Financial Statements and Independent Auditor's Report

"NORMAN CREDIT" universal credit organization closed joint-stock company

31 December 2023

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք. Երևան 0015
Երևան Պլազա
Բիզնես Կենտրոն
Գրիգոր Լուսավորիչ 9

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To the shareholders of "NORMAN CREDIT" universal credit organization closed joint-stock company:

Opinion

We have audited the financial statements of "NORMAN CREDIT" universal credit organization closed joint-stock company (the "Company"), which comprise the statement of financial position as of 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "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 those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC / Engagement Partner

19 March 2024

Statement of profit or loss and other comprehensive result

In thousand Armenian drams

	Notes	2023	2022
Interest income calculated using effective interest rate	6	1,078,878	851,566
Interest and similar expense	6	(234,184)	(142,410)
Net interest income		844,694	709,156
Fee and commission income		9,952	2,268
Fee and commission expense		(412)	(689)
Net fee and commission income		9,540	1,579
Foreign currency transaction net gain/(loss)	7	18,250	(72,171)
Other income	8	16,780	26,520
Reversal of credit loss expense	9	14,153	24,379
Personnel expenses	10	(405,720)	(358,901)
Other expenses	11	(273,812)	(223,755)
Profit before income tax		223,885	106,807
Income tax expense	12	(34,695)	(29,288)
Profit for the year		189,190	77,519

Statement of profit or loss and other comprehensive result (continued)

In thousand Armenian drams

	Notes	2023	2022
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)		81,621	(129,434)
Changes in allowance for expected credit losses		423	(10,093)
Income tax relating to items that will be reclassified		(14,692)	23,298
Net gain/(loss) on investment securities at fair value through other comprehensive income		67,352	(116,229)
Other comprehensive result for the year, net of tax		67,352	(116,229)
Total comprehensive result for the year		256,542	(38,710)

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 55.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Assets			
Cash	13	121,743	496,148
Investment securities	14	405,529	323,158
Investment securities pledged under repurchase agreements	14	656,866	564,065
Loans to customers	15	10,136,588	7,926,032
Property, equipment, and intangible assets	16	295,901	259,853
Deferred income tax assets	12	-	9,437
Other assets	17	18,667	11,758
Total assets		11,635,294	9,590,451
Liabilities and equity			
Amounts due to financial institutions	18	1,287,087	539,756
Borrowings from shareholders	19	5,050,953	4,116,955
Current income tax liabilities		16,387	24,042
Deferred income tax liabilities	12	23,256	-
Other liabilities	20	259,655	182,756
Total liabilities		6,637,338	4,863,509
Equity			
Share capital	21	4,576,800	4,576,800
Additional capital		198,821	110,730
Statutory general reserve		17,200	13,300
Fair value reserve		15,945	(51,407)
Retained earnings		189,190	77,519
Total equity		4,997,956	4,726,942
Total liabilities and equity		11,635,294	9,590,451

The financial statements were approved on 19 March 2024 by:

Arakel Gabrielyan
Chairman of the Executive Board

Hasmik Mamyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 56.

Statement of changes in equity

In thousand Armenian drams	Share capital	Additional capital	Statutory general reserve	Fair value reserve	Retained earnings	Total
Balance as of 01 January 2023	4,576,800	110,730	13,300	(51,407)	77,519	4,726,942
Profit for the year	-	-	-	-	189,190	189,190
Other comprehensive income:						
Net unrealized gain from change in fair value	-	-	-	81,621	-	81,621
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	-	423	-	423
Income tax relating to components of other comprehensive income	-	-	-	(14,692)	-	(14,692)
Total comprehensive result for the year	-	-	-	67,352	189,190	256,542
Increase in additional capital through a borrowing by shareholder	-	107,428	-	-	-	107,428
Income tax relating to component of changes of additional capital	-	(19,337)	-	-	-	(19,337)
Distribution to reserve	-	-	3,900	-	(3,900)	-
Dividends to shareholders	-	-	-	-	(73,619)	(73,619)
Total transactions with owners	-	88,091	3,900	-	(77,519)	14,472
Balance as of 31 December 2023	4,576,800	198,821	17,200	15,945	189,190	4,997,956

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Additional capital	Statutory general reserve	Fair value reserve	Retained earnings	Total
Balance as of 1 January 2022	4,576,800	51,513	10,000	64,822	234,295	4,937,430
Profit for the year	-	-	-	-	77,519	77,519
Other comprehensive income:						
Net unrealized loss from change in fair value	-	-	-	(129,434)	-	(129,434)
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	-	(10,093)	-	(10,093)
Income tax relating to components of other comprehensive income	-	-	-	23,298	-	23,298
Total comprehensive result for the year	-	-	-	(116,229)	77,519	(38,710)
Increase in additional capital through a borrowing provided by shareholder	-	72,216	-	-	-	72,216
Income tax relating to component of changes of additional capital	-	(12,999)	-	-	-	(12,999)
Distribution to reserve	-	-	3,300	-	(3,300)	
Dividends to shareholders	-	-	-	-	(230,995)	(230,995)
Total transactions with owners	-	59,217	3,300	-	(234,295)	(171,778)
Balance as of 31 December 2022	4,576,800	110,730	13,300	(51,407)	77,519	4,726,942

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 55.

Statement of cash flows

In thousand Armenian drams

	2023	2022
Cash flows from operating activities		
Interest received	1,064,205	845,126
Interest paid	(167,195)	(108,591)
Fee and commission income received	9,952	2,268
Fee and commission income paid	(412)	(689)
Net gain from trading in foreign currency	6,027	9,686
Other income	16,780	26,520
Payments to employees	(395,554)	(349,830)
Others expenses	(171,411)	(142,166)
Cash flows from operating activities before changes in operating assets and liabilities	362,392	282,324
(Increase)/decrease in operating assets		
Loans to customers	(1,946,704)	(3,244,353)
Other assets	(7,162)	14,051
Increase/(decrease) in operating liabilities		
Liabilities on repurchase agreements	88,663	58,013
Other liabilities	10,617	13,208
Net cash flow used in operating activities before income tax	(1,492,194)	(2,876,757)
Income tax paid	(43,686)	(22,191)
Net cash used in operating activities	(1,535,880)	(2,898,948)
Cash flows from investing activities		
Purchase of property, equipment, and intangible assets	(8,054)	(55,406)
Investment securities	(92,069)	(230)
Net cash used in investing activities	(100,123)	(55,636)
Cash flow from financing activities		
Loans received	672,375	28,700
Loans repaid	(19,587)	(871)
Borrowings from shareholders	2,685,182	3,849,952
Redemption of borrowings from shareholders	(1,911,563)	(302,665)
Dividends paid to shareholders	(73,619)	(230,995)
Payment of lease liabilities	(90,572)	(61,360)
Net cash from financing activities	1,262,216	3,282,761
Net increase/(decrease) in cash	(373,787)	328,177
Cash at the beginning of the year	496,148	196,199
Effect of changes in impairment allowance on cash	607	(576)
Effect of exchange differences on cash	(1,225)	(27,652)
Cash at the end of the year (note 13)	121,743	496,148

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 55.

Notes to the financial statements

1 Principal activities

"NORMAN CREDIT" universal credit organization (the “Company”) is a closed joint-stock company, which was registered on 27 April 2018 under license number 45 of decision number 53A granted by the Central Bank of Armenia (the “CBA”). The Company has been operating since 1 June 2018.

The main activity of the Company is providing consumer, mortgage and business loans to retail and corporate entities in the Republic of Armenia.

The registered office of the Company is located at: 12 Sayat-Nova, office 3 and three of the five branches are located in Yerevan, two in Vanadzor and Gyumri cities.

As of 31 December 2023 the number of employees of the Company was 52 (2022: 46).

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature and the stability and development of the Armenian economy largely depends on these changes.

The continuous Russian-Ukrainian war since February 2022 has had a significant impact on both the conflicting countries and on the world economy. Many leading countries and economic unions have announced severe economic sanctions against Russia, including Russian banks, other organizations and individuals. The war is still ongoing, but it has already led to a humanitarian crisis and huge economic losses in Ukraine, Russia and other countries.

Despite the complex challenges, the Armenian economy has shown and continues to show quite high sustainability due to the effective macroeconomic policy and adequate actions constantly implemented by the Government of Armenia and the Central Bank of Armenia. The rates of economic growth and activity remain high, also due to the large inflow of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple.

On 25 August 2023, Standard & Poor's raised Armenia's credit rating to "BB-" with a stable outlook. Moody's Armenia's credit rating was last set at the "Ba3" level with a stable outlook on 22 June 2023. Fitch Ratings upgraded Armenia's issuer default rating from "B+" to "BB-" in July 2023 with a stable outlook. The rating upgrade by international rating agencies reflects the strong economic growth prospects, the stabilization of state debt at below-average levels, the outlook for sustainable fiscal performance and the improvement of the external balance.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Company. The Company's management constantly analyzes the economic situation in the current environment. The future economic and political situation and its impact on the Company's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

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

The financial statements are prepared on a going concern basis, as management is satisfied that the Company has adequate resources to continue as a going concern for the foreseeable future. In making this assessment, management has considered a wide range of information including projection of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Company.

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and the Company's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in material accounting policies

New standards and amendments described below and applied for the first time in 2023, did not have a material impact on the annual financial statements of the Company.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *International Tax Reform-Pillar Two Model Rules (Amendments to IAS 12)*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below.

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*
- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Lack of Exchangeability (Amendments to IAS 21)*
- *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

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 Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

For information on when financial assets are credit-impaired, refer to note 4.4.6**.**

Fee and commission income and expense

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.

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 Company'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 Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets and liabilities and gains less losses resulting from revaluation of non-trading assets and liabilities are recognised in the statement of profit or loss and other comprehensive income in foreign currency translation net gain line. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in the line of foreign currency translation net gain.

The exchange rates at year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2023	31 December 2022
AMD/1 US Dollar	404.79	393.57
AMD/1 EUR	447.90	420.06

4.3 Taxation

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises loans and advances, borrowings on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

On initial recognition, 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 of 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 of 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.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Company 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 Company'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 Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as of 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 Company is recognised as a separate asset or liability.

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company 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 Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company’s trading activity.

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses (‘ECL’) on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 28.1.2.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Company measures loss allowances at an amount equal to 12-month ECL: recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

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

The PD, the EAD and the LGD are further explained in note 28.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.3) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, The Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, The Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
    - where a financial instrument includes both a drawn and an undrawn component, and The Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
    - The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when The Company 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.5 Cash

Cash comprise cash on hand, balances on bank accounts.

Cash are carried at amortised cost.

4.6 Loans to customers

Loans to customers are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.7 Investment securities

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

- debt securities measured at FVOCI.

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

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

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

4.8 Leases

For any new contracts entered, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies scope of the contract,
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Company as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in the other liabilities.

4.9 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	**Rate (%)**
Computers	3	33.33
Vehicles	8	12.5
Other fixed assets	8	12.5

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

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

4.10 Intangible assets

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

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

4.11 Borrowings

Borrowings, which include loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.12 Loan commitments

"Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

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 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from loan commitments are included within provisions.

4.13 Equity

Share capital

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

Additional capital

The difference between the fair and contractual values of a borrowing with a lower interest rate provided by the Company's shareholders is recognized in equity as additional capital (note 19).

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

5 Critical accounting estimates and judgements

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

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

5.1 Judgements

Classification of financial assets

The Company assess of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Establish criteria for calculating ECL

The Company establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward- looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 25).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, which is depreciation arising from the changes in the market conditions.

Related party transactions

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

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 28.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 23.

6 Net interest income

In thousand Armenian drams	2023	2022
Interest income calculated using effective interest rate		
Loans to customers	969,482	750,838
Investment securities at FVOCI	107,427	100,576
Interest income from cash and term deposits	1,969	152
Total interest income	1,078,878	851,566
Amounts due to financial institutions	61,775	49,540
Borrowings from shareholders	155,317	78,203
Lease liabilities	17,092	14,667
Total interest expense	234,184	142,410
Total net interest income	844,694	709,156

7 Foreign currency transaction net gain/(loss)

In thousand Armenian drams	2023	2022
Net gain/(loss) from foreign exchange translation of non-trading assets and liabilities	12,223	(81,857)
Net gain from trading in foreign currency	6,027	9,686
Total foreign currency transaction gain/(loss)	18,250	(72,171)

8 Other income

In thousand Armenian drams	2023	2022
Fines and penalties received	13,520	23,305
Other income	3,260	3,215
Total other income	16,780	26,520

9 Credit loss expense /(reversal of credit loss expense)

In thousand Armenian drams					2023
	Note	Stage 1	Stage 2	Stage 3	Total
Cash	13	(607)	-	-	(607)
Investment securities	14	423	-	-	423
Loans to customers	15	(8,696)	(15,689)	10,188	(14,197)
Other assets	17	228	-	-	228
Total credit loss expense /(reversal of credit loss expense)		(8,652)	(15,689)	10,188	(14,153)

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Cash	13	576	-	-	576
Investment securities	14	(10,093)	-	-	(10,093)
Loans to customers	15	355	8,020	(21,346)	(12,971)
Other assets	17	(1,891)	-	-	(1,891)
Total credit loss expense /(reversal of credit loss expense)		(11,053)	8,020	(21,346)	(24,379)

10 Personnel expenses

In thousand Armenian drams	2023	2022
Compensations of employees, related taxes included	402,002	346,231
Other personnel expenses	3,718	12,670
Total personnel expenses	405,720	358,901

11 Other expenses

In thousand Armenian drams	2023	2022
Amortisation of property and equipment and depreciation of intangible assets	102,401	81,589
Security	29,057	25,057
Consulting and other services	37,180	26,607
Taxes, other than income tax, duties	29,905	21,496
Office supplies	19,469	15,902
Return of commissions from early repayment of loans	7,939	10,519
Expenses on loans provision	7,390	7,538
Advertising costs	8,246	12,521
Fixed assets maintenance	7,993	8,571
Financial mediator office expenses	6,732	4,634
Business trip expenses	2,812	-
Other expenses	14,688	9,321
Total other expense	273,812	223,755

12 Income tax expense

In thousand Armenian drams	2023	2022
Current tax expense	36,031	38,727
Deferred tax	(1,336)	(9,439)
Total income tax expense	34,695	29,288

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

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

In thousand Armenian drams	2023	Effective rate (%)	2022	Effective rate (%)
Profit before tax	223,885		106,807	
Income tax	40,299	18	19,225	18
Non-deductible expenses	(3,404)	(2)	(4,671)	(4)
Foreign exchange (gain)/loss	(2,200)	(1)	14,734	13
Income tax expense	34,695	15	29,288	27

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2022	Recognized in profit or loss	Recognized in other comprehensive result	Recognized in additional capital	31 December 2023 Net	Deferred tax asset	Deferred tax liability
Cash	(711)	565	-	-	(146)	-	(146)
Investment securities	13,129	76	(14,692)	-	(1,487)	-	(1,487)
Loans to customers	11,180	(8,759)	-	-	2,421	2,421	-
Property, equipment and intangible assets	(28,774)	(8,246)	-	-	(37,020)	-	(37,020)
Loans and borrowings	(14,672)	5,251	-	(19,337)	(28,758)	-	(28,758)
Lease liabilities	22,700	10,245	-	-	32,945	32,945	-
Other liabilities	6,585	2,204	-	-	8,789	8,789	-
Deferred tax asset/(liability)	9,437	1,336	(14,692)	(19,337)	(23,256)	44,155	(67,411)

In thousand Armenian drams	31 December 2021	Recognized in profit or loss	Recognized in other comprehensive result	Recognized in additional capital	31 December 2022 Net	Deferred tax asset	Deferred tax liability
Cash	(228)	(483)	-	-	(711)	-	(711)
Investment securities	(11,000)	831	23,298	-	13,129	13,129	-
Loans to customers	3,966	7,214	-	-	11,180	11,180	-
Property, equipment and intangible assets	(33,629)	4,855	-	-	(28,774)	-	(28,774)
Loans and borrowings	(4,483)	2,810	-	(12,999)	(14,672)	-	(14,672)
Lease liabilities	31,105	(8,405)	-	-	22,700	22,700	-
Other liabilities	3,968	2,617	-	-	6,585	6,585	-
Deferred tax asset/(liability)	(10,301)	9,439	23,298	(12,999)	9,437	53,594	(44,157)

13 Cash

In thousand Armenian drams	31 December 2023	31 December 2022
Cash on hand	40,680	40,998
Current accounts with banks	81,063	455,757
	121,743	496,755
Credit loss allowance	-	(607)
Total cash	121,743	496,148

As of 31 December 2023 the bank accounts in amount of AMD 54,713 thousand (67.5%) (2022: AMD 385,864 thousand (84.6%,), one bank) were due from one commercial bank.

An analysis of changes in the ECLs on cash as follows:

In thousand Armenian drams	31 December 2023	31 December 2022
	Stage 1	Stage 1
ECL allowance as of 1 January	607	31
Net remeasurement of loss allowance	(607)	576
Balance as of 31 December	-	607

14 Investment securities

Investment securities measured at FVOCI

In thousand Armenian drams	31 December 2023	31 December 2022
Investment securities measured at FVOCI		
RA state bonds	405,529	323,158
Total investment securities measured at FVOCI	405,529	323,158
Investment securities measured at FVOCI pledged under repurchase agreements		
RA state bonds	656,866	564,065
Total investment securities measured at FVOCI pledged under repurchase agreements	656,866	564,065

An analysis of changes in the ECLs on investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as of 1 January	4,617	14,710
Net remeasurement of loss allowance	423	(10,093)
Balance as of 31 December	5,040	4,617

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

All debt securities have fixed coupons.

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2023		31 December 2022	
	%	Maturity	%	Maturity
RA state bonds	9.83-11.74	2026-2047	9.87-11.64	2026-2047

15 Loans to customers

In thousand Armenian drams	31 December 2023			31 December 2022		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Mortgage and consumer lending						
Mortgage and housing improvement loans	1,354,889	(1,174)	1,353,715	954,375	(274)	954,101
Consumer lending	2,314,772	(66,783)	2,247,989	2,025,089	(112,693)	1,912,396
	3,669,661	(67,957)	3,601,704	2,979,464	(112,967)	2,866,497
Commercial lending						
Trade	1,239,326	(2,767)	1,236,559	556,075	(888)	555,187
Industry	3,238,331	(5)	3,238,326	2,204,316	-	2,204,316
Agriculture	1,658,295	(6)	1,658,289	1,226,244	-	1,226,244
Construction	254,443	(2)	254,441	150,314	-	150,314
Other	147,398	(129)	147,269	923,598	(124)	923,474
	6,537,793	(2,909)	6,534,884	5,060,547	(1,012)	5,059,535
Total	10,207,454	(70,866)	10,136,588	8,040,011	(113,979)	7,926,032

The ECL allowance in these tables includes ECL on loan commitments for products such as credit lines, because the Company cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

During the year ended 31 December 2023 the Company did not have assets obtained by taking possession of collateral for loans to customers.

As of 31 December 2023 the Company's right of demand on loans to customers in the amount of AMD 167,289 thousand (2022: AMD 27,657 thousand) were pledged as collateral for loans from other organizations in the amount of AMD 168,474 thousand (2022: AMD 27,887 thousand) (refer to note 18).

As of 31 December 2023 the Company has three borrowers and group of related parties whose loans exceed 10% of equity. Moreover, one of the group of borrowers is connected with the Company (refer to note 24). The gross value of these loans amounts to AMD 5,794,819 thousand (2022: four borrowers and group of related parties, AMD 4,050,109 thousand).

An analysis of changes in gross carrying amounts in relation to mortgage and consumer lending and commercial lending is as follows:

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	2,869,861	31,147	78,456	2,979,464
New assets originated	3,324,668	1,140	1,000	3,326,808
Assets repaid	(2,562,417)	(15,753)	(32,079)	(2,610,249)
Transfer to Stage 1	17,221	(17,221)	-	-
Transfer to Stage 2	(22,363)	80,776	(58,413)	-
Transfer to Stage 3	(63,260)	(9,499)	72,759	-
Change in balance of asset from interest and foreign exchange	2,482	49	23	2,554
Net amounts written-off during the year	-	-	(28,916)	(28,916)
Balance as of 31 December	3,566,192	70,639	32,830	3,669,661

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	5,060,547	-	-	5,060,547
New assets originated	4,799,323	-	-	4,799,323
Assets repaid	(3,555,983)	-	-	(3,555,983)
Change in balance of asset from interest and foreign exchange	233,906	-	-	233,906
Balance as of 31 December	6,537,793	-	-	6,537,793

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	2,121,484	60,829	21,807	2,204,120
New assets originated	3,133,036	11,852	9,515	3,154,403
Assets repaid	(2,386,989)	(5,301)	(18,840)	(2,411,130)
Transfer to Stage 1	275	(275)	-	-
Transfer to Stage 2	(24,129)	24,129	-	-
Transfer to Stage 3	(14,255)	(54,637)	68,892	-
Change in balance of asset from interest and foreign exchange	40,439	(5,450)	(57,592)	(22,603)
Net recovery during the year	-	-	54,674	54,674
Balance as of 31 December	2,869,861	31,147	78,456	2,979,464

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	2,955,366	-	-	2,955,366
New assets originated	4,915,412	-	-	4,915,412
Assets repaid	(2,414,332)	-	(1,173)	(2,415,505)
Change in balance of asset from interest and foreign exchange	(395,899)	-	-	(395,899)
Net recovery during the year	-	-	1,173	1,173
Balance as of 31 December	5,060,547	-	-	5,060,547

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	43,716	8,087	61,164	112,967
Transfer to Stage 1	1,216	(1,216)	-	-
Transfer to Stage 2	(549)	45,661	(45,112)	-
Transfer to Stage 3	(1,384)	(5,012)	6,396	-
Net remeasurement of loss allowance	(31,685)	(15,870)	9,292	(38,263)
Net remeasurement of loss allowances on new originated financial assets	21,092	181	896	22,169
Net amounts written-off during the year	-	-	(28,916)	(28,916)
Balance as of 31 December	32,406	31,831	3,720	67,957

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	1,012	-	-	1,012
Net remeasurement of loss allowance	(876)	-	-	(876)
Net remeasurement of loss allowances on new originated financial assets	2,773	-	-	2,773
Balance as of 31 December	2,909	-	-	2,909

In thousand Armenian drams	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
ECL allowance as of 1 January	27,207	14,135	12,012	53,354
Transfer to Stage 1	58	(58)	-	-
Transfer to Stage 2	(224)	224	-	-
Transfer to Stage 3	(417)	(14,234)	14,651	-
Net remeasurement of loss allowance	(14,849)	2,564	(27,878)	(40,163)
Net remeasurement of loss allowances on new originated financial assets	31,941	5,456	7,705	45,102
Net recovery during the year	-	-	54,674	54,674
Balance as of 31 December	43,716	8,087	61,164	112,967

In thousand Armenian drams	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
ECL allowance as of 1 January	17,749	-	-	17,749
Net remeasurement of loss allowance	(16,761)	-	(1,173)	(17,934)
Net remeasurement of loss allowances on new originated financial assets	24	-	-	24
Net recovery during the year	-	-	1,173	1,173
Balance as of 31 December	1,012	-	-	1,012

Maturity analysis of loans to customers is disclosed in note 27.

Credit, currency and interest rate analyses of loans to customers are disclosed in note 28. The information on related party balances is disclosed in note 24.

16 Property and equipment

In thousand Armenian drams	**Computer hardware**	**Vehicles**	**Fixtures and fittings**	**Right-of-use assets**	**Capital investments in leasehold property and equipment**	**Software and licenses**	**Total**
Cost							
As of 01 January 2022	41,991	19,600	57,184	228,738	36,015	21,207	404,735
Additions	3,797	-	13,376	-	32,233	6,000	55,406
Disposals	-	-	(15)	-	-	(6,000)	(6,015)
As of 31 December 2022	45,788	19,600	70,545	228,738	68,248	21,207	454,126
Additions	3,269	-	4,785	130,395	-	-	138,449
Disposals	-	-	-	(51,815)	-	(6,000)	(57,815)
As of 31 December 2023	49,057	19,600	75,330	307,318	68,248	15,207	534,760

In thousand Armenian drams	Computer hardware	Vehicles	Fixtures and fittings	Right-of-use assets	Capital investments	Software and	Total
Accumulated depreciation							
As of 1 January 2022	18,661	533	15,041	70,612	5,403	8,449	118,699
Expenses for the year	9,934	2,450	9,950	47,116	4,648	7,491	81,589
Disposals	-	-	(15)	-	-	(6,000)	(6,015)
As of 31 December 2022	28,595	2,983	24,976	117,728	10,051	9,940	194,273
Expenses for the year	8,572	2,450	9,235	73,808	4,912	3,424	102,401
Disposals	-	-	-	(51,815)	-	(6,000)	(57,815)
As of 31 December 2023	37,167	5,433	34,211	139,721	14,963	7,364	238,859
Carrying amount							
As of 31 December 2022	17,193	16,617	45,569	111,010	58,197	11,267	259,853
As of 31 December 2023	11,890	14,167	41,119	167,597	53,285	7,843	295,901

Fully depreciated items

As of 31 December 2023 property, equipment and intangible assets included fully depreciated assets which cost amounted to AMD 25,975 thousand (2022: AMD 16,501 thousand).

Restrictions on title of fixed assets

As of 31 December 2022 and 31 December 2023, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2023 the Company did not have a contractual commitment to invest in property, equipment and intangible assets (2022: either).

17 Other assets

In thousand Armenian drams	31 December 2023	31 December 2022
Debtors and other receivables	2,900	3,860
ECL allowance	(354)	(189)
Total other financial assets	2,546	3,671
Prepayments	7,141	268
Future period expenses	7,128	5,197
Other	1,852	2,622
Total non-financial assets	16,121	8,087
Total other assets	18,667	11,758

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as of 1 January	189	294
Net remeasurement of loss allowance	228	(1,891)
Net write-off / recovery during the year	(63)	1,786
Balance as of 31 December	354	189

18 Amounts due to financial institutions

In thousand Armenian drams	31 December 2023	31 December 2022
Loans from banks with repurchase agreements (note 14)	600,703	511,869
Loans from banks	338,914	-
Loans from refinancing credit organizations	299,419	27,887
Loans from the CBA	48,051	-
Total amounts due to financial institutions	1,287,087	539,756

As of 31 December 2023 the loans from the credit organizations are secured by the right to claim the loans given to the customers in the gross amount of AMD 167,289 thousand (2022: AMD 27,657 thousand) (refer to note 15).

Loans received from the CBA include loans under the "MSME Support" loan program financed by the KfW Development Bank.

Loans under repurchase agreements are secured by investment securities measured at FVOCI in amount of AMD 656,866 thousand (2022: AMD 564,065 thousand).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2022: either).

19 Borrowings from shareholders

In thousand Armenian drams	31 December 2023	31 December 2022
Borrowings from shareholder legal entities	3,950,194	3,830,934
Borrowings from shareholder individuals	1,100,759	286,021
Total borrowings from shareholders	5,050,953	4,116,955

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2022: either).

A portion of funds from shareholders was attracted by the Company at lower market interest rates, which were initially recognized at fair value by applying market interest rates.

20 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022
Lease liabilities	183,029	126,113
Accounts payable	19,890	12,493
Due to personnel	35,611	25,445
Total other financial liabilities	238,530	164,051
Revenues of future periods	4,242	5,697
Tax payable, other than income tax	16,883	13,008
Total other non-financial liabilities	21,125	18,705
Total other liabilities	259,655	182,756

Lease liabilities

The Company has leases for the head office. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 16).

Leases of equipment are long term and limited to a lease term of 5 years. Lease payments are generally fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. The Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized on balance sheet:

Below is presented the movement of lease liabilities during the reporting period:

In thousand Armenian drams	31 December 2023	31 December 2022
As of 1 January	126,113	172,806
Additions	130,396	-
Accretion of interest	17,092	14,667
Payments	(90,572)	(61,360)
Total lease liabilities as at 31 December	183,029	126,113

In 2023 the weighted average interest rate applied to lease liabilities recognized under IFRS 16 is 10.1% (2022: either).

The maturity analysis of undiscounted lease liabilities as of 31 December 2023 is presented in note 28.3.

21 Equity

As of 31 December 2023 the Company's registered, issued and paid-in share capital was AMD 4,576,800 thousand. In accordance with the Company's statues, the share capital consists of 190,700 ordinary shares, all of which have a par value of AMD 24,000 each.

The respective shareholdings as of 31 December 2023 and 2022 may be specified as follows:

In thousand Armenian drams	31 December 2023		31 December 2022	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Odenssnus AB LLC	4,164,888	91	4,164,888	91
Gevorg Sergey Nalbandyan	411,912	9	411,912	9
	4,576,800	100	4,576,800	100

As of 31 December 2023, the Company did not possess any of its own shares.

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

In 2023 by the decision of the shareholders meeting dividends of AMD 73,619 thousand was paid to the shareholder from the net profit formed as a result of the activity of 2022.

In 2023, the Company did not increase the share capital (2022: either).

In 2023, the additional capital of the Company was increased by AMD 88,091 thousand as a result of the initial recognition of the borrowing from shareholder at a lower market interest rate.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

22 Loan commitments

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

As of 31 December the contract amounts were:

In thousand Armenian drams	31 December 2023	31 December 2022
Undrawn loan commitments	81,160	254,180
	81,160	254,180

An analysis of changes in the ECLs on loan commitment included in allowances of loans to customers (refer to note 15).

23 Contingencies

Tax and legal matters

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

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

Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

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

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company have full coverage for movable property. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

24 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Company's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Company is Gevorg Nalbandyan, who directly and indirectly owns 100% of the Company's shares.

A number of transactions are entered into with related parties in the normal course of business. These include loans, borrowings and other transactions.

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

In thousand Armenian drams		2023		2022
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans to customers				
Balance as of 1 January gross	2,145,392	147,361	1,249,898	129,246
Issued during the year	5,612,055	62,011	4,182,523	40,120
Repayments during the year	(3,398,464)	(42,812)	(3,287,029)	(22,005)
Loans outstanding as of 31 December	4,358,983	166,560	2,145,392	147,361
ECL allowance	(1,013)	(1,051)	(392)	(1,212)
Balance as of 31 December	4,357,970	165,509	2,145,000	146,149

In thousand Armenian drams	2023		2022	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Borrowings from shareholders				
Balance as of 1 January	4,116,955	-	951,514	-
Borrowings received during the year	2,685,182	-	3,849,952	-
Repayments during the year	(2,020,383)	-	(359,482)	-
Accrued interests and other adjustments	269,199	-	(325,029)	-
Balance as of 31 December	5,050,953	-	4,116,955	-
Purchase of property and equipment	1,130	-	9,940	-
Undrawn loan commitments	49,499	7,335	246,001	4,417
Statement of profit or loss and other comprehensive income				
Interest income on loans	203,053	42,197	110,191	13,436
(Credit loss expenses)/reversal of credit loss expenses	(621)	161	11,979	(11)
Interest expense on borrowings	(155,317)	-	(78,203)	-
Foreign currency trading net gain	1,292	32	-	155
Net gain from revaluation of foreign currency	8,663	-	331,885	10,488
Advertising costs	3,583	-	3,626	-
Security costs	11,667	-	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2023	2022
Salaries and bonuses	133,166	102,716
Total key management compensation	133,166	102,716

The loans issued to the related parties of the Company are repayable within 1 to 17 years and have interest rates of 5.75-13% (2022: 5.75-15.5%). The loans issued are secured by real estate, guarantees and attracted borrowings.

25 Fair value measurement

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					31 December 2023
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	121,743	-	121,743	121,743
Loans to customers	-	10,097,896	-	10,097,896	10,136,588
Other assets	-	2,546	-	2,546	2,546
Financial liabilities					
Amounts due to financial institutions	-	1,287,087	-	1,287,087	1,287,087
Borrowings from shareholders	-	5,050,953	-	5,050,953	5,050,953
Lease liabilities	-	183,029	-	183,029	183,029
Other liabilities	-	55,501	-	55,501	55,501

In thousand Armenian drams					31 December 2022
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	496,148	-	496,148	496,148
Loans to customers	-	7,906,652	-	7,906,652	7,926,032
Other assets	-	3,671	-	3,671	3,671
Financial liabilities					
Amounts due to financial institutions	-	539,756	-	539,756	539,756
Borrowings from shareholders	-	4,116,955	-	4,116,955	4,116,955
Lease liabilities	-	126,113	-	126,113	126,113
Other liabilities	-	37,938	-	37,938	37,938

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

Attracted loans and borrowings

The fair value of attracted loans and borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for similar maturities and terms.

25.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2023
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI including the securities pledged under repurchase agreements	-	1,062,395	-	1,062,395
Total	-	1,062,395	-	1,062,395
Net fair value	-	1,062,395	-	1,062,395

In thousand Armenian drams				31 December 2022
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI including the securities pledged under repurchase agreements	-	887,223	-	887,223
Total	-	887,223	-	887,223
Net fair value	-	887,223	-	887,223

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

26 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams						31 December 2023
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (notes 14, 18)	600,703	-	600,703	(656,866)	-	(56,163)
Total financial liabilities	600,703	-	600,703	(656,866)	-	(56,163)

In thousand Armenian drams						31 December 2022
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (notes 14, 18)	511,869	-	511,869	(564,065)	-	(52,196)
Total financial liabilities	511,869	-	511,869	(564,065)	-	(52,196)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured in the statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing are measured at amortised cost

27 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 28.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 2023
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash	121,743	-	*121,743*	-	-	-	121,743
Investment securities	-	6,889	*6,889*	208,966	189,674	*398,640*	405,529
Investment securities pledged under repurchase agreements	656,866	-	*656,866*	-	-	-	656,866
Loans to customers	210,176	2,457,055	*2,667,231*	7,468,922	435	*7,469,357*	10,136,588
Other assets	2,546	-	*2,546*	-	-	-	2,546
	991,331	2,463,944	*3,455,275*	7,677,888	190,109	*7,867,997*	11,323,272
Liabilities							
Amounts due to financial institutions	604,017	360,601	*964,618*	100,458	222,011	*322,469*	1,287,087
Borrowings from shareholders	10,399	18,455	*28,854*	4,685,306	336,793	*5,022,099*	5,050,953
Other liabilities	62,280	51,450	*113,730*	124,800	-	*124,800*	238,530
	676,696	430,506	*1,107,202*	4,910,564	558,804	*5,469,368*	6,576,570
Net position	314,635	2,033,438	*2,348,073*	2,767,324	(368,695)	*2,398,629*	4,746,702
Accumulated gap	314,635	2,348,073		5,115,397	4,746,702		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
	31 December 2022						
Assets							
Cash	496,148	-	*496,148*	-	-	-	496,148
Investment securities	-	14,188	*14,188*	-	308,970	*308,970*	323,158
Investment securities pledged under repurchase agreements	564,065	-	*564,065*	-	-	-	564,065
Loans to customers	160,918	2,090,297	*2,251,215*	4,611,064	1,063,753	*5,674,817*	7,926,032
Other assets	3,671	-	*3,671*	-	-	-	3,671
	1,224,802	2,104,485	*3,329,287*	4,611,064	1,372,723	*5,983,787*	9,313,074
Liabilities							
Amounts due to financial institutions	511,928	1,010	*512,938*	5,620	21,198	*26,818*	539,756
Borrowings from shareholders	66,465	623,401	*689,866*	2,852,217	574,872	*3,427,089*	4,116,955
Other liabilities	42,036	37,893	*79,929*	84,122	-	*84,122*	164,051
	620,429	662,304	*1,282,733*	2,941,959	596,070	*3,538,029*	4,820,762
Net position	604,373	1,442,181	*2,046,554*	1,669,105	776,653	*2,445,758*	4,492,312
Accumulated gap	604,373	2,046,554		3,715,659	4,492,312		

28 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company’s continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company’s strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board

The Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Board

The Executive Board has the responsibility to monitor the overall risk process within the Company and for the management of the Company's assets and liabilities. The Executive Board is also responsible for managing the Company's liquidity risk and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for risk management in the lending process.

Auditor

Risk management processes throughout the Company are audited annually by the Auditor, which examines both the adequacy of the procedures and the Company's compliance with the procedures. The Auditor discusses the results of all assessments with management, and reports its findings and recommendations to the Company's Board and Board of Trustees.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

28.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Company's Executive Board and reported to the Board.

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

28.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 28.1.2.

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash (excluding cash on hand)				
High	40,680	-	-	40,680
Standard	81,063	-	-	81,063
Gross carrying amount	121,743	-	-	121,743
ECL allowance	-	-	-	-
Net carrying amount	121,743	-	-	121,743
Investment securities at FVOCI (including pledged securities)				
Standard	1,062,395	-	-	1,062,395
Gross carrying amount (fair value)	1,062,395	-	-	1,062,395
ECL allowance	(5,040)	-	-	(5,040)
Mortgage and consumer lending				
High grade	3,566,192	-	-	3,566,192
Standard grade	-	66,076	-	66,076
Substandard grade	-	4,563	-	4,563
Non-performing grade	-	-	32,830	32,830
Gross carrying amount	3,566,192	70,639	32,830	3,669,661
ECL allowance	(32,406)	(31,831)	(3,720)	(67,957)
Net carrying amount	3,533,786	38,808	29,110	3,601,704
Commercial lending				
High grade	6,537,793	-	-	6,537,793
Gross carrying amount	6,537,793	-	-	6,537,793
Credit loss allowance	(2,909)	-	-	(2,909)
Net carrying amount	6,534,884	-	-	6,534,884
Other financial assets				
Standard	2,900	-	-	2,900
Gross carrying amount	2,900	-	-	2,900
ECL allowance	(354)	-	-	(354)
Net carrying amount	2,546	-	-	2,546
Loan commitments				
Standard	81,160	-	-	81,160

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash (excluding cash on hand)				
Standard	455,757	-	-	455,757
Gross carrying amount	455,757	-	-	455,757
ECL allowance	(607)	-	-	(607)
Net carrying amount	455,150	-	-	455,150
Investment securities at FVOCI (including pledged securities)				
Standard	887,223	-	-	887,223
Gross carrying amount (fair value)	887,223	-	-	887,223
ECL allowance	(4,617)	-	-	(4,617)
Mortgage and consumer lending				
High grade	2,855,770	-	-	2,855,770
Standard grade	14,091	19,385	-	33,476
Substandard grade	-	11,762	-	11,762
Non-performing grade	-	-	78,456	78,456
Gross carrying amount	2,869,861	31,147	78,456	2,979,464
ECL allowance	(43,716)	(8,087)	(61,164)	(112,967)
Net carrying amount	2,826,145	23,060	17,292	2,866,497
Commercial lending				
High grade	5,060,547	-	-	5,060,547
Gross carrying amount	5,060,547	-	-	5,060,547
ECL allowance	(1,012)	-	-	(1,012)
Net carrying amount	5,059,535	-	-	5,059,535
Other financial assets				
Standard	3,860	-	-	3,860
Gross carrying amount	3,860	-	-	3,860
ECL allowance	(189)	-	-	(189)
Net carrying amount	3,671	-	-	3,671
Loan commitments				
Standard	254,180	-	-	251,180

28.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Company considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans to customers

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days’ pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system

- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Company to assess whether significant increase in credit risk has occurred is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

		2023	2022
	Grade	**12 month PD range**	**12 month PD range**
Mortgage and consumer lending	High, Standard	0.36-29.04%	1-31.9%
	Substandard	63.9-84.05%	63.6-82.2%
	Non-Performing	100%	100%
Commercial lending	High, Standard	0.36%	0.34%

The table below shows the mapping of Company's grading system and external ratings of the counterparties.

International external rating agency (S&P) rating		**2023**	**2022**
	Grade	**12 month PD**	**12 month PD**
AAA to A-	Hight	0.001-0.05%	0.001-0.026%
BBB+ to B-	Standard	0.09-5.53%	0.045-3.231%
CCC+ to CC	Substandard	5.53%-25.7%	5.519-31.025%
D	Non-Performing	100%	100%

Collective or individual assessment

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI

- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

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

The Company considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower’s future ability to generate stable and sufficient cash flows,
- the borrower’s overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Company’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company’s criterion for ‘cure’ for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Company defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

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

Forward looking information

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

- GDP growth/decrease
- Net current transfers from abroad
- Unemployment
- Company nonperforming loans to total gross loans
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate
- Inflation
- Residential property prices (average price in Yerevan)

28.1.3 Risk concentrations

Credit risk assets are fully located in the RA.

28.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

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

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

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

The analysis of gross loan portfolio of loans to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2023	31 December 2022
Loans collateralized by real estate	3,864,963	2,632,379
Loans collateralized by cars and other movable property	705,076	521,236
Loans collateralized by borrowings	3,733,664	3,214,638
Loans collateralized by inventories	634,762	2,495
Loans collateralized by guarantees	487,988	528,943
Loans collateralized by gold jewellery and other gold items	394,710	434,331
Other collateral	223,126	537,199
Unsecured loans	163,165	168,790
Total loans to customers (gross)	10,207,454	8,040,011

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

28.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

28.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

As of 31 December 2022 and 31 December 2023 the Company did not have financial assets and liabilities with variable interest rate.

The sensitivity of equity is calculated by revaluating fixed rate of debt financial assets measured at FVOCI, as of 31 December based on assumed changes in the yield curve.

In thousand Armenian drams			2023
Currency	Change in currency rate in %	Sensitivity of equity	Total
AMD	+1	(65,294)	(65,294)
AMD	-1	73,564	73,564

In thousand Armenian drams			2022
Currency	Change in currency rate in %	Sensitivity of equity	Total
AMD	+1	(55,183)	(55,183)
AMD	-1	62,229	62,229

Average effective interest rates

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

			2023			2022
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Investment securities including pedged securities	10.90	-	-	10.82	-	-
Loans to customers	14.43	8.26	7.10	15.11	8.58	6.75
Interest earning liabilities						
Loans from banks with repurchase agreements	10.77	-	-	12.44	-	-
Loans from banks	-	7.33	5.72	-	-	-
Loans from financial institutions	7.04	-	-	4.6	-	-
Loans from banks from the CBA	7,64	-	-	-	-	-
Borrowings from shareholders	4.0	2.8	2.6	4.0	2.9	2.5
Lease liabilities	10.1	-	-	10.1	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company had significant exposure as of 31 December 2023 and 31 December 2022 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

In thousand Armenian drams		31 December 2023		31 December 2022	
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
USD	+5/-5	26,893	26,893	14,406	14,406
EUR	+5/-5	4,087	4,087	737	737

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash	67,946	47,512	6,285	121,743
Investment securities	405,529	-	-	405,529
Investment securities pledged under repurchase agreements	656,866	-	-	656,866
Loans to customers	4,889,760	5,246,828	-	10,136,588
Other assets	2,546	-	-	2,546
	6,022,647	5,294,340	6,285	11,323,272
Liabilities				
Amounts due to financial institutions	948,173	338,914	-	1,287,087
Borrowings from shareholders	719,485	4,331,468	-	5,050,953
Other liabilities	238,530	-	-	238,530
Total	1,906,188	4,670,382	-	6,576,570
Net position as of 31 December 2023	4,116,459	623,958	6,285	4,746,702
Commitments and contingent liabilities as of 31 December 2023	81,160	-	-	81,160
Total financial assets	5,222,901	4,086,212	3,961	9,313,074
Total financial liabilities	1,038,304	3,782,458	-	4,820,762
Net position as of 31 December 2022	4,184,597	303,754	3,961	4,492,312
Commitments and contingent liabilities As of 31 December 2022	254,180	-	-	254,180

Freely convertible currencies represent mainly US dollar and Euro amounts. Non-freely convertible amounts relate to Russian Ruble.

28.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2022 and 31 December 2023 based on contractual undiscounted repayment obligations. Refer to note 27 for the expected maturities of these liabilities.

In thousand Armenian drams						31 December 2023
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities						
Amounts due to financial institutions	604,017	388,624	175,911	274,758	1,443,310	1,287,087
Borrowings from shareholders	11,822	35,601	4,780,324	336,793	5,164,540	5,050,953
Other liabilities	63,753	64,754	144,339	-	272,846	238,530
Total financial liabilities	679,592	488,979	5,100,574	611,551	6,880,696	6,576,570

In thousand Armenian drams						31 December 2022
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Financial liabilities						
Amounts due to financial institutions	511,980	2,136	9,978	23,953	548,047	539,756
Borrowings from shareholders	69,402	694,316	2,948,276	574,872	4,286,866	4,116,955
Other liabilities	43,051	47,072	94,398	-	184,521	164,051
Total financial liabilities	624,433	743,524	3,052,652	598,825	5,019,434	4,820,762

28.4 Operational risk

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

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board, Executive Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;

- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

29 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams				2023
	Amounts due to financial institutions	Borrowings from shareholders	Lease liabilities	Total
Carrying amount at 01 January	27,887	4,116,955	126,113	4,270,955
Proceeds	672,375	2,685,182	-	3,357,557
Redemption	(19,587)	(1,911,563)	(90,572)	(2,021,722)
Redemption of interest*	(10,311)	(108,820)	-	(119,131)
Foreign currency translation	2,480	221,312	-	223,792
Accrued interests	13,540	155,317	17,092	185,949
Other adjustments	-	(107,430)	130,396	22,966
Carrying amount at 31 December	686,384	5,050,953	183,029	5,920,366

In thousand Armenian drams				2022
	Amounts due to financial institutions	Borrowings from shareholders	Lease liabilities	Total
Carrying amount at 01 January	-	951,514	172,806	1,124,320
Proceeds	28,700	3,849,952	-	3,878,652
Redemption	(871)	(302,665)	(61,360)	(364,896)
Redemption of interest*	-	(56,817)	-	(56,817)
Foreign currency translation	-	(331,885)	-	(331,885)
Accrued interests	58	79,071	14,667	93,796
Other adjustments	-	(72,215)	-	(72,215)
Carrying amount at 31 December	27,887	4,116,955	126,113	4,270,955

*The Company classifies interest paid (except finance lease liabilities) as cash flows from operating activities.

30 Capital adequacy

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

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%.

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

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

As of 31 December 2023 and 2022 the amount of total capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
In thousand Armenian drams	**31 December 2023**	**31 December 2022**
Tier 1 capital	4,868,936	4,777,430
Tier 2 capital	30,706	(80,734)
Total regulatory capital	4,899,642	4,696,696
Risk-weighted assets	7,635,430	4,970,082
Capital adequacy ratio	64,17%	94.5%

The Central Bank of the Republic of Armenia has established a minimum limit of AMD 1,000,000 thousand for the credit organizations' issuance securities and sale of foreign currency.

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