	5,042,088	-	10,659,529
Receivables from finance leases	2,787,101	4,948,458	-	7,735,559
Receivables from factoring	6,434,437	3,289,391	46,912	9,770,740
Other financial assets	2,381,348	3,860	36,725	2,421,933
Total assets	**457,495,159**	**186,898,146**	**6,268,446**	**650,661,751**
LIABILITIES				
Investment securities at fair value through profit or loss	44,391	-	-	44,391
Deposits and balances from banks	28,419,464	7,514,023	17,547	35,951,034
Current accounts and deposits from customers	316,603,478	61,249,209	7,233,377	385,086,064
Debt securities issued	52,266,155	22,791,153	-	75,057,308
Subordinated borrowings	11,268,166	16,125,550	-	27,393,716
Other borrowed funds	75,235,761	41,916,172	-	117,151,933
Lease liability	146,840	-	-	146,840
Other financial liabilities	1,023,165	775,715	10,076	1,808,956
Total liabilities	**485,007,420**	**150,371,822**	**7,261,000**	**642,640,242**
Net position	**(27,512,261)**	**36,526,324**	**(992,554)**	**8,021,509**
Effect of derivatives	29,854,566	(37,982,700)	8,221	(8,119,913)
Net position	**2,342,305**	**(1,456,376)**	**(984,333)**	**(98,404)**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2022 and 2021, would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is on net of tax basis, and is based on foreign currency exchange rate variances that the Bank considers to be reasonably possible at the end of the reporting period. The income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

	2022 AMD'000	**2021 AMD'000**
10% appreciation of USD against AMD	(564,328)	234,231
10% appreciation of EUR against AMD	(123,801)	(145,638)

A strengthening of the AMD against the above currencies at 31 December 2022 and 2021 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (legal entities and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions. Starting from 2020 the Bank has implemented new machine learning scoring system for portfolio of credit purchase and online consumer loans.

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

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

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

For the analysis of collateral held against loans and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 19.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR. 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. 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.

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

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

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 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 Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

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

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay, based on management's judgment. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

PD estimation process

Treasury and interbank relationships

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

Loans and advances to customers

Bucketing

In 2022, for PD estimation the Bank developed and implemented its own internal credit rating (ICR) model for individually significant large-scale stage 1 loans, the later consists about 55% of total corporate loan portfolio.

The model of choice is logistic regression where it models the probabilities of a binary response variable, the so-called target (indicator for an occurrence of a default event within a 12 months-long period) against several independent variables.

Within the scope of Corporate PD model development 3 scorecards have been constructed:

- Behavioural - that includes scoring parameters constructed based on the behavioural/transactional data from the Bank's sources
- Financial – that includes scoring parameters constructed based on the information from individual financial statements provided to the Bank;
- Qualitative – that includes scoring parameters based on the qualitative and other quantitative information accumulated or produced within the Bank that reflect the credit risk of the Bank's creditors.

The above mentioned three models are linked together to obtain a final score for every creditor included in the development sample as well as all the new creditors that will be included into the corporate portfolio of the Bank in the upcoming periods.

Based on this corporate clients segregated in following PD based ratings:

IRC
1 (the highest score)
2
3
4A
4B
4C
5A
5B
5C
6
7

The following table provides information on the credit quality of Stage 1 corporate loans for which the Bank implemented IRC model as at 31 December 2022:

	2022		
AMD'000	**Gross amount**	**Credit loss allowance**	**Net amount**
Loans and advances to corporate customers			
Grade 1	-	-	-
Grade 2	6,175,631	38,639	6,136,992
Grade 3	13,419,277	83,960	13,335,317
Grade 4: A-C	50,502,922	315,979	50,186,943
Grade 5: A-C	123,539,947	772,946	122,767,001
Grade 6	47,984,787	300,224	47,684,563
Grade 7	2,488,681	15,571	2,473,110
Total loans and advances to corporate customers	**244,111,245**	**1,527,319**	**242,583,926**

Besides this, the Bank also segregates the following portfolios.

- corporate loans, which PDs are not calculated based on ICR model;
- mortgages loans;
- consumer loans.

PDs for loans and advances to customers are based on historic information and are 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 between overdue categories from the total number at the beginning of the period. Calculated PDs are further adjusted based on forward looking information.

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 Bank assesses the possible default events within 12 months for the calculation of the 12m ECL. For Stage 2 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

For Stage 3 and POCI financial assets exposure at default is equal to the gross amount of the loans.

EAD is derived from the historical behaviour of amortised costs of defaulted loans before the date when the default has occurred.

Loss given default

For individually not significant Stage 1, Stage 2 and Stage 3 exposures, the Bank calculated LGD on portfolio level. The Bank 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 and discounted to the date of default using effective interest rate of each loan. 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.). For individually significant Stage 1, Stage 2 and Stage 3 exposures the Bank calculates LDG individually considering expected cash, including cash flows from realisation of collateral.

Significant increase in credit risk

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. The main criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant risk in credit risk of the assets, when payments related to that assets 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;
- difficulties in the financial conditions of the borrower;
- renegotiation of the loan terms resulting from deterioration of the borrower's financial position;
- deterioration of macroeconomic indicators and their possible effect on the borrower's financial performance.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of macroeconomic indicators as forward-looking information, such as:

- consumer price index;
- RUR/AMD exchange rate;
- volumes of export;
- volumes of import,
- real GDP growth;
- industrial production growth;
- nominal GDP;
- international reserves;
- net export

The Bank obtains the forecasts of macroeconomic data from third party source (Economic Intelligence Unit). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios.

The table below shows the values of the key macroeconomic indicators/assumptions used in each of the scenarios for the ECL calculations.

	ECL scenario	Assigned probabilities, %	2023	2024
Key drivers				
CPI index				
	Upside	20%	101.287	100.087
	Base case	50%	104.300	103.100
	Downside	30%	107.313	106.113
RUR/AMD exchange rate				
	Upside	20%	7.6093	7.7193
	Base case	50%	5.0000	5.1100
	Downside	30%	2.3906	2.5066
Export, AMD million				
	Upside	20%	6,677.13	7,111.13
	Base case	50%	6,049.00	6,483.00
	Downside	30%	5,420.86	5,854.86
Import, AMD million				
	Upside	20%	9,814.91	9,911.91
	Base case	50%	9,100.00	9,197.00
	Downside	30%	8,385.08	8,482.08
Real GDP growth				
	Upside	20%	107.787	107.605
	Base case	50%	103.807	103.615
	Downside	30%	99.828	99.632
Industrial production growth				
	Upside	20%	8.223	8.216
	Base case	50%	3.428	3.427
	Downside	30%	(1.3660)	(1.3663)
Nominal GDP AMD billion				
	Upside	20%	10,091	10,987
	Base case	50%	9,231	10,127
	Downside	30%	8,371	9,267
International reserves USDm				
	Upside	20%	4,730	4,447
	Base case	50%	4,143	3,860
	Downside	30%	3,556	3,273
Net Export USDm				
	Upside	20%	(2,114)	(1,985)
	Base case	50%	(2,506)	(2,377)
	Downside	30%	(2,898)	(2,769)

Along with baseline forecasts (with 50% probability of occurrence) listed in the table above, additionally, the Bank uses shocked macroeconomic variables to calculate the ECL under the optimistic (with 20% probability of occurrence) and pessimistic (30% probability of occurrence) scenarios. These rates are weighted to form final ECL rates. In 2021 the Bank had applied the following weights for the scenarios: 50% probability of occurrence of baseline scenario, 20% probability of occurrence of optimistic and 30% of pessimistic scenarios respectively.

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

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

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

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

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

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

AMD'000				**Related amounts not offset in the statement of financial position**	
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Net amount**
Amounts receivable under reverse repurchase agreements	47,116,435	-	47,116,435	(47,116,435)	-
Total financial assets	**47,116,435**	**-**	**47,116,435**	**(47,116,435)**	**-**
Amounts payable under repurchase agreements	(3,936,778)	-	(3,936,778)	3,936,778	-
Total financial liabilities	**(3,936,778)**	**-**	**(3,936,778)**	**3,936,778**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2021:

AMD'000				**Related amounts not offset in the statement of financial position**	
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Net amount**
Amounts receivable under reverse repurchase agreements	7,533,683	-	7,533,683	(7,533,683)	-
Total financial assets	**7,533,683**	**-**	**7,533,683**	**(7,533,683)**	**-**
Amounts payable under repurchase agreements	(18,011,594)	-	(18,011,594)	18,011,594	-
Total financial liabilities	**(18,011,594)**	**-**	**(18,011,594)**	**18,011,594**	**-**

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Repayments which are subject to notice are treated as if notice were to be given immediately, except current accounts and on demand deposits from customers which are stated at expected maturities. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	12,218,258	6,915,251	3,588,360	6,139,958	35,505,229	6,471,684	70,838,740	62,685,039
Amounts payable under repurchase agreements	3,936,778	-	-	-	-	-	3,936,778	3,936,778
Current accounts and deposits from customers	507,475,451	52,261,757	77,311,027	121,152,238	34,931,697	3,114,872	796,247,041	784,634,192
Debt securities issued	307,336	11,763,512	12,346,990	14,831,085	59,201,784	-	98,450,707	92,125,513
Subordinated borrowings	-	671,979	373,451	1,050,655	16,603,669	24,156,666	42,856,420	28,155,324
Other borrowed funds	934,054	6,145,045	3,309,888	10,442,378	44,512,889	109,346	65,453,600	58,124,688
Lease liability	405,094	112,751	494,240	1,001,811	6,918,442	13,857,311	22,789,649	11,852,055
Total financial liabilities	**525,276,971**	**77,870,295**	**97,423,956**	**154,618,125**	**190,755,268**	**47,709,879**	**1,093,654,494**	**1,041,513,589**
Credit related commitments	**70,837,784**	**-**	**-**	**-**	**-**	**-**	**70,837,784**	**70,837,784**
Derivative financial liabilities (gross)	**20,744,000**	**-**	**-**	**-**	**-**	**-**	**20,744,000**	**69,563**

The maturity analysis for financial liabilities as at 31 December 2021 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	1,257,681	389,501	15,995,313	2,622,322	36,091,343	6,497,534	62,853,694	56,649,761
Amounts payable under repurchase agreements	18,011,594	-	-	-	-	-	18,011,594	18,011,594
Current accounts and deposits from customers	331,990,455	50,168,337	58,809,736	111,310,877	57,228,465	3,382,112	612,889,982	600,614,296
Debt securities issued	511,974	11,692,803	7,308,512	25,110,565	75,722,295	-	120,346,149	111,074,943
Subordinated borrowings	-	479,860	365,880	858,550	10,912,913	26,770,951	39,388,154	27,393,716
Other borrowed funds	24,381,958	9,969,585	11,445,894	32,786,958	53,692,070	5,334,749	137,611,214	127,712,418
Lease liability	411,667	84,381	496,048	991,394	6,989,806	15,185,796	24,159,092	12,106,310
Total financial liabilities	**376,565,329**	**72,784,467**	**94,421,383**	**173,680,666**	**240,636,892**	**57,171,142**	**1,015,259,879**	**953,563,038**
Credit related commitments	**67,222,556**	**-**	**-**	**-**	**-**	**-**	**67,222,556**	**67,222,556**
Derivative financial liabilities (gross)	**49,363,468**	**-**	**-**	**-**	**-**	**-**	**49,363,468**	**92,827**

Included in due to customers in the table above and in the table below are term deposits of individuals. In accordance with the legislation of the Republic of Armenia, the Bank is obliged to repay term deposits of individuals upon demand of a depositor, forfeiting the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2022 AMD'000	2021 AMD'000
Demand and less than 1 month	16,097,342	12,670,205
From 1 to 3 months	34,276,682	24,128,072
From 3 to 6 months	43,414,910	34,370,019
From 6 to 12 months	94,235,331	89,933,056
More than 1 year	18,223,583	21,776,667
	206,247,848	**182,878,019**

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

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	113,641,023	-	-	-	-	-	-	113,641,023
Financial assets measured at fair value through profit or loss	42,682	248,067	1,826,015	4,414,792	4,089,619	99,993	-	10,721,168
Investment securities measured at fair value through other comprehensive income	15,236,202	342,014	13,240,653	24,782,156	3,684,275	78,307	-	57,363,607
Investment securities measured at amortised cost	33,805,704	29,680,999	24,959,296	26,578,714	41,677,172	-	-	156,701,885
Loans and advances to banks	106	18,377,009	198,842	-	-	75,518,882	-	94,094,839
Amounts receivable under reverse repurchase agreements	47,116,435	-	-	-	-	-	-	47,116,435
Loans to legal entities and individuals	14,629,643	32,886,877	166,286,313	344,158,432	135,091,836	-	6,028,575	699,081,676
Receivables from letters of credit	15,495	1,351,675	1,476,757	1,535,071	-	-	-	4,378,998
Receivables from finance leases	651,014	964,490	4,368,662	14,897,620	2,415,129	-	29,002	23,325,917
Receivables from factoring	1,902,426	4,020,916	2,833,187	-	-	-	-	8,756,529
Property, equipment and intangible assets	-	-	-	-	-	12,022,885	-	12,022,885
Right of use asset	-	-	-	-	-	10,558,974	-	10,558,974
Repossessed assets	-	-	-	-	-	910,030	-	910,030
Deferred tax asset	-	-	2,470,217	-	-	-	-	2,470,217
Other assets	9,928,885	691,728	55,254	5,785	41	3,930	-	10,685,623
Total assets	**236,969,615**	**88,563,775**	**217,715,196**	**416,372,570**	**186,958,072**	**99,193,001**	**6,057,577**	**1,251,829,806**
LIABILITIES								
Derivative financial liabilities	69,563	-	-	-	-	-	-	69,563
Amounts payable under repurchase agreements	3,936,778	-	-	-	-	-	-	3,936,778
Deposits and balances from banks	12,215,832	6,890,815	9,382,478	29,805,387	4,390,527	-	-	62,685,039
Current accounts and deposits from customers	284,163,447	131,565,540	268,015,959	98,275,415	2,613,831	-	-	784,634,192
Debt securities issued	306,249	11,616,749	26,237,617	53,964,898	-	-	-	92,125,513
Subordinated borrowings	-	659,880	1,351,053	13,196,559	12,947,832	-	-	28,155,324
Other borrowed funds	932,500	6,093,482	13,307,272	37,717,185	74,249	-	-	58,124,688
Lease liability	403,977	110,981	1,419,767	5,048,071	4,869,259	-	-	11,852,055
Current tax liability	-	-	11,302,060	-	-	-	-	11,302,060
Provision for credit related commitments	303,276	-	-	-	-	-	-	303,276
Other liabilities	4,192,023	2,029,227	20,368,523	-	-	-	-	26,589,773
Total liabilities	**306,523,645**	**158,966,674**	**351,384,729**	**238,007,515**	**24,895,698**	**-**	**-**	**1,079,778,261**
Net position	**(69,554,030)**	**(70,402,899)**	**(133,669,533)**	**178,365,055**	**162,062,374**	**99,193,001**	**6,057,577**	**172,051,545**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

* For management of negative short-term liquidity position the Bank relies on the financial securities, which can be sold or pledged under repo agreements and the assumption that the withdrawn current accounts and term deposits will be successfully replaced.

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2021:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	264,090,145	-	-	-	-	-	-	264,090,145
Financial assets measured at fair value through profit or loss	100,781	238,861	2,128,106	5,048,285	707,927	-	-	8,223,960
Investment securities measured at fair value through other comprehensive income	-	599,712	890,335	6,362,801	4,127,105	36,832	-	12,016,785
Investment securities measured at amortised cost	-	168,420	9,202,239	25,558,858	18,756,791	-	-	53,686,308
Loans and advances to banks	8,142,953	-	244,424	240,070	-	34,705,814	-	43,333,261
Amounts receivable under reverse repurchase agreements	7,533,683	-	-	-	-	-	-	7,533,683
Loans to legal entities and individuals	16,142,251	26,281,774	114,696,923	274,659,773	188,505,427	-	11,857,174	632,143,322
Receivables from letters of credit	12,287	-	7,254,082	3,393,161	-	-	-	10,659,530
Receivables from finance leases	501,240	787,418	3,788,991	12,808,925	1,536,158	-	53,680	19,476,412
Receivables from factoring	1,822,319	5,015,987	3,968,694	-	-	-	-	10,807,000
Property, equipment and intangible assets	-	-	-	-	-	10,649,082	-	10,649,082
Right of use asset	-	-	-	-	-	11,163,102	-	11,163,102
Repossessed assets	-	-	-	-	-	1,326,280	-	1,326,280
Other assets	3,797,175	154,262	5,718,216	-	-	1,608,482	-	11,278,135
Total assets	**302,142,834**	**33,246,434**	**147,892,010**	**328,071,873**	**213,633,408**	**59,489,592**	**11,910,854**	**1,096,387,005**
LIABILITIES								
Derivative financial liabilities	48,436	3,415	3,415	37,561	-	-	-	92,827
Amounts payable under repurchase agreements	18,011,594	-	-	-	-	-	-	18,011,594
Deposits and balances from banks	1,073,040	386,129	18,478,015	31,798,407	4,914,170	-	-	56,649,761
Current accounts and deposits from customers	227,912,582	80,205,899	192,026,344	97,842,183	2,627,288	-	-	600,614,296
Debt securities issued	509,715	11,582,804	31,079,421	67,903,003	-	-	-	111,074,943
Subordinated borrowings	-	473,725	1,170,804	8,871,702	16,877,485	-	-	27,393,716
Other borrowed funds	24,380,554	10,003,838	43,012,382	47,236,012	3,079,632	-	-	127,712,418
Lease liability	278,947	-	649,879	2,218,529	8,958,955	-	-	12,106,310
Current tax liability	-	-	454,831	-	-	-	-	454,831
Deferred tax liability	-	-	664,044	-	-	-	-	664,044
Provision for credit related commitments	244,929	-	-	-	-	-	-	244,929
Other liabilities	3,846,937	1,641,858	6,947,292	-	-	-	-	12,436,087
Total liabilities	**276,306,734**	**104,297,668**	**294,486,427**	**255,907,397**	**36,457,530**	**-**	**-**	**967,455,756**
Net position	**25,836,100**	**(71,051,234)**	**(146,594,417)**	**72,164,476**	**177,175,878**	**59,489,592**	**11,910,854**	**128,931,249**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 31 December and during the reporting period are as follows:

	2022 AMD'000 Unaudited	**2021 AMD'000 Unaudited**
At 31 December	75.22%	118.5%
Average for December	75.48%	110.18%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA which is set as not less than 60%.

31 Capital management

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

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank. Under the current capital requirements set by the Central Bank of Armenia, banks have to maintain a minimum total capital of AMD 30,000,000 thousand (2021: AMD 30,000,000 thousand). The Bank is in compliance with minimum total capital requirements as at 31 December 2022 and 2021.

The Bank 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 Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2022 and 2021, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2022 and 2021.

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, for December:

	2022 AMD'000 Unaudited	**2021 AMD'000 Unaudited**
Tier 1 capital	160,143,954	117,695,856
Tier 2 capital	23,339,633	26,136,335
Total capital	**183,483,587**	**143,832,191**
Total risk weighted assets	**1,054,403,657**	**940,874,175**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**17.40%**	**15.29%**

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

32 Credit related commitments

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

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

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

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

	2022 AMD'000	2021 AMD'000
Contracted amount		
Credit card commitments	23,013,339	19,626,093
Non-financial guarantees	21,436,057	17,939,675
Undrawn overdraft facilities	13,460,009	14,872,110
Financial guarantees and letters of credit	8,765,212	6,716,448
Undrawn loans and credit lines	4,163,167	8,068,230
	70,837,784	**67,222,556**
Impairment allowance	**(303,276)**	**(244,929)**

In addition to the above credit related commitments, the Bank has undrawn loans and credit lines the withdrawal of which is subject to additional approval by the Bank. The Bank considers such balances as uncommited. The total amount of such uncommited balances as at 31 December 2022 comprised AMD 33,228,645 thousand (2021: AMD 22,241,919 thousand).

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

As at 31 December 2022 financial credit related commitments in the amount of AMD 49,391,947 thousand were allocated to Stage 1 (2021: AMD 49,270,191 thousand), AMD 9,735 thousand to Stage 2 (2021: AMD 7,490 thousand) and AMD 45 thousand to Stage 3 (2021: AMD 5,200 thousand).

The following tables show reconciliations from the opening to the closing balances of the loss allowance for commitments for the years ended 31 December 2022 and 2021.

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	238,771	1,670	4,488	244,929
New exposures originated	1,840,533	-	-	1,840,533
Exposures expired	(1,853,327)	(24,935)	(52,625)	(1,930,887)
Transfer to Stage 1	28	-	(28)	-
Transfer to Stage 2	(1,880)	1,880	-	-
Transfer to Stage 3	(22)	-	22	-
Net remeasurement of loss allowance	77,246	23,269	48,186	148,701
Balance at 31 December	**301,349**	**1,884**	**43**	**303,276**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	325,743	14,145	19,331	359,219
New exposures originated	65,457	-	-	65,457
Exposures expired	(125,433)	(4,058)	(60)	(129,551)
Transfer to Stage 1	28,085	(8,814)	(19,271)	-
Transfer to Stage 2	(397)	397	-	-
Transfer to Stage 3	(4,202)	-	4,202	-
Net remeasurement of loss allowance	(50,482)	-	286	(50,196)
Balance at 31 December	**238,771**	**1,670**	**4,488**	**244,929**

33 Contingencies

(a) Litigation

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

(b) Taxation contingencies

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

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

34 Related party transactions

(a) Control relationships

The shareholders of the Bank as at 31 December 2022 are Imast Group (CY) (48.87%), EBRD (17.73%), ADB (13.92%), ESPS Holding Limited (11.98%) and Afeyan Foundation for Armenia Inc. (7.5%).

As at 31 December 2022 and 2021 the Bank had no ultimate controlling party.

(b) Transactions with key management personnel

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2022 AMD'000	2021 AMD'000
Short-term employee benefits	**8,095,863**	**3,139,168**

These amounts include benefits to key management personnel accrued in the statement of profit or loss and other comprehensive income of respective periods.

The outstanding balances and average effective interest rates as at 31 December 2022 and 2021 for transactions with key management personnel are as follows:

	2022 AMD'000	Average effective interest rate, %	2021 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans and advances to customers	698,522	9.00%	863,356	7.13%
Other assets	511	-	1,697	-
Current accounts and deposits from customers	1,173,418	7.78%	714,739	6.22%
Bonds	269,127	5.01%	1,880,277	5.55%
Other liabilities	7,000,000	-	2,100,000	-

Amounts included in profit or loss in relation to transactions with key management personnel for the year ended 31 December are as follows:

	2022 AMD'000	2021 AMD'000
Profit or loss		
Interest income	54,980	59,241
Interest expense	(31,161)	(25,453)

(c) Transactions with other related parties

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

	Parent company		Shareholder with significant influence		Subsidiaries of the major shareholder company		Other entities related to major shareholder and other related parties		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position									
Assets									
Loans and advances to customers	441	7%	-	-	-	-	1,659,853	8.95%	1,660,294
Other asset	-	-	-	-	-	-	176	-	176
Liabilities									
Current accounts and deposits from customers									
− Current accounts and demand deposits	26,186	-	167,216	-	443,769	-	2,829,849	-	3,467,020
− Term deposits	-	-	-	-	-	-	268,174	4.00%	268,174
Bonds issued	-	-	146,240	9.67%	64,163	7.64%	69,739	4.71%	280,142
Other borrowed funds	-	-	12,011,811	6.15%	-	-	-	-	12,011,811
Other liabilities	-	-	26,670	-	1,837	-	1,056	-	29,563
Items not recognised in the statement of financial position									
Guarantees received	-	-	6,928,468	0.72%	-	-	-	-	6,928,468
Profit/(loss)									
Interest income	-	-	2,655	-	-	-	170,246	-	172,901
Interest expense	-	-	(601,097)	-	(25,858)	-	(33,126)	-	(660,081)
Other expenses	-	-	-	-	(38,196)	-	(98,000)	-	(136,196)

The outstanding balances and the related average effective interest rates as at 31 December 2021 and related profit or loss amounts of transactions for the year ended 31 December 2021 with other related parties are as follows:

	Parent company		**Shareholder with significant influence**		**Subsidiaries of the major shareholder company**		**Other entities related to major shareholder and other related parties**		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position									
Assets									
Loans and advances to customers	-	-	-	-	-	-	2,216,840	8.97%	2,216,840
Other asset	-	-	-	-	-	-	331	-	331
Liabilities									
Current accounts and deposits from customers									
− Current accounts and demand deposits	10,217	-	188,113	0.00%	84,382	0.00%	1,788,473	0.00%	2,071,185
− Term deposits	-	-	-	-	52,831	2.2%	408,390	3.50%	461,221
Bonds issued	-	-	-	-	768,761	6.86%	710,548	4.85%	1,479,309
Other borrowed funds	-	-	4,011,965	3.86%	-	-	-	-	4,011,965
Other liabilities	-	-	5,823	0.0%	28	-	-	-	5,851
Items not recognised in the statement of financial position									
Guarantees received	-	-	9,205,743	0.64%	-	-	-	-	9,205,743
Profit/(loss)									
Interest income	-	-	4,241	-	-	-	151,121	-	155,362
Interest expense			(598,548)	-	(17,649)	-	(12,627)	-	(628,824)
Other expenses	-	-	-	-	(47,864)	-	(41,210)	-	(89,074)

35 Financial assets and liabilities: fair values and accounting classifications

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

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

As at 31 December 2022 and 2021 the estimated fair values of all financial instruments except for loans and advances to customers and investment securities at amortised cost approximate their carrying values. The fair value of loans and advances to customers is categorised in Level 3 fair value hierarchy and fair value of investment securities measured at amortised cost is categorised in Level 2 in fair value hierarchy.

As at 31 December 2022 and 2021 the Bank had outstanding borrowings from the Central Bank of Armenia denominated in AMD and bearing nominal interest rate of 5.5%-7.5% (Note 23), The loans are considered to be separate market segment loans, therefore the Bank assesses that the loans are received at market rates.

The table below sets out the carrying amounts and fair values of loans and advances to customers and investment securities at amortised cost as at 31 December 2022 and 2021:

2022	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans and advances to customers	735,543,120	734,855,639	687,481
Investment securities measured at amortised cost	156,701,885	155,572,929	1,128,956
Total	**892,245,005**	**890,428,568**	**1,816,437**

2021	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans and advances to customers	673,086,264	673,496,654	(410,390)
Investment securities measured at amortised cost	53,686,308	51,373,099	2,313,209
Total	**726,772,572**	**724,869,753**	**1,902,819**

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

AMD'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
− Debt and other fixed-income instruments	-	10,118,791	-	10,118,791
− Derivative assets	-	602,377	-	602,377
− Derivative liabilities	-	(69,563)	-	(69,563)
Financial assets at fair value through other comprehensive income				
− Investment securities	45,230	57,318,377	-	57,363,607
Disclosed fair falue of assets and liabilities measured at amortised cost				
Loans and advances to customers	-	-	734,855,639	734,855,639
Investment securities measured at amortised cost	-	155,572,929	-	155,572,929
	45,230	**223,542,911**	**734,855,639**	**958,443,780**

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
− Debt and other fixed-income instruments	-	8,146,238	-	8,146,238
− Derivative assets	-	77,722	-	77,722
− Derivative liabilities	-	(92,827)	-	(92,827)
Financial assets at fair value through other comprehensive income				
− Investment securities	474,498	11,542,287	-	12,016,785
Disclosed fair falue of assets and liabilities measured at amortised cost				
− Loans and advances to customers	-	-	673,496,654	673,496,654
− Investment securities measured at amortised cost	-	51,373,099	-	51,373,099
	474,498	**71,046,519**	**673,496,654**	**745,017,671**

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. For financial instruments allocated to Level 2 the Bank uses quoted prices for similar instruments in markets that are considered less than active.

The following assumptions are used by management to estimate the fair values of loans and advances to customers: discount rates of 5.9%-12.1% for loans denominated in foreign currency and 9.4%-16.1% for loans denominated in Armenian drams, are used for discounting future cash flows from loans and advances to customers.

The following assumptions are used by management to estimate the fair values of investment securities measured at amortised cost – 10.9%-12.0% for securities denominated in AMD and rates of 1.2%-12.4% for securities denominated in foreign currency.

36 Glossary of terms

Abbreviation	Definition
IFRS	International Financial Reporting Standards
ISAs	International Standards on Auditing
IESBA Code	International Ethics Standards Board for Accountants International Code
IMF	International Monetary Fund
CBA	Central Bank of Armenia
ALCO	Asset and Liability Management Committee
FCA	Financial Conduct Authority
ECL	Expected credit loss
PD	Probability of default
LGD	Loss given default
FVTPL	Financial instruments at fair value through profit or loss
FVOCI	Fair value through other comprehensive income
EIR	Effective interest rate
SPPI	Solely payments of principal and interest
EPS	Earnings per share
LTECL	Lifetime expected credit loss
12mECL	12 months expected credit loss
POCI	Purchased or originated credit-impaired
EAD	Exposure at default
SOFR	Secured Overnight Financing Rate
LIBOR	London Interbank Offered Rate
EURIBOR	Euro Interbank Offer Rate
ICR	Internal credit rating