ARARATBANK OJSC

Financial Statements

for the year ended 31 December 2022

Contents

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Independent Auditors' Report

To the Shareholders of ARARATBANK OJSC

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses for loans to customers

Please refer to the Note 27(b) and Note 17 in the financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to customers represent 47% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used. The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas: – timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9")); – assessment of probability of default (PD) and loss given default (LGD); – expected cash flows forecast, including from realization of collateral for loans to customers classified in Stage 3. Additionally, amounts for the previous periods in respect of ECL have been restated by the Bank in 2022, which increases the significance of the area to the financial statements Due to the significant volume of loans to customers, and complexity and subjectivity over estimating amount of ECL this area is a key audit matter.	We analysed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of our internal credit risks specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate our audit procedures included the following: – for loans to corporate clients we assessed and tested the design, implementation and operating effectiveness of the controls over allocation of loans into Stages, including with involvement of our specialists on information risk management for the controls over calculation of overdue days; – for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. – for a sample of Stage 3 loans, where ECL are assessed individually, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements. – for a sample of Stage 1 and Stage 2 loans, where LGD is assessed individually, we tested the accuracy and appropriateness of data inputs for LGD calculation, by agreeing collateral values to external valuation reports and testing the appropriateness of discounts applied. – for loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems, including with involvement of our specialists on information risk management, and allocation of loans into Stages.

	– for loans to corporate and individual customers, where ECL are assessed collectively, we tested the correctness of the related models and reconciled the model input data against primary documents on a sample basis. – we assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Emphasis of Matter

We draw attention to Note 5 to the financial statements which describes that the comparative information presented as at and for the year ended 31 December 2021 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Bank as at and for the years ended 31 December 2021 and 31 December 2020 (from which the statement of financial position as at 1 January 2021 has been derived), excluding the adjustments described in Note 5 to the financial statements were audited by other auditors who expressed an unmodified opinion on those financial statements on 25 April 2022 and on 23 April 2021 respectively.

As part of our audit of the financial statements as at and for the year ended 31 December 2022, we audited the adjustments described in Note 5 that were applied to restate the comparative information presented as at and for the year ended 31 December 2021 and the statement of financial position as at 1 January 2021. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2021 or 31 December 2020 (not presented herein), other than with respect to the adjustments described in Note 5 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 5 are appropriate and have been properly applied.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Irina Gevorgyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC
12 June 2023

	Notes	2022 AMD'000	2021 AMD'000 Restated*
Interest income calculated using the effective interest method	6	23,299,551	19,001,496
Other interest income	6	2,118	6,274
Interest expense	6	(11,657,448)	(10,647,526)
Net interest income		**11,644,221**	**8,360,244**
Fee and commission income	7	4,373,174	2,213,656
Fee and commission expense	7	(1,651,734)	(1,090,930)
Net fee and commission income		**2,721,440**	**1,122,726**
Net foreign exchange gain	8	8,919,777	1,549,551
Net gain/(loss) on financial instruments at fair value through profit or loss		243,583	(28,399)
Net gain on financial instruments at fair value through other comprehensive income		236	68,322
Other operating income	9	1,311,194	914,764
Other operating expense	9	(725,121)	(1,931,591)
Operating income		**24,115,330**	**10,055,617**
Net impairment gains on financial instruments	10	903,399	17,640
Personnel expenses		(5,271,700)	(4,214,672)
Other general administrative expenses	11	(3,584,511)	(3,172,755)
Profit before income tax		**16,162,518**	**2,685,830**
Income tax expense	12	(2,990,979)	(423,114)
Profit for the year		**13,171,539**	**2,262,716**
Other comprehensive (loss)/income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities:			
- Net change in fair value		(1,108,440)	(439,845)
- Net amount reclassified to profit or loss		(200)	(53,837)
Total items that are or may be reclassified subsequently to profit or loss		*(1,108,640)*	*(493,682)*
Other comprehensive loss for the year, net of income tax		**(1,108,640)**	**(493,682)**
Total comprehensive income for the year		**12,062,899**	**1,769,034**
Earnings per share			
Basic	29	7.36	1.29
Diluted	29	7.36	1.29

* The comparative information is restated on account of correction of errors. See Note 5.

The financial statements as set out on pages 7 to 86 were approved by the management on 12 June 2023 and were signed on its behalf by:

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Mher Ananyan
Chairman of the Executive Board

Anahit Vardanyan
Chief Accountant

	Notes	2022 AMD'000	2021 AMD'000	2020 AMD'000
			Restated*	**Restated***
ASSETS				
Cash and cash equivalents	13	85,496,674	43,415,731	31,458,022
Derivative financial assets		2,068	2,733	857
Investment securities measured at fair value through other comprehensive income	14			
− Held by the Bank		42,426,936	26,998,365	21,858,087
− Pledged under sale and repurchase agreements		-	5,974,127	5,847,760
Investment securities measured at amortised cost	14			
− Held by the Bank		9,031,499	7,042,821	8,667,639
− Pledged under sale and repurchase agreements		-	6,817,425	5,193,394
Loans and advances to banks and other financial institutions	15	33,330,138	9,383,053	2,439,865
Amounts receivable under reverse repurchase agreements	16	7,875,241	6,592,620	11,901,670
Loans to customers	17	166,445,604	151,253,300	148,985,069
Property, equipment, and intangible assets	18	5,239,001	5,280,358	6,059,638
Right of use asset	19	3,121,428	2,917,337	3,102,141
Goodwill		-	362,602	362,602
Repossessed assets		1,805,492	1,884,816	1,965,096
Current tax asset	12	-	-	288,852
Deferred tax assets	12	318,275	192,189	88,934
Other assets	20	2,417,983	2,789,915	1,287,481
Total assets		**357,510,339**	**270,907,392**	**249,507,107**
LIABILITIES				
Derivative financial liabilities		-	397	1,202
Deposits and balances from banks and other financial institutions	21	5,307,086	4,641,599	1,937,673
Other borrowed funds	22	55,024,829	67,748,523	77,563,907
Subordinated debt	22	1,622,546	1,979,440	2,154,443
Amounts payable under repurchase agreements		-	12,008,019	10,715,977
Debt securities issued	23	5,487,085	12,998,487	15,165,242
Current accounts and deposits from customers	24	229,413,186	124,766,775	97,936,482
Lease liability	19	3,302,023	3,531,085	3,261,337
Current tax liabilities		2,414,567	234,752	-
Other liabilities	24	2,459,838	2,377,047	1,918,610
Total liabilities		**305,031,160**	**230,286,124**	**210,654,873**
EQUITY				
Share capital	26	9,366,725	8,803,655	8,803,655
Share premium		10,263,687	8,031,745	8,031,745
Revaluation reserve for investment securities		(1,233,244)	(124,604)	369,078
Retained earnings		34,082,011	23,910,472	21,647,756
Total equity		**52,479,179**	**40,621,268**	**38,852,234**
Total liabilities and equity		**357,510,339**	**270,907,392**	**249,507,107**

* The comparative information is restated on account of correction of errors. See Note 5.

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

	Notes	2022 AMD'000	2021 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		23,332,375	18,886,785
Interest payments		(11,223,313)	(10,656,668)
Fee and commission receipts		4,373,174	2,213,656
Fee and commission payments		(1,651,734)	(1,090,931)
Net payments from financial instruments at fair value through profit or loss		139,682	(27,937)
Net receipts from foreign exchange		9,414,047	1,559,619
Other income receipts		560,428	(1,018,252)
Payments to employees		(5,052,484)	(4,156,833)
Other general administrative expenses payments		(2,039,690)	(1,694,251)
(Increase)/decrease in operating assets			
Financial instrument measured at fair value through profit or loss		(274,918)	15,190
Loans and advances to banks and other financial institutions		(26,271,728)	(7,155,551)
Amounts receivable under reverse repurchase agreements		(1,667,092)	5,157,075
Loans to customers		(33,797,089)	(10,736,761)
Other assets		87,752	(803,153)
Increase/(decrease) in operating liabilities			
Financial liabilities measured at fair value through profit or loss		60,447	(617)
Deposits and balances from banks and other financial institutions		2,382,546	3,055,196
Amounts payable under repurchase agreements		(11,999,996)	1,294,995
Current accounts and deposits from customers		124,578,156	33,111,874
Other liabilities		176,853	575,192
Net cash provided by operating activities before income tax paid		**71,127,416**	**28,528,628**
Income tax paid		(528,604)	(282,591)
Cash flows from operating activities		**70,598,812**	**28,246,037**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(686,432)	(515,661)
Acquisition of investment securities measured at FVOCI		(22,134,895)	(25,770,483)
Proceeds from sale and repayment of investment securities measured at FVOCI		9,710,582	19,349,000
Acquisition of investment securities measured at amortized cost		(95,575)	(3,209,403)
Proceeds from repayment of investment securities measured at amortized cost		4,747,434	3,052,538
Cash flows used in investing activities		**(8,458,886)**	**(7,094,009)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities		(1,192,289)	(367,106)
Dividends paid		(3,000,000)	-
Proceeds from issue of share capital		2,795,012	-
Receipt of other borrowed funds and subordinated liabilities		14,424,285	23,446,061
Repayment of other borrowed funds and subordinated liabilities		(16,543,695)	(27,206,443)
Proceeds from debt securities issued		3,554,180	-
Repayment of debt securities issued		(9,870,300)	(1,037,106)
Cash flows used in financing activities		**(9,832,807)**	**(5,164,594)**
Net increase in cash and cash equivalents		**52,307,119**	**15,987,434**
Effect of changes in exchange rates on cash and cash equivalents		(10,237,912)	(4,039,271)
Effect of changes in ECL on cash and cash equivalents		11,736	9,546
Cash and cash equivalents as at the beginning of the year		43,415,731	31,458,022
Cash and cash equivalents as at the end of the year	13	**85,496,674**	**43,415,731**

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

AMD'000	Share capital	Share premium	Revaluation reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2021, as previously reported	8,803,655	8,031,745	369,078	21,022,086	38,226,564
Impact of correction of errors*	-	-	-	625,670	625,670
Balance at 1 January 2021 (restated)	8,803,655	8,031,745	369,078	21,647,756	38,852,234
Profit for the year (restated)	-	-	-	2,262,716	2,262,716
Other comprehensive loss					
− Net change in fair value	-	-	(439,845)	-	(439,845)
− Net amount reclassified to profit or loss	-	-	(53,837)	-	(53,837)
Total comprehensive income for the year	**-**	**-**	**(493,682)**	**2,262,716**	**1,769,034**
Balance as at 31 December 2021 (restated)	**8,803,655**	**8,031,745**	**(124,604)**	**23,910,472**	**40,621,268**
Balance as at 1 January 2022 (restated)	8,803,655	8,031,745	(124,604)	23,910,472	40,621,268
Profit for the year	-	-	-	13,171,539	13,171,539
Other comprehensive loss					
− Net change in fair value	-	-	(1,108,440)	-	(1,108,440)
− Net amount reclassified to profit or loss	-	-	(200)	-	(200)
Total comprehensive income for the year	**-**	**-**	**(1,108,640)**	**13,171,539**	**12,062,899**
Transactions with owners, recorded directly in equity					
Issue of share capital	563,070	2,231,942	-	-	2,795,012
Dividends declared and paid	-	-	-	(3,000,000)	(3,000,000)
Total transactions with owners	**563,070**	**2,231,942**	**-**	**(3,000,000)**	**(204,988)**
Balance as at 31 December 2022	**9,366,725**	**10,263,687**	**(1,233,244)**	**34,082,011**	**52,479,179**

* The comparative information is restated on account of correction of errors. See Note 5.

1 Background

(a) Organisation and operations

ARARATBANK OJSC (the "Bank") is an open joint-stock company, which is regulated by the legislation of RA and is the legal successor of "Haykap Bank" CJSC founded in 1991. The Bank conducts its business under license number 4, granted on 20 September 1991, by the Central Bank of Armenia (the "CBA").

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

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International, Diners Club payment systems.

The Bank operates through its main office located in Yerevan and 51 branches. The registered office of the Bank is located at: Buzand St., bldg. 87, prem. 85, Yerevan.

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

	2022	2021
Flash LLC	68.35%	72.73%
Barsegh Beglaryan	21.37%	22.63%
Sanasar Beglaryan	9.94%	4.28%
Other minority shareholders	0.34%	0.36%
	100.00%	**100.00%**

In 2022 the Bank issued additional 112,614 shares with nominal value of AMD 5,000 per share, which were acquired by its shareholders Sanasar Beglaryan and Barsegh Beglaryan for AMD 24,819 per share.

The Bank is ultimately controlled by a single individual, Barsegh Beglaryan, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside the Group.

The shareholders' structure did not change after the reporting date.

As at 31 December 2022 the number of employees was 1,012 (2021: 1,014).

Related party transactions are described in detail in Note 31.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories has led to a social unrest in Armenia. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment.

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

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

2 Basis of accounting

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that derivative financial assets, derivative financial liabilities and investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value.

(c) Functional and presentation currency

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

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

The official CBA exchange rates as at 31 December 2022 and 2021, were AMD 393.57 and AMD 480.14 to USD 1, and AMD 420.06 and AMD 542.61 to EUR 1, respectively.

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

(d) Use of estimates and judgments

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

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i);
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition – Note 27(b).

Assumptions and estimations uncertainty

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

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 27(b);
- estimates of fair values of financial assets and liabilities – Note 32.

3 Changes in significant accounting policies

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

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

4 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements. Certain comparative amounts have been adjusted as a result of a correction of errors (see Note 5).

(a) Foreign currency transactions

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

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

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

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

(b) Cash and cash equivalents

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

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

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

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

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

(d) Fees and commission

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

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

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

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

Interest rate benchmark reform

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

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

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

iii. Modification of financial assets and financial liabilities

Financial assets

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

Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

iv. Impairment

See also Note 27(c).

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 27(c)).

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

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

Measurement of ECL

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

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

See also Note 27(c).

Restructured financial assets

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

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 27(c)).
– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

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

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

Non-integral financial guarantee contracts

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

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

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

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

(f) Loans to customers

Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Deposits, debt securities issued and subordinated liabilities

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

(h) Financial guarantees and loan commitments

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

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

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

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

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

(i) Repurchase and reverse repurchase agreements

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

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

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

(j) Property and equipment

(i) Owned assets

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

(ii) Depreciation

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

− buildings	20-30 years
− computers and communication equipment	3 to 8 years
− motor vehicles	5 to 8 years
− other fixed assets	5 to 8 years

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

(k) Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 10 years.

(l) Provisions

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

(m) Share capital

(i) Ordinary shares

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

(ii) Share premium

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

(iii) Dividends

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

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

(n) Repossessed property

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

(o) Impairment of non-financial assets

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

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

(p) Earnings per share

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

(q) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at and during the year ended 31 December 2021 the Bank's segmental reporting was based on the following operating segments: retail banking, corporate banking and investment banking. In 2022 the chief operating decision maker changed his approach to the resource allocation and does not monitor the segment revenues or profits as per segments determined as at 31 December 2021. As and during the year ended 31 December 2022 the Management considers that the Bank comprises one operating segment.

(r) Taxation

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

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

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

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

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(s) Leases

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

(i) As a lessee

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

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

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

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

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

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

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

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

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

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

(ii) As a lessor

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

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

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

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

(t) New standards and interpretations not yet adopted

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

(i) Other standards

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

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

5 Correction of errors

During 2022, the Bank has assessed that during previous periods it has applied policies for calculation of expected credit losses over loans to customers, staging of loans to customers and for write-off of loans to customers which had inconsistencies with the requirements of IFRS 9. As a consequence, the balance of loans to customers was understated and impairment losses and related deferred tax asset were overstated. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Bank's financial statements.

(i) *Statement of financial position*

'000 AMD	**Impact of correction of error**		
1 January 2021	**As previously reported**	**Adjustments**	**As restated**
Total assets	**248,881,437**	**625,670**	**249,507,107**
Loans to customers	148,222,057	763,012	148,985,069
Deferred tax asset	226,276	(137,342)	88,934
Total equity	**38,226,564**	**`625,670**	**38,852,234**

'000 AMD	**Impact of correction of error**		
31 December 2021	**As previously reported**	**Adjustments**	**As restated**
Total assets	**268,064,748**	**2,842,644**	**270,907,392**
Loans to customers	147,786,661	3,466,639	151,253,300
Deferred tax asset	816,184	(623,995)	192,189
Total equity	**37,778,624**	**2,842,644**	**40,621,268**

(ii) *Statement of profit or loss and other comprehensive income*

'000 AMD	**Impact of correction of error**		
For the year ended 31 December 2021	**As previously reported**	**Adjustments**	**As restated**
Net impairment losses on financial instruments	(2,685,988)	2,703,627	17,639
Income tax	63,539	(486,653)	(423,114)
Profit	**45,742**	**2,216,974**	**2,262,716**
Total comprehensive income	**(447,940)**	**2,216,974**	**1,769,034**

There is no impact on the total operating, investing or financing cash flows for the year ended 31 December 2021. The Bank's basic and diluted earnings per share for the year ended 31 December 2021 increased from AMD 0.03 thousand to AMD 1.29 thousand as a result of the above changes.

6 Net interest income

	2022 AMD'000	2021 AMD'000
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
Loans to customers	18,009,072	15,072,281
Investment securities measured at amortised cost	817,870	997,113
Loans and advances to banks and other financial institutions	540,037	159,320
Amounts receivable under reverse repurchase agreements	516,288	511,280
Other	78,442	1,294
	19,961,709	**16,741,288**
Financial assets measured at fair value through other comprehensive income		
Investment securities measures at FVOCI	3,337,842	2,260,208
Interest income calculated using effective interest rate	**23,299,551**	**19,001,496**
Other interest income		
Receivables from finance leases	2,118	6,274
Total interest income	**23,301,669**	**19,007,770**
Interest expense		
Current accounts and deposits from customers	5,694,669	4,050,875
Other borrowed funds and subordinated borrowings	3,903,124	4,357,824
Amounts payable under repurchase agreements	1,097,848	1,085,059
Debt securities issued	357,069	790,271
Deposits and balances from banks and other financial institutions	308,164	64,944
Lease liabilities	296,574	298,553
	11,657,448	**10,647,526**
Net interest income	**11,644,221**	**8,360,244**

7 Net fee and commission expense

	2022 AMD'000	2021 AMD'000
Fee and commission income		
Cash withdrawal and accounts service	1,809,739	474,692
Plastic card servicing	1,474,458	907,415
Remittances	760,084	577,756
Other	328,893	253,793
	4,373,174	**2,213,656**
Fee and commission expense		
Card transactions	987,212	847,935
Payment systems services	574,034	136,555
Guarantees	48,543	70,411
Stock exchange services	41,945	36,029
	1,651,734	**1,090,930**
Net fee and commission expense	**2,721,440**	**1,122,726**

8 Net foreign exchange gain

	2022 AMD'000	2021 AMD'000
Gain on spot transactions	9,414,047	1,559,619
Loss from revaluation of financial assets and liabilities	(494,270)	(10,068)
	8,919,777	**1,549,551**

9 Other operating income and expense

	2022 AMD'000	2021 AMD'000
Other operating income		
Fines and penalties received	512,191	333,394
Net gain from disposal of property and equipment	403,563	355,585
Net gain from sale of repossessed assets	153,677	54,373
Other operating income	241,763	171,412
	1,311,194	**914,764**
Other operating expense		
Payments to deposit guarantee fund	(261,388)	(160,012)
Payments to Financial System Mediator	(27,265)	(25,245)
Other operating losses*	-	(1,559,651)
Other operating expenses	(436,468)	(186,683)
	(725,121)	**(1,931,591)**

* Other operating losses in 2021 represented losses of cash due to ATM related cash fraud.

10 Net impairment gains on financial instruments

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	(11,853)	-	-	(11,853)
Loans and advances to banks and other financial institutions at amortised cost	41,653	-	-	41,653
Loans to legal entities*	24,625	569,348	434,766	1,028,739
Loans to retail customers*	(161,516)	250,848	(1,030,791)	(941,459)
Other financial assets at amortised cost	(4,562)	-	-	(4,562)
Debt investment securities at FVOCI	(100,240)	-	-	(100,240)
Debt investment securities at amortised cost	81,210	-	-	81,210
Financial guarantee contracts	(11,556)	-	-	(11,556)
Total	**(142,239)**	**820,196**	**(596,025)**	**81,932**

* Included in the net impairment gains/(losses) for loans to legal entities and loans to retail customers are recoveries through direct cash payment in the amount of AMD 196,257 thousand and AMD 625,210 thousand respectively.

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

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	(9,546)	-	-	(9,546)
Loans and advances to banks and other financial institutions at amortised cost	(4,970)	-	-	(4,970)
Loans to legal entities (restated)	180,088	686,109	297,744	1,163,941
Loans to retail customers (restated)	123,426	(52,865)	(1,257,562)	(1,187,001)
Other financial assets at amortised cost	(925)	-	-	(925)
Debt investment securities at FVOCI	1,847	-	-	1,847
Debt investment securities at amortised cost	30,754	-	-	30,754
Financial guarantee contracts	23,540	-	-	23,540
Total	**344,214**	**633,244**	**(958,818)**	**17,640**

11 Other general administrative expenses

	2022 AMD'000	2021 AMD'000
Depreciation and amortization	1,186,248	1,478,499
Impairment of goodwill	362,602	-
Repairs and maintenance	322,645	290,604
Security	270,024	289,809
Non-refundable taxes and duties	238,609	226,627
Advertising and marketing	234,759	138,374
Office and utility expenses	203,591	182,047
Communications and information services	191,589	116,706
Insurance	129,547	92,452
Professional services	79,335	45,422
Rent expenses	60,023	68,086
Representation and organizational expenses	15,775	4,375
Other	289,764	239,754
	3,584,511	**3,172,755**

12 Income tax expense

	2022 AMD'000	2021 AMD'000
		Restated
Current tax expense	2,873,705	418,000
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	117,274	5,114
Total income tax expense	**2,990,979**	**423,114**

In 2022 the applicable tax rate for current tax is 18 % (2021: 18%).

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

	2022 AMD'000	%	2021 AMD'000	%
			Restated	
Profit before income tax (restated)	16,162,518		2,685,830	
Income tax at the applicable tax rate	(2,909,253)	(18.0)	(483,449)	(18.0)
(Non-deductible expenses)/non-taxable income	(81,726)	(0.5)	60,335	2.3
	(2,990,979)	**(18.5)**	**(423,114)**	**(15.8)**

(a) Deferred tax assets and liabilities

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

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

AMD'000	Balance 1 January 2022	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2022
	Restated			
Cash and cash equivalents	2,746	2,112	-	4,858
Investment securities measured at FVOCI	75,402	43,137	243,360	361,899
Investment securities measured at amortised cost	4,563	(65,363)	-	(60,800)
Loans and advances to banks and other financial institutions	7,785	11,652	-	19,437
Loans to customers	(495,754)	(29,920)	-	(525,674)
Property, equipment and intangible assets	19,595	(19,595)	-	-
Right of use asset	(525,121)	(36,736)	-	(561,857)
Other assets	(5,388)	(3,028)	-	(8,416)
Lease liability	635,595	(51,749)	-	583,846
Current accounts and deposits from customers	11,390	(11,382)	-	8
Other liabilities	461,376	43,598	-	504,974
	192,189	**(117,274)**	**243,360**	**318,275**

AMD'000	Balance 1 January 2021	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2021
	Restated	**Restated**		**Restated**
Cash and cash equivalents	1,027	1,719	-	2,746
Investment securities measured at FVOCI	(32,635)	(332)	108,369	75,402
Investment securities measured at amortised cost	6,528	(1,965)	-	4,563
Loans and advances to banks and other financial institutions	5,247	2,538	-	7,785
Loans to customers	(66,062)	(429,692)	-	(495,754)
Property, equipment and intangible assets	19,595	-	-	19,595
Right of use asset	131,496	(656,617)	-	(525,121)
Other assets	(26,837)	21,449	-	(5,388)
Lease liability	(102,840)	738,435	-	635,595
Current accounts and deposits from customers	11,390	-	-	11,390
Other liabilities	142,025	319,351	-	461,376
	88,934	**(5,114)**	**108,369**	**192,189**

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

13 Cash and cash equivalents

	2022 AMD'000	2021 AMD'000
Cash on hand	18,575,027	9,811,558
Nostro accounts with the CBA	59,643,637	29,310,042
Nostro accounts with other banks		
− rated Aa1 to Aa3	68,330	135,682
− rated from A1 to A3	5,283,920	3,087,227
− rated from Baa1 to Baa3	-	442,829
− rated from Ba1 to Ba3	319,988	457,284
− rated from B1 to B3	1,311,559	-
− not rated	321,320	186,363
Total nostro accounts with other banks	**7,305,117**	**4,309,385**
Total gross cash and cash equivalents	**85,523,781**	**43,430,985**
Credit loss allowance	(27,107)	(15,254)
Total net cash and cash equivalents	**85,496,674**	**43,415,731**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality. When counterparties do not have ratings per Moody's, but are rated by Standard & Poor's and/or Fitch rating agencies, the ratings are converted to Moody's equivalent.

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

As at 31 December 2022 the Bank has no bank except for CBA (2021: no bank except for the CBA) whose balances exceeded 10% of the equity.

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(15,254)	-	-	(15,254)
Net remeasurement of loss allowance	15,254	-	-	15,254
New financial assets originated or purchased	(27,107)	-	-	(27,107)
Balance at 31 December	**(27,107)**	**-**	**-**	**(27,107)**

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(5,708)	-	-	(5,708)
Net remeasurement of loss allowance	5,708	-	-	5,708
New financial assets originated or purchased	(15,254)	-	-	(15,254)
Balance at 31 December	**(15,254)**	**-**	**-**	**(15,254)**

14 Investment securities

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

	2022 AMD'000	2021 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
− Government securities of the Republic of Armenia	24,410,369	12,641,395
− Eurobonds of the Republic of Armenia	1,008,887	-
− Government securities of the Republic of Artsakh	197,379	211,021
Total government bonds	**25,616,635**	**12,641,395**
Bonds of investment funds		
− not rated	1,689,405	-
Total bonds of investment funds	**1,689,405**	-
Corporate bonds		
− rated from Ba1 to Ba3	6,629,795	5,573,631
− rated from B1 to B3	3,539,556	3,744,001
− not rated	4,841,097	4,928,369
Total corporate bonds	**15,010,448**	**14,246,001**
Equity instruments		
Corporate shares	110,448	110,969
Total investment securities measured at FVOCI held by the Bank	**42,426,936**	**26,998,365**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
− Eurobonds of the Republic of Armenia	-	5,974,127
Total investment securities measured at FVOCI pledged under sale and repurchase agreements	**-**	**5,974,127**
Total investment securities measured at FVOCI	**42,426,936**	**32,972,492**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through other comprehensive income. Management estimates that the unrated instruments approximate to B1 rating under Moody's rating system.

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

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

AMD'000	2022			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at fair value through other comprehensive income	**266,942**	**-**	**-**	**266,942**
Net remeasurement of loss allowance	100,240	-	-	100,240
Balance at 31 December	**367,182**	**-**	**-**	**300,240**

AMD'000	2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at fair value through other comprehensive income	**268,789**	**-**	**-**	**268,789**
Net remeasurement of loss allowance	(1,847)	-	-	(1,847)
Balance at 31 December	**266,942**	**-**	**-**	**266,942**

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

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

Name	Country of incorporation	Main activity	% controlled 2022	% controlled 2021	2022 AMD'000	2021 AMD'000
ArCa	Republic of Armenia	Payment system	6.25%	6.25%	82,500	82,500
ACRA Credit Reporting CJSC	Republic of Armenia	Credit reporting agency	4.69%	4.69%	25,065	25,065
SWIFT	Belgium	Money transfer	0.00%	0.00%	2,883	3,404
					110,448	**110,969**

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

(b) Investment securities measured at amortised cost

	2022 AMD'000	2021 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
− Government securities of the Republic of Armenia	5,812,978	1,496,244
− Government securities of the Republic of Artsakh	1,917,304	1,917,392
Total government bonds	**7,730,282**	**3,413,636**
Bonds of investment funds		
− not rated	-	309,654
Total bonds of investment funds	**-**	**309,654**
Corporate bonds		
− rated from Ba1 to Ba3	263,237	633,675
− rated from B1 to B3	90,903	283,262
− not rated	958,620	2,467,682
Total corporate bonds	**1,312,760**	**3,384,619**
Total investment securities measured at amortised cost held by the Bank	**9,043,042**	**7,107,908**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
− Government securities of the Republic of Armenian	-	6,844,911
Total government bonds	**-**	**6,844,911**
Total investment securities measured at amortised cost pledged under sale and repurchase agreements		
Total gross investment securities measured at amortised cost	**9,043,042**	**13,952,819**
Credit loss allowance	(11,543)	(92,573)
Total net investment securities measured at amortised cost	**9,031,499**	**13,860,246**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at amortised cost. Management estimates that the unrated instruments approximate to B1 rating under Moody's rating system.

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

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	(92,753)	-	-	(92,753)
Net remeasurement of loss allowance	81,210	-	-	81,210
Balance at 31 December	**(11,543)**	**-**	**-**	**(11,543)**

	2021			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortised cost				
Balance at 1 January	(123,327)	-	-	(123,327)
Net remeasurement of loss allowance	30,574	-	-	30,574
Balance at 31 December	**(92,753)**	**-**	**-**	**(92,753)**

15 Loans and advances to banks and other financial institutions

	2022 AMD'000	2021 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	1,080,000	827,000
Deposit with the Central Bank of Armenia, obligatory reserves	20,223,692	5,390,350
Total due from the CBA	**21,303,692**	**6,217,350**
Loans and deposits		
Armenian banks and financial institutions		
− rated from Ba1 to Ba3	119,950	292,746
− not rated	3,157,563	2,722,936
Other non-resident banks and financial institutions		
− rated from Ba1 to Ba3	2,361,814	-
− not rated	6,458,773	263,328
Total loans and deposits	**12,098,100**	**3,279,010**
Total gross loans and advances to banks and other financial institutions	**33,401,792**	**9,496,360**
Credit loss allowance	(71,654)	(113,307)
Total net loans and advances to banks and other financial institutions	**33,330,138**	**9,383,053**

(a) Balances with the CBA

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

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 4% (2021: 4%) and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 8% is maintained in AMD and 10% in the respective currency of funds attracted (2021: 10% maintained in AMD and 8% in the respective currency of attracted funds). The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may be applied. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 13) as these funds are readily available for withdrawal.

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

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

As at 31 December 2022 the Bank has no counterparty except for the CBA (2021: none, except for CBA), whose balance exceeded 10% of equity.

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	(113,307)	-	-	(113,307)
Net remeasurement of loss allowance	41,653	-	-	41,653
Balance at 31 December	**(71,654)**	**-**	**-**	**(71,654)**

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	(108,337)	-	-	(108,337)
Net remeasurement of loss allowance	(4,970)	-	-	(4,970)
Balance at 31 December	**(113,307)**	**-**	**-**	**(113,307)**

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

Management estimates that as at 31 December 2022 the unrated instruments amounting AMD 9,616,336 thousand approximate rating of B1 to B3 under Moody's rating system (2021: unrated instruments amounting AMD 2,986,264 thousand approximate rating of B1 to B3 under Moody's rating system).

Loans and advances to banks and other financial institutions are fully in Stage 1 and measured at amortised cost as at 31 December 2022 and 2021. No loans and advances to banks and other financial institutions are credit impaired or past due.

The Bank uses credit ratings per Moody's in disclosing credit quality.

16 Amounts receivable under reverse repurchase agreements

	2022 **AMD'000**	**2021** **AMD'000**
Amounts receivable from local financial institutions	7,875,241	6,592,620
Total gross amounts receivable under reverse repurchases agreements	**7,875,241**	**6,592,620**
Credit loss allowance	-	-
Total net amounts receivable under reverse repurchases agreements	**7,875,241**	**6,592,620**

As at 31 December 2022 and 2021 the Bank has no amounts receivable under reverse repurchase agreements, whose balances exceeded 10% of equity.

Amounts receivable under reverse repurchase agreements are from nonrated reputable local financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2022 and 2021. Management estimates that the unrated instruments approximate to B1 rating under Moody's rating system. No amounts receivable under reverse repurchase agreements are credit impaired or past due.

(a) Collateral accepted as security for assets

As at 31 December 2022 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 8,192,269 thousand (2021: AMD 7,040,711 thousand).

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

17 Loans to customers

	2022 AMD'000	**2021 AMD'000**	**2020 AMD'000**
		Restated	**Restated**
Loans to legal entities			
Loans to large companies	68,170,180	62,627,357	67,797,808
Loans to small and medium size companies	21,590,165	20,209,578	18,174,608
Total loans to legal entities	**89,760,345**	**82,836,935**	**85,972,416**
Loans to retail customers			
Agricultural loans	3,615,737	2,796,396	1,898,599
Consumer loans secured by real estate	32,508,068	26,078,059	24,002,753
Gold secured loans	9,352,940	12,481,206	13,642,006
Mortgage loans	26,652,170	23,083,420	21,700,534
Secured other consumer loans	1,072,931	782,193	557,077
Unsecured consumer loans	7,519,368	8,135,708	8,464,420
Total loans to retail customers	**80,721,214**	**73,356,982**	**70,265,389**
Gross loans to customers	**170,481,559**	**156,193,917**	**156,237,805**
Credit loss allowance	(4,035,955)	(4,940,617)	(7,252,736)
Net loans to customers	**166,445,604**	**151,253,300**	**148,985,069**

(a) Credit quality of loans to customers

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

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large companies				
- not overdue	60,930,532	3,705,713	-	64,636,245
- overdue less than 30 days	82,536	-	-	82,536
- overdue of 31-90 days	-	236,965	-	236,965
- overdue more than 270 days	-	-	3,214,434	3,214,434
Total gross loans to large companies	**61,013,068**	**3,942,678**	**3,214,434**	**68,170,180**
Credit loss allowance	(79,666)	(395,268)	(1,169,733)	(1,644,667)
Total net loans to large companies	**60,933,402**	**3,547,410**	**2,044,701**	**66,525,513**
Loans to small and medium size companies				
not overdue	20,948,533	396,995	12,155	21,357,683
overdue less than 30 days	39,271	-	-	39,271
overdue of 31-90 days	-	97,604	-	97,604
overdue of 91-270 days	-	-	67,871	67,871
overdue more than 270 days	-	-	27,736	27,736
Total gross loans to small and medium size companies	**20,987,804**	**494,599**	**107,762**	**21,590,165**
Credit loss allowance	(36,151)	(82,871)	(10,776)	(129,798)
Total net loans to small and medium size companies	**20,951,653**	**411,728**	**96,986**	**21,460,367**
Total gross loans to legal entities	**82,000,872**	**4,437,277**	**3,322,196**	**89,760,345**
Total net loans to legal entities	**81,885,055**	**3,959,138**	**2,141,687**	**87,985,880**
Agricultural loans				
- not overdue	3,343,419	85,972	11,076	3,440,467
- overdue less than 30 days	58,327	-	-	58,327
- overdue of 31-90 days	-	10,282	4,378	14,660
- overdue of 91-270 days	-	-	11,882	11,882
- overdue more than 270 days	-	-	90,401	90,401
Total gross agricultural loans	**3,401,746**	**96,254**	**117,737**	**3,615,737**
Credit loss allowance	(12,519)	(10,253)	(43,533)	(66,305)
Total net agricultural loans	**3,389,227**	**86,001**	**74,204**	**3,549,432**
Consumer loans secured by real estate				
- not overdue	29,234,058	373,696	91,503	29,699,257
- overdue less than 30 days	319,415	51,193	71,191	441,799
- overdue of 31-90 days	-	187,301	59,668	246,969
- overdue of 91-270 days	-	-	1,755,839	1,755,839
- overdue more than 270 days	-	-	364,204	364,204
Total gross consumer loans secured by real estate	**29,553,473**	**612,190**	**2,342,405**	**32,508,068**
Credit loss allowance	(155,992)	(72,653)	(1,152,370)	(1,381,015)
Total net consumer loans secured by real estate	**29,397,481**	**539,537**	**1,190,035**	**31,127,053**

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Gold secured loans				
− not overdue	9,098,991	107,653	19,383	9,226,027
− overdue less than 30 days	15,692	91	4,673	20,456
− overdue of 31-90 days	-	35,180	6,035	41,215
− overdue of 91-270 days	-	-	65,242	65,242
Total gross gold secured loans	**9,114,683**	**142,924**	**95,333**	**9,352,940**
Credit loss allowance	(5,146)	(8,819)	(17,207)	**(31,172)**
Total net gold secured loans	**9,109,537**	**134,105**	**78,126**	**9,321,768**
Mortgage				
− not overdue	26,129,173	325,906	30,644	26,485,723
− overdue less than 30 days	116,508	-	-	116,508
− overdue of 31-90 days	-	31,418	12,877	44,295
− overdue of 91-270 days	-	-	5,644	5,644
Total gross mortgage loans	**26,245,681**	**357,324**	**49,165**	**26,652,170**
Credit loss allowance	(43,368)	(103,626)	(5,947)	(152,941)
Total net mortgage loans	**26,202,313**	**253,698**	**43,218**	**26,499,229**
Secured other consumer loans				
− not overdue	1,043,695	20,599	1,796	1,066,090
− overdue less than 30 days	4,891	-	-	4,891
− overdue of 31-90 days	-	-	1,950	1,950
Total gross secured other consumer loans	**1,048,586**	**20,599**	**3,746**	**1,072,931**
Credit loss allowance	(3,322)	(1,954)	(432)	**(5,708)**
Total net secured other consumer loans	**1,045,264**	**18,645**	**3,314**	**1,067,223**
Unsecured consumer loans				
− not overdue	7,090,187	185,857	53,703	7,329,747
− overdue less than 30 days	21,568	-	13,723	35,291
− overdue of 31-90 days	-	42,614	20,038	62,652
− overdue of 91-270 days	-	-	91,678	91,678
Total gross unsecured consumer loans	**7,111,755**	**228,471**	**179,142**	**7,519,368**
Credit loss allowance	(274,339)	(170,868)	(179,142)	(624,349)
Total net unsecured consumer loans	**6,837,416**	**57,603**	**-**	**6,895,019**
Total gross loans to retail customers	**76,475,924**	**1,457,762**	**2,787,528**	**80,721,214**
Total net loans to retail customers	**75,981,238**	**1,089,589**	**1,388,897**	**78,459,724**
Total gross loans to customers	**158,476,796**	**5,895,039**	**6,109,724**	**170,481,559**
Total net loans to customers	**157,866,293**	**5,048,727**	**3,530,584**	**166,445,604**

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

The following table provides information on the credit quality of loans to customers as at 31 December 2021:

	Stage 1 AMD'000 Restated	Stage 2 AMD'000 Restated	Stage 3 AMD'000 Restated	Total AMD'000 Restated
Loans to large companies				
− not overdue	52,020,939	4,931,200	-	56,952,139
− overdue of 31-90 days	-	1,260,916	-	1,260,916
− overdue more than 270 days	-	-	4,414,302	4,414,302
Total gross loans to large companies	**52,020,939**	**6,192,116**	**4,414,302**	**62,627,357**
Credit loss allowance	(120,919)	(1,168,368)	(1,978,763)	(3,268,050)
Total net loans to large companies	**51,900,020**	**5,023,748**	**2,435,539**	**59,359,307**
Loans to small and medium size companies				
not overdue	19,477,212	365,759	18,805	19,861,776
overdue less than 30 days	-	91,421	19,833	111,254
overdue of 31-90 days	-	24,520	31,203	55,723
overdue more than 270 days	-	-	180,825	180,825
Total gross loans to small and medium size companies	**19,477,212**	**481,700**	**250,666**	**20,209,578**
Credit loss allowance	(30,283)	(41,944)	(66,994)	(139,221)
Total net loans to small and medium size companies	**19,446,929**	**439,756**	**183,672**	**20,070,357**
Total gross loans to legal entities	**71,498,151**	**6,673,816**	**4,664,968**	**82,836,935**
Total net loans to legal entities	**71,346,949**	**5,463,504**	**2,619,211**	**79,429,664**
Agricultural loans				
− not overdue	2,523,565	141,543	2,021	2,667,129
− overdue less than 30 days	625	-	9,646	10,271
− overdue of 31-90 days	-	-	7,264	7,264
− overdue of 91-270 days	-	-	94,222	94,222
− overdue more than 270 days	-	-	17,510	17,510
Total gross agricultural loans	**2,524,190**	**141,543**	**130,663**	**2,796,396**
Credit loss allowance	(13,490)	(13,246)	(49,986)	(76,722)
Total net agricultural loans	**2,510,700**	**128,297**	**80,677**	**2,719,674**
Consumer loans secured by real estate				
− not overdue	24,241,826	751,418	85,098	25,078,342
− overdue less than 30 days	187,789	145,484	56,747	390,020
− overdue of 31-90 days	-	203,346	16,129	219,475
− overdue of 91-270 days	-	-	242,072	242,072
− overdue more than 270 days	-	-	148,150	148,150
Total gross consumer loans secured by real estate	**24,429,615**	**1,100,248**	**548,196**	**26,078,059**
Credit loss allowance	(115,322)	(105,210)	(211,718)	(432,250)
Total net consumer loans secured by real estate	**24,314,293**	**995,038**	**336,478**	**25,645,809**
Gold secured loans				
− not overdue	11,898,186	420,484	7,482	12,326,152
− overdue less than 30 days	79,215	6,215	-	85,430
− overdue of 31-90 days	-	47,048	392	47,440
− overdue of 91-270 days	-	-	22,184	22,184
Total gross gold secured loans	**11,977,401**	**473,747**	**30,058**	**12,481,206**
Credit loss allowance	(3,001)	(24,157)	(6,973)	(34,131)
Total net gold secured loans	**11,974,400**	**449,590**	**23,085**	**12,447,075**

	Stage 1 AMD'000 Restated	Stage 2 AMD'000 Restated	Stage 3 AMD'000 Restated	Total AMD'000 Restated
Mortgage				
− not overdue	22,258,013	653,860	35,091	22,946,964
− overdue less than 30 days	11,980	-	5,833	17,813
− overdue of 31-90 days	-	101,871	-	101,871
− overdue of 91-270 days	-	-	14,171	14,171
− overdue more than 270 days	-	-	2,601	2,601
Total gross mortgage loans	**22,269,993**	**755,731**	**57,696**	**23,083,420**
Credit loss allowance	(17,848)	(94,936)	(16,767)	(129,551)
Total net mortgage loans	**22,252,145**	**660,795**	**40,929**	**22,953,869**
Secured other consumer loans				
− not overdue	537,991	118,686	1,905	658,582
− overdue less than 30 days	524	-	9,699	10,223
− overdue of 31-90 days	-	37,592	-	37,592
− overdue of 91-270 days	-	-	75,796	75,796
Total gross secured other consumer loans	**538,515**	**156,278**	**87,400**	**782,193**
Credit loss allowance	(2,791)	(14,141)	(35,926)	(52,858)
Total net secured other consumer loans	**535,724**	**142,137**	**51,474**	**729,335**
Unsecured consumer loans				
− not overdue	7,066,695	764,362	116,025	7,947,082
− overdue less than 30 days	23,051	3,318	5,143	31,512
− overdue of 31-90 days	-	29,871	5,627	35,498
− overdue of 91-270 days	-	-	118,251	118,251
− overdue more than 270 days	-	-	3,365	3,365
Total gross unsecured consumer loans	**7,089,746**	**797,551**	**248,411**	**8,135,708**
Credit loss allowance	(199,888)	(381,101)	(226,845)	(807,834)
Total net unsecured consumer loans	**6,889,858**	**416,450**	**21,566**	**7,327,874**
Total gross loans to retail customers	**68,829,460**	**3,425,098**	**1,102,424**	**73,356,982**
Total net loans to retail customers	**68,477,120**	**2,792,307**	**554,209**	**71,823,636**
Total gross loans to customers	**140,327,611**	**10,098,914**	**5,767,392**	**156,193,917**
Total net loans to customers	**139,824,069**	**8,255,811**	**3,173,420**	**151,253,300**

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

The following table provides information on the credit quality of loans to customers as at 1 January 2021:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
	Restated	**Restated**	**Restated**	**Restated**
Loans to large companies				
− not overdue	59,559,772	3,496,897	-	63,056,669
− overdue of 91-270 days	-	-	138,912	138,912
− overdue more than 270 days	-	-	4,602,227	4,602,227
Total gross loans to large companies	**59,559,772**	**3,496,897**	**4,741,139**	**67,797,808**
Credit loss allowance	(277,982)	(1,964,564)	(2,200,682)	(4,443,228)
Total net loans to large companies	**59,281,790**	**1,532,333**	**2,540,457**	**63,354,580**
Loans to small and medium size companies				
not overdue	17,104,155	375,067	274	17,479,496
overdue less than 30 days	104,204	-	-	104,204
overdue of 31-90 days	-	16,597	-	16,597
overdue of 91-270 days	-	-	51,966	51,966
overdue more than 270 days	-	-	522,345	522,345
Total gross loans to small and medium size companies	**17,208,359**	**391,664**	**574,585**	**18,174,608**
Credit loss allowance	(63,073)	(72,318)	(360,874)	(496,265)
Total net loans to small and medium size companies	**17,145,286**	**319,346**	**213,711**	**17,678,343**
Total gross loans to legal entities	**76,768,131**	**3,888,561**	**5,315,724**	**85,972,416**
Total net loans to legal entities	**76,427,076**	**1,851,679**	**2,754,168**	**81,032,923**
Agricultural loans				
− not overdue	1,624,148	34,312	4,253	1,662,713
− overdue less than 30 days	249	-	5,862	6,111
− overdue of 31-90 days	-	-	754	754
− overdue of 91-270 days	-	-	135,031	135,031
− overdue more than 270 days	-	-	93,990	93,990
Total gross agricultural loans	**1,624,397**	**34,312**	**239,890**	**1,898,599**
Credit loss allowance	(4,372)	(3,574)	(77,828)	(85,774)
Total net agricultural loans	**1,620,025**	**30,738**	**162,062**	**1,812,825**
Consumer loans secured by real estate				
− not overdue	21,882,229	344,014	31,673	22,257,916
− overdue less than 30 days	357,983	19,319	15,647	392,949
− overdue of 31-90 days	-	169,726	7,397	177,123
− overdue of 91-270 days	-	-	510,186	510,186
− overdue more than 270 days	-	-	664,579	664,579
Total gross consumer loans secured by real estate	**22,240,212**	**533,059**	**1,229,482**	**24,002,753**
Credit loss allowance	(223,097)	(120,062)	(393,732)	(736,891)
Total net consumer loans secured by real estate	**22,017,115**	**412,997**	**835,750**	**23,265,862**

	Stage 1 AMD'000 Restated	Stage 2 AMD'000 Restated	Stage 3 AMD'000 Restated	Total AMD'000 Restated
Gold secured loans				
− not overdue	13,097,766	152,057	293,987	13,543,810
− overdue less than 30 days	59,940	-	369	60,309
− overdue of 31-90 days	-	27,192	-	27,192
− overdue of 91-270 days	-	-	5,149	5,149
− overdue more than 270 days	-	-	5,547	5,547
Total gross gold secured loans	**13,157,706**	**179,249**	**305,051**	**13,642,006**
Credit loss allowance	(2,394)	(5,552)	(53,390)	(61,336)
Total net gold secured loans	**13,155,312**	**173,697**	**251,661**	**13,580,670**
Mortgage				
− not overdue	20,816,416	381,509	8,262	21,206,187
− overdue less than 30 days	17,243	7,873	-	25,116
− overdue of 31-90 days	-	280,812	-	280,812
− overdue of 91-270 days	-	-	11,182	11,182
− overdue more than 270 days	-	-	177,237	177,237
Total gross mortgage loans	**20,833,659**	**670,194**	**196,681**	**21,700,534**
Credit loss allowance	(15,927)	(92,528)	(85,932)	(194,387)
Total net mortgage loans	**20,817,732**	**577,666**	**110,749**	**21,506,147**
Secured other consumer loans				
− not overdue	474,568	50,897	1,073	526,538
− overdue less than 30 days	-	-	2,086	2,086
− overdue of 31-90 days	-	-	1,701	1,701
− overdue of 91-270 days	-	-	15,127	15,127
− overdue more than 270 days	-	-	11,625	11,625
Total gross secured other consumer loans	**474,568**	**50,897**	**31,612**	**557,077**
Credit loss allowance	(2,877)	(5,307)	(14,485)	(22,669)
Total net secured other consumer loans	**471,691**	**45,590**	**17,127**	**534,408**
Unsecured consumer loans				
− not overdue	7,373,352	438,357	406,573	8,218,282
− overdue less than 30 days	17,052	581	6,156	23,789
− overdue of 31-90 days	-	26,108	1,478	27,586
− overdue of 91-270 days	-	-	194,762	194,762
Total gross unsecured consumer loans	**7,390,404**	**465,046**	**608,969**	**8,464,420**
Credit loss allowance	(242,632)	(363,912)	(605,642)	(1,212,186)
Total net unsecured consumer loans	**7,147,772**	**101,134**	**3,328**	**7,252,234**
Total gross loans to retail customers	**65,720,946**	**1,932,757**	**2,611,686**	**70,265,389**
Total net loans to retail customers	**65,229,647**	**1,341,822**	**1,380,677**	**67,952,146**
Total gross loans to customers	**142,489,077**	**5,821,318**	**7,927,410**	**156,237,805**
Total net loans to customers	**141,656,723**	**3,193,501**	**4,134,845**	**148,985,069**

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

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January (restated)	71,498,151	6,673,816	4,664,967	82,836,934
New assets originated or purchased	52,239,158	-	-	52,239,158
Assets repaid	(30,008,126)	(2,041,430)	(699,852)	(32,749,408)
Transfer to Stage 1	1,385,533	(1,385,533)	-	-
Transfer to Stage 2	(2,067,909)	2,097,285	(29,376)	-
Transfer to Stage 3	(118,642)	(76,358)	195,000	-
Recoveries	-	-	1,640	1,640
Amounts written off	-	-	(279,096)	(279,096)
Net change in asset from interest and foreign exchange revaluation	(9,927,293)	(830,503)	(531,087)	(11,529,861)
Balance at 31 December	**82,000,872**	**4,437,277**	**3,322,196**	**89,760,345**

AMD'000	**2021 (restated)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	76,768,130	3,888,561	5,315,725	85,972,416
New assets originated or purchased	39,099,967	-	-	39,099,967
Assets repaid	(36,084,806)	(958,975)	(324,697)	(37,368,478)
Transfer to Stage 1	228,234	(203,906)	(24,328)	-
Transfer to Stage 2	(4,178,802)	4,178,802	-	-
Transfer to Stage 3	(300,883)	(8,382)	309,265	-
Recoveries	-	-	16,561	16,561
Amounts written off	-	-	(259,291)	(259,291)
Net change in asset from interest and foreign exchange revaluation	(4,033,689)	(222,284)	(368,267)	(4,624,240)
Balance at 31 December	**71,498,151**	**6,673,816**	**4,664,968**	**82,836,935**

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

	2022			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January (restated)	151,202	1,210,312	2,045,757	3,407,271
New assets originated or purchased	70,708	-	-	70,708
Assets repaid	(77,741)	(285,163)	(307,751)	(670,655)
Transfer to Stage 1	96,486	(96,486)	-	-
Transfer to Stage 2	(3,384)	4,871	(1,487)	-
Transfer to Stage 3	(50)	(1,507)	1,557	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(110,644)	(191,063)	(127,085)	(428,792)
Recognized in statement of profit or loss	**(24,625)**	**(569,348)**	**(434,766)**	**(1,028,739)**
Unwinding of discount	-	-	165,706	165,706
Recoveries	-	-	1,640	1,640
Amounts written off	-	-	(279,096)	(279,096)
Foreign exchange adjustments	(10,760)	(162,825)	(318,732)	(492,317)
Balance at 31 December	**115,817**	**478,139**	**1,180,509**	**1,774,465**

	2021 (restated)			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	341,055	2,036,882	2,561,556	4,939,493
New assets originated or purchased	101,440	-	-	101,440
Assets repaid	(187,950)	(279,793)	(301,154)	(768,897)
Transfer to Stage 1	20,573	(17,165)	(3,408)	-
Transfer to Stage 2	(12,536)	12,536	-	-
Transfer to Stage 3	(151)	-	151	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(101,464)	(401,687)	6,667	(496,484)
Recognized in statement of profit or loss	**(180,088)**	**(686,109)**	**(297,744)**	**(1,163,941)**
Unwinding of discount	-	-	207,486	207,486
Recoveries	-	-	16,561	16,561
Amounts written off	-	-	(259,291)	(259,291)
Foreign exchange adjustments	(9,765)	(140,461)	(182,811)	(333,037)
Balance at 31 December	**151,202**	**1,210,312**	**2,045,757**	**3,407,271**

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to retail customers				
Balance at 1 January (restated)	68,829,462	3,425,098	1,102,422	73,356,982
New assets originated or purchased	41,734,852	-	-	41,734,852
Assets repaid	(28,743,156)	(1,605,035)	(337,472)	(30,685,663)
Transfer to Stage 1	600,549	(600,549)	-	-
Transfer to Stage 2	(559,783)	859,713	(299,930)	-
Transfer to Stage 3	(2,045,522)	(466,797)	2,512,319	-
Recoveries	-	-	154,246	154,246
Amounts written off	-	-	(380,319)	(380,319)
Foreign exchange revaluation	(4,408,282)	(100,348)	(404,561)	(4,913,191)
Net change in asset from interest and other charges	1,067,804	(54,320)	440,823	1,454,307
Balance at 31 December	**76,475,924**	**1,457,762**	**2,787,528**	**80,721,214**

AMD'000	**2021 (restated)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to retail customers				
Balance at 1 January	65,720,946	1,932,757	2,611,686	70,265,389
New assets originated or purchased	35,373,399	-	-	35,373,399
Assets repaid	(28,504,618)	(666,831)	(653,082)	(29,824,531)
Transfer to Stage 1	37,777	(36,295)	(1,482)	-
Transfer to Stage 2	(1,517,116)	2,237,005	(719,889)	-
Transfer to Stage 3	(1,458,590)	(375,093)	1,833,683	-
Amounts written off	-	-	(2,034,260)	(2,034,260)
Foreign exchange revaluation	(1,864,233)	(112,421)	(34,476)	(2,011,130)
Net change in asset from interest and other charges	1,041,897	445,976	100,242	1,588,115
Balance at 31 December	**68,829,462**	**3,425,098**	**1,102,422**	**73,356,982**

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to retail customers				
Balance at 1 January (restated)	352,340	632,791	548,216	1,533,346
New assets originated or purchased	310,234	-	-	310,234
Assets repaid	(222,434)	(462,371)	(131,800)	(816,605)
Transfer to Stage 1	62,117	(61,519)	(598)	-
Transfer to Stage 2	(3,088)	68,870	(65,782)	-
Transfer to Stage 3	(17,055)	(49,507)	66,562	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	31,742	253,679	1,162,409	1,447,830
Recognized in statement of profit or loss	**161,516**	**(250,848)**	**1,030,791**	**941,459**
Unwinding of discount	-	-	71,816	71,816
Recoveries	-	-	154,246	154,246
Amounts written off	-	-	(380,319)	(380,319)
Foreign exchange adjustments	(19,170)	(13,771)	(26,118)	(59,059)
Balance at 31 December	**494,686**	**368,172**	**1,398,632**	**2,261,490**

	2021 (restated)			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to retail customers				
Balance at 1 January	491,299	590,935	1,231,009	2,313,243
New assets originated or purchased	206,396	-	-	206,396
Assets repaid	(217,368)	(111,880)	(201,961)	(531,209)
Transfer to Stage 1	21,953	(21,691)	(262)	-
Transfer to Stage 2	(20,100)	352,874	(332,774)	-
Transfer to Stage 3	(7,066)	(27,359)	34,425	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(107,241)	(139,079)	1,758,134	1,511,814
Recognized in statement of profit or loss	**(123,426)**	**52,865**	**1,257,562**	**1,187,001**
Unwinding of discount	-	-	161,262	161,262
Amounts written off	-	-	(2,034,260)	(2,034,260)
Foreign exchange adjustments	(15,533)	(11,009)	(67,358)	(93,900)
Balance at 31 December	**352,340**	**632,791**	**548,215**	**1,533,346**

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

Key assumptions and judgements for estimating credit loss allowance is presented in Note 27(b).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

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

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2022 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans which are not credit impaired		
Cash and deposits	2,116,990	2,116,990
Government bonds of Republic of Armenia	16,738,513	16,738,513
Gold and jewellery	9,879	9,879
Real estate	57,503,571	57,503,571
Motor vehicles	446,092	446,092
Other collateral	1,849,826	1,849,826
No collateral or other credit enhancement	7,179,322	-
Total loans which are not credit impaired	**85,844,193**	**76,815,045**
Credit impaired loans		
Real estate	2,018,075	2,018,075
No collateral or other credit enhancement	123,612	-
Total credit impaired loans	**2,141,687**	**2,018,075**
Total loans to corporate customers	**87,985,880**	**78,833,120**

31 December 2021 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan inception date**
	Restated	**Restated**
Loans which are not credit impaired		
Cash and deposits	137,439	137,439
Gold and jewellery	16,835	16,835
Real estate	65,785,348	65,785,348
Motor vehicles	189,783	189,783
Other collateral	3,636,937	3,636,937
No collateral or other credit enhancement	7,044,111	-
Total loans which are not credit impaired	**76,810,453**	**69,766,342**
Credit impaired loans		
Real estate***	2,561,168	2,018,075
No collateral or other credit enhancement	58,043	-
Total credit impaired loans	**2,619,211**	**2,018,075**
Total loans to corporate customers	**79,429,664**	**71,784,417**

The tables above exclude overcollateralization.

The Bank has loans, for which the fair value of collateral was assessed on the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

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

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Consumer loans secured by real estate and other retail loans are mainly secured by real estate. The Bank’s policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of 70-80%, depending on location of collateral.

Gold secured loans are secured by golden jewellery. The Bank’s policy is to issue gold secured loans with a loan-to-value ratio at the date of loan issuance of a maximum of 95-100%, depending on loan terms.

Agricultural loans and secured other consumer loans are secured by motor vehicles, real estate, other movable and fixed assets. The Bank’s policy is to issue these loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Unsecured consumer loans mainly represent credit cards and overdrafts.

(iii) Repossessed collateral

As at 31 December 2022 and 31 December 2021, the repossessed collateral comprises mainly real estate.

	2022 Carrying amount AMD’000	**2021 Carrying amount AMD’000**
Balance at 1 January	1,884,816	1,965,096
Additions	338,179	481,412
Sales	(417,503)	(561,692)
Balance at 31 December	**1,805,492**	**1,884,816**

On the date of foreclosure the collateral is measured at the carrying amount of the defaulted loan. Subsequent to foreclosure repossessed assets are measured at cost less impairment losses. Impairment is estimated based on the market approach. The market approach for real estate is based upon an analysis of the results of comparable recent sales of similar assets or announced prices for sale of similar assets, applying a discount of between 10% and 30% depending on the nature and location of the asset for the announced prices for sale.

The Bank’s policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

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

	2022 AMD'000	2021 AMD'000
Trade	45,617,189	29,398,049
Construction	13,847,925	16,815,558
Hotel and restaurant services	8,325,264	10,640,920
Industry and other production	5,895,618	7,113,420
Energy	2,147,363	2,768,775
Agriculture and Food processing	1,467,984	1,385,624
Communication services	1,180,489	4,053,346
Transport	847,517	806,940
Medical services	424,741	447,845
Tourism	96,750	587,606
Manufacturing	38,028	49,731
Other	9,871,477	8,769,121
Loans to retail customers	80,721,214	73,356,982
	170,481,559	**156,193,917**
Credit loss allowance	(4,035,955)	(4,940,617)
	166,445,604	**151,253,300**

As at 31 December 2022, loans to legal entities with a gross value of AMD 89,080,825 thousand (2021: AMD 82,836,935 thousand) are issued to customers located within the Republic of Armenia.

(e) Assets under lien

As at 31 December 2022, loans to customers with a gross value of AMD 12,289,463 thousand (2021: AMD 10,545,042 thousand) serve as collateral for secured loans from credit organisations and borrowings from the Central Bank of Armenia (Note 21).

(f) Significant credit exposures

As at 31 December 2022, the Bank has one borrower or groups of connected borrowers (2021: none), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2022 is AMD 19,915,810 thousand.

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 27(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Property, equipment and intangible assets

AMD’000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost							
Balance as at 1 January 2022	3,887,072	491,459	3,414,145	1,954,504	224,071	2,013,276	11,984,527
Additions	82,615	59,548	386,443	66,432	7,421	83,973	686,432
Disposals/write-offs	-	(19,544)	(513)	(32,862)	(45,667)	-	(98,586)
Balance at 31 December 2022	**3,969,687**	**531,463**	**3,800,075**	**1,988,074**	**185,825**	**2,097,249**	**12,572,373**
Depreciation and amortisation							
Balance at 1 January 2022	954,161	136,182	2,891,934	1,370,281	131,926	1,219,685	6,704,169
Depreciation and amortisation for the year	101,872	20,290	230,152	132,242	14,068	221,032	719,656
Disposals/write-offs	-	(14,527)	(513)	(32,029)	(43,384)	-	(90,453)
Balance at 31 December 2022	**1,056,033**	**141,945**	**3,121,573**	**1,470,494**	**102,610**	**1,440,717**	**7,333,372**
Carrying amount							
At 31 December 2022	**2,913,654**	**389,518**	**678,502**	**517,580**	**83,215**	**656,532**	**5,239,001**
Cost							
Balance as at 1 January 2021	4,359,402	454,724	3,344,306	1,948,002	240,907	1,873,898	12,221,239
Additions	45,134	80,381	115,744	123,375	10,117	140,910	515,661
Disposals/write-offs	(517,464)	(43,646)	(45,905)	(116,873)	(26,953)	(1,532)	(752,373)
Balance at 31 December 2021	**3,887,072**	**491,459**	**3,414,145**	**1,954,504**	**224,071**	**2,013,276**	**11,984,527**
Depreciation and amortisation							
Balance at 1 January 2021	1,046,364	152,497	2,709,734	1,335,362	144,244	773,400	6,161,601
Depreciation and amortisation for the year	104,606	18,677	226,028	143,779	14,635	447,668	955,393
Disposals/write-offs	(196,809)	(34,992)	(43,828)	(108,860)	(26,953)	(1,383)	(412,825)
Balance at 31 December 2021	**954,161**	**136,182**	**2,891,934**	**1,370,281**	**131,926**	**1,219,685**	**6,704,169**
Carrying amount							
At 31 December 2021	**2,932,911**	**355,277**	**522,211**	**584,223**	**92,145**	**793,591**	**5,280,358**

19 Leases

The Bank leases assets such as head office, branches and other spaces, which typically run for a period of 5 to 10 years. Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2022 AMD'000	2021 AMD'000
Balance at 1 January	2,917,337	3,832,676
Additions to right of use assets	789,362	165,992
Depreciation charge for the period	(466,592)	(523,105)
Lease contract modifications and derecognitions	(118,679)	(558,226)
Balance at 31 December	**3,121,428**	**2,917,337**

(b) Lease liability

	2022 AMD'000	2021 AMD'000
Less than one year	701,188	67,082
One to two years	654,050	723,763
Two to five years	1,555,064	2,875,827
More than five years	803,914	1,440,000
Total undiscounted lease payable	**3,714,216**	**5,106,672**
Unearned finance cost	(412,193)	(1,575,587)
Lease liability	**3,302,023**	**3,531,085**

(c) Amounts recognised in profit and loss

	2022 AMD'000	2021 AMD'000
Depreciation of right of use asset	(466,592)	(523,105)
Interest on lease liabilities	(296,574)	(298,553)
Expenses relating to short-term leases	(60,023)	(68,086)

(d) Amounts recognized in the statement of cash flows

	2022 AMD'000	2021 AMD'000
Total cash outflow for leases		
Payment on lease liabilities	1,192,289	367,106

20 Other assets

	2022 AMD'000	2021 AMD'000
Receivables under money transfer systems	1,149,114	990,314
Other receivables	326,274	260,530
Credit loss allowance	(30,614)	(26,052)
Total net other financial assets	**1,444,774**	**1,224,792**
Prepayments	724,539	863,672
Materials and supplies	70,527	34,392
Precious metals	46,360	523,069
Other	131,783	143,990
Total other non-financial assets	**973,209**	**1,565,123**
Total other assets	**2,417,983**	**2,789,915**

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

AMD'000	**2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	(26,052)	-	-	(26,052)
Assets repaid	26,052	-	-	26,052
New assets originated or purchased	(30,614)	-	-	(30,614)
Balance at 31 December	**(30,614)**	**-**	**-**	**(30,614)**

AMD'000	**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortised cost				
Balance at 1 January	(25,127)	-	-	(25,127)
Assets repaid	25,127	-	-	25,127
New assets originated or purchased	(26,052)	-	-	(26,052)
Balance at 31 December	**(26,052)**	**-**	**-**	**(26,052)**

21 Deposits and balances from banks and other financial institutions

	2022 AMD'000	2021 AMD'000
Loans from the CBA through international programs	3,710,323	1,502,213
Loans from commercial banks	848,168	3,139,596
Loro accounts	748,595	187
	5,307,086	**4,641,996**

As at 31 December 2022 the Bank has no banks and other financial institutions (2021: no bank and other financial institution), whose balances exceed 10% of equity.

22 Debt securities issued

	2022 AMD'000	2021 AMD'000
Debt securities issued	**5,487,085**	**12,998,487**

During 2022 the Bank issued bonds with nominal amount of USD 8,000,000 (2021: nil).

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

'000 AMD	**2022 AMD'000**	**2021 AMD'000**
Balance at 1 January	12,998,487	15,165,242
Changes from financing cash flows		
Proceeds from debt securities issued	3,554,180	-
Repayment of debt securities issued	(9,870,300)	(1,000,000)
Total changes from financing cash flows	**(6,316,120)**	**(1,000,000)**
The effect of changes in foreign exchange rates	**(1,129,951)**	**(1,275,008)**
Other changes		
Interest expense	357,069	790,271
Interest paid (operating cash flows)	(422,400)	(682,018)
Balance at 31 December	**5,487,085**	**12,998,487**

23 Other borrowed funds and subordinated borrowings

	2022 AMD'000	**2021 AMD'000**
Borrowings from international financial institutions	45,562,712	58,156,053
Borrowings from Armenian financial institutions	9,462,117	9,592,470
	55,024,829	**67,748,523**
	-	-
Subordinated borrowings	1,622,546	1,979,440
	1,622,546	**1,979,440**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2022, the Bank has five loans from financial institutions (31 December 2021: six), which balances exceed 10% of equity. The balance is AMD 41,592,442 thousand (2021: AMD 50,458,898 thousand).

(b) Subordinated borrowing

As at 31 December 2022 and 2021 subordinated borrowings represents single borrowing received from individual shareholder maturing on 13 January 2025.

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

(c) Covenants

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

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

'000 AMD	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2022	**67,748,523**	**1,979,440**
Changes from financing cash flows		
Proceeds	14,424,285	-
Repayments	(16,543,695)	-
Total changes from financing cash flows	**(2,119,410)**	**-**
The effect of changes in foreign exchange rates	**(10,674,844)**	**(356,497)**
Other changes		
Interest expense	3,664,842	116,120
Interest paid	(3,594,282)	(116,517)
Balance at 31 December 2022	**55,024,829**	**1,622,546**

'000 AMD	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2021		
Changes from financing cash flows	77,563,907	2,154,443
Proceeds	23,446,061	-
Repayment	(27,206,443)	-
Total changes from financing cash flows	**(3,760,382)**	-
The effect of changes in foreign exchange rates	(6,211,290)	(187,907)
Other changes		
Interest expense	4,223,580	134,244
Interest paid	(4,067,292)	(121,340)
Balance at 31 December 2021	**67,748,523**	**1,979,440**

24 Current accounts and deposits from customers

	2022 AMD'000	2021 AMD'000
Current accounts and demand deposits		
- Retail	55,683,469	21,846,905
- Corporate	86,052,290	31,499,928
Term deposits		
- Retail	70,489,565	59,224,381
- Corporate	17,187,862	12,195,561
	229,413,186	**124,766,775**

As at 31 December 2022, the Bank maintained customer current accounts and deposit balances that serve as collateral for loans and credit related commitments granted by the Bank amounting to AMD 3,821,634 thousand (2021: AMD 1,833,918 thousand).

As of 31 December 2022, the Bank has five customers or groups of related customers (31 December 2021: two), whose account and deposit balances exceed 10% of the Bank's equity. These balances as at 31 December 2022 are AMD 42,027,121 thousand (31 December 2021 AMD: 13,848,372 thousand).

25 Other liabilities

	2022 AMD'000	2021 AMD'000
Payables to suppliers	193,635	349,093
Payables to deposit guarantee fund	56,588	36,345
Other financial liabilities	777,085	855,206
Total other financial liabilities	**1,027,308**	**1,240,644**
Payables to employees	1,193,604	974,388
Taxes payable other than on income	238,926	162,015
Total other non-financial liabilities	**1,432,530**	**1,136,403**
Total other liabilities	**2,459,838**	**2,377,047**

26 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2022 the authorized, issued and outstanding share capital comprises 1,873,345 ordinary shares (2021: 1,760,731 ordinary shares). All shares have a nominal value of AMD 5,000 thousand (2021: AMD 5,000 thousand) and are fully paid.

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

(b) Nature and purpose of reserves

Fair value reserve for investment securities

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank excluding non-distributable reserves, which are determined according to legislation of the Republic of Armenia. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

In 2022, the bank declared and fully paid dividends totalling to AMD 3,000,000 thousand on ordinary shares (AMD 1,704 thousand per share). No dividends were declared in 2021.

(d) Earnings per share

The calculation of basic earnings per share at 31 December 2022 was based on the profit attributable to ordinary shareholders of AMD 13,171,539 thousand (2021: AMD 2,262,716 thousand (restated)), and a weighted-average number of ordinary shares outstanding of 1,788,885 (2021: 1,760,731), calculated as shown below. The Bank has no dilutive potential ordinary shares.

	2022	**2021**
		Restated
Issued shares at 1 January	1,760,731	1,760,731
Effect of shares issued in September	28,154	-
Weighted average number of shares for the year ended 31 December	**1,788,885**	**1,760,731**
Earnings per share – basic in AMD '000	**7.36**	**1.29**
Earnings per share – diluted in AMD '000	**7.36**	**1.29**

27 Risk management

(a) Risk management policies and procedures

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

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

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

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

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

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

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

(b) Credit risk

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

The credit policy establishes:

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

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

Credit risk – Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination but there is no evidence of credit impairment, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances, such as more than 90 days overdue status in other financial institutions, borrower has more than 30 days past due after loan has been restructured, significant deterioration in financial position, etc. that may indicate unlikeliness to pay, based on management's judgment. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

PD estimation process

Treasury and interbank relationships

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

Loans to customers

PDs for loans to customers are based on historic information and are calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring between overdue categories from the total number at the beginning of the period. In calculation of PDs the Bank considers forward looking macroeconomic parameters that had material impact on the probability of default.

Overdue days are primary input into the determination of the term structure of PD for collectively assessed exposures in Markov's model of transition matrices. Transition matrices are constructed using historical data over the past 12 months.

For loans to customers assigned to Stage 1 and Stage 2, where ECL are assessed collectively, the following average PDs are applied.

	12-month PD	Lifetime PD
Loans to corporate clients		
– not overdue	0.45% - 0.54%	61.25% - 65.32%
– overdue less than 30 days	30.53% - 34.38%	61.25% - 65.32%
– overdue 30-89 days		65.32% - 84.24%
Loans to retail clients		
– not overdue	0.47% - 4.80%	34.19% - 81.72%
– overdue less than 30 days	10.04% - 33.31%	34.19% - 81.72%
– overdue 30-89 days		34.19% - 86.13%

Exposure at default

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

Loss given default

The Bank calculates LDG individually considering expected cash, including cash flows from realisation of collateral.

To arrive to individually assessed LGD, the Bank applies the following assumptions:

- haircut of 30% is applied on immovable collateral and 40% is applied on movable collateral;
- the period of collateral realization is estimated 36 months.

Significant increase in credit risk

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition.

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

- qualitative indicators; and
- backstop of 30 days past due.

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

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

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs The Bank incorporates in ECL model the economic indicators which have high correlation with the portfolio's historical default rates such as:

- Gross domestic product (GDP);
- received net current money transfers;
- unemployment rate;
- USD/AMD exchange rate;
- net export;
- consumer price index;
- real estate prices, etc.

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

	2022 AMD'000	2021 AMD'000	External benchmarks used	
	Exposure	Exposure	PD	LGD
Cash and cash equivalent	66,948,754	33,619,427	Moody's default studies	Moody's default studies
Investment securities measured at FVOCI	42,426,936	32,972,492	Moody's default studies	Moody's default studies
Investment securities measured at amortised cost	9,043,042	13,952,819	Moody's default studies	Moody's default studies
Loans and advances to banks and other financial institutions	33,401,792	9,499,093	Moody's default studies	Moody's default studies
Amounts receivable under reverse repurchase agreements	7,875,241	6,592,620	Moody's default studies	Moody's default studies
Other financial assets	1,475,388	1,250,844	Moody's default studies	Moody's default studies

Concentrations of credit risk

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

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 29.

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Amounts receivable under reverse repurchase agreements	7,875,241	-	7,875,241	(7,875,241)	-	-
Total financial assets	**7,875,241**	**-**	**7,875,241**	**(7,875,241)**	**-**	**-**
Amounts payable under repurchase agreements	-	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Amounts receivable under reverse repurchase agreements	6,592,620	-	6,592,620	(6,592,620)	-	-
Total financial assets	**6,592,620**	**-**	**6,592,620**	**(6,592,620)**	-	-
Amounts payable under repurchase agreements	(12,008,019)	-	(12,008,019)	(12,008,019)	-	-
Total financial liabilities	**(12,008,019)**	-	**(12,008,019)**	**12,008,019**	-	**-**

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

(c) Market risk

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

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2022							
ASSETS							
Cash and cash equivalents	7,305,117	-	-	-	-	78,191,557	85,496,674
Derivative financial assets	2,068	-	-	-	-	-	2,068
Investment securities measured at fair value through other comprehensive income	2,554,880	6,443,978	3,671,299	23,539,676	6,106,655	110,448	42,426,936
Investment securities measured at amortised cost	157,882	1,230,668	497,117	5,582,879	1,562,953	-	9,031,499
Loans and advances to banks and other financial institutions	10,440,014	420,966	167000	430,865	567,601	21,303,692	33,330,138
Amounts receivable under reverse repurchase agreements	7,875,241	-	-	-	-	-	7,875,241
Loans to customers	17,119,385	13,293,356	18,803,117	93,341,370	23,888,376	-	166,445,604
	45,454,587	**21,388,968**	**23,138,533**	**122,894,790**	**32,125,585**	**99,605,697**	**344,608,160**
LIABILITIES							
Deposits and balances from banks and other financial institutions	1,597,710	311,897	520,039	2,877,440	-	-	5,307,086
Other borrowed funds and subordinated liabilities	3,796,212	3,875,174	8,732,217	36,456,318	3,787,454	-	56,647,375
Debt securities issued	61,353	67,596	1,217,588	4,140,548	-	-	5,487,085
Current accounts and deposits from customers	8,794,275	8,049,345	26,657,430	44,418,167	93,030	141,400,939	229,413,186
Lease liability	125,126	92,503	277,510	2,627,103	179,781	-	3,302,023
	14,374,676	**12,396,515**	**37,404,784**	**90,519,576**	**4,060,265**	**141,400,939**	**300,156,755**
	31,079,911	**8,992,453**	**(14,266,251)**	**32,375,214**	**28,065,320**	**(41,795,242)**	**44,451,405**

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2021							
ASSETS							
Cash and cash equivalents	4,309,385	-	-	-	-	39,106,346	43,415,731
Derivative financial assets	2,733	-	-	-	-	-	2,733
Investment securities measured at fair value through other comprehensive income	1,962,940	4,564,240	1,958,675	16,043,605	8,332,065	110,967	32,972,492
Investment securities measured at amortised cost	108,609	2,886,089	1,508,598	6,817,895	2,539,055	-	13,860,246
Loans and advances to banks and other financial institutions	760,489	-	1,065,180	496,190	843,842	6,217,352	9,383,053
Amounts receivable under reverse repurchase agreements	6,592,620	-	-	-	-	-	6,592,620
Loans to customers	19,478,333	15,235,699	19,875,349	73,692,099	22,971,820	-	151,253,300
	33,215,109	**22,686,028**	**24,407,802**	**97,049,789**	**34,686,782**	**45,434,665**	**257,480,175**
LIABILITIES							
Current accounts and deposits from customers	2,474,654	506,210	3,036,368	65,684,628	75,898	52,989,017	124,766,775
Other borrowed funds and subordinated liabilities	3,495,702	3,746,373	13,194,552	45,066,272	4,225,064	-	69,727,963
Debt securities issued	4,117,307	3,095,347	1,091,715	4,694,118	-	-	12,998,487
Deposits and balances from banks and other financial institutions	946,991	1,345,427	1,094,592	1,254,589	-	-	4,641,599
Amounts payable under repurchase agreements	12,008,019	-	-	-	-	-	12,008,019
Lease liability	156,630	86,807	260,422	1,777,571	1,249,655		3,531,085
	23,199,303	**8,780,164**	**18,677,649**	**118,477,178**	**5,550,617**	**52,989,017**	**227,673,928**
	10,015,806	**13,905,864**	**5,730,153**	**(21,427,389)**	**29,136,165**	**(7,554,352)**	**29,806,247**

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

Average effective interest rates

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

	2022 Average effective interest rate, %			**2021 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	-	-	-	-	-
Investment securities measured at fair value through other comprehensive income	9.72%	4.55%	2.42%	8.91%	4.61%	3.19%
Investment securities measured at amortised cost	7.63%	4.71%	3.96%	7.74%	3.75%	4.04%
Loans and advances to banks and other financial institutions	12.64%	3.20%	6.57%	12.68%	8.37%	7.78%
Amounts receivable under reverse repurchase agreements	11.50%	2.95%	3.00%	8.9%	2.6%	3.0%
Loans to customers	13.6%	9.5%	7.1%	14.6%	9.86%	6.58%
Interest bearing liabilities						
Other borrowed funds and subordinated liabilities	7.14%	7.06%	5.14%	7.63%	5.52%	4.99%
Deposits and balances from banks and other financial institutions	6.80%	4.45%	-	6.65%	1.25%	0.47%
Current accounts and deposits from customers						
− Term deposits	9.82%	4.38%	2.29%	9.69%	4.66%	2.52%
− Current accounts	0-7%	0-3.5%	0-1.75%	0.10%	0.10%	0.00%
Debt securities issued	-	5.09%	-	-	5.60%	-
Lease liability	9.00%	-	-	9.00%	-	-
Amounts payable under repurchase agreements	-	-	-	-	0.82%	-

Interest rate sensitivity analysis

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

	2022 AMD'000	**2021 AMD'000**
100 bp parallel fall	(239,839)	(154,878)
100 bp parallel rise	(239,839)	154,878

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets measured at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2022 and 2021 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2022 Equity AMD'000	2021 Equity AMD'000
100 bp parallel fall	1,132,917	804,088
100 bp parallel rise	(1,132,917)	(727,965)

(ii) Currency risk

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

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

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	50,177,921	17,953,744	2,352,101	70,483,766
Investment securities measured at fair value through other comprehensive income	7,601,673	496,528	-	1,041,173
Investment securities measured at amortised cost	618,840	422,333	-	30,743,073
Loans and advances to banks and other financial institutions	21,495,800	2,850,413	6,396,860	3,644,275
Amounts receivable under reverse repurchase agreements	3,597,633	46,642	-	87,955,764
Loans to customers	83,163,572	4,792,192	-	536,551
Other financial assets	419,025	29,185	88,341	70,483,766
Total assets	**167,074,464**	**26,591,037**	**8,837,302**	**202,502,803**
LIABILITIES				
Deposits and balances from banks and other financial institutions	1,201,086	301,027	-	1,502,113
Other borrowed funds and subordinated liabilities	44,046,790	2,527,514	-	46,574,304
Debt securities issued	5,487,085	-	-	145,301,721
Current accounts and deposits from customers	114,687,874	23,831,455	6,782,392	419,567
Other financial liabilities	330,478	66,940	22,149	46,574,304
Total liabilities	**165,753,313**	**26,726,936**	**6,804,541**	**199,284,790**
Currency swap contracts	2,085,805	23,103	(2,114,700)	(5,792)
Net position	**3,406,956**	**(112,796)**	**(81,939)**	**3,212,221**

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	22,285,957	3,013,697	819,353	26,119,007
Investment securities measured at fair value through other comprehensive income	7,301,852	640,606	-	7,942,458
Investment securities measured at amortised cost	1,212,133	542,619	-	1,754,752
Loans and advances to banks and other financial institutions	6,051,829	611,974	255,653	6,919,456
Amounts receivable under reverse repurchase agreements	1,272,517	110,230	-	1,382,747
Loans to customers	88,083,747	7,082,327	14,558	95,180,632
Other financial assets	556,987	9,918	170,624	737,529
Total assets	**126,765,022**	**12,011,371**	**1,260,188**	**140,036,581**
LIABILITIES				
Deposits and balances from banks and other financial institutions	2,750,791	373,791	-	3,124,582
Other borrowed funds and subordinated liabilities	53,752,619	4,344,312		58,096,931
Debt securities issued	12,998,487	-	-	12,998,487
Current accounts and deposits from customers	54,886,631	7,199,177	685,185	62,770,993
Other financial liabilities	558,650	63,402	169,929	791,981
Total liabilities	**124,947,178**	**11,980,682**	**855,114**	**137,782,974**
Currency swap contracts	827,152	(24,183)	(788,861)	14,108
Net position	**2,644,996**	**6,506**	**(383,787)**	**2,267,715**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2022 and 2021, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2022 AMD'000	2021 AMD'000
10% appreciation of USD against AMD	340,696	264,500
10% appreciation of EUR against AMD	(11,280)	651

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1,277,387	316,537	311,897	557,120	3,432,079	5,895,020	5,307,086
Other borrowed funds and subordinated liabilities	1,942,953	1,896,430	3,832,003	9,340,327	48,544,527	65,556,240	56,647,375
Debt securities issued	38,817	28,780	67,597	1,348,373	4,561,913	6,045,479	5,487,085
Current accounts and deposits from customers	144,053,926	6,206,275	8,232,244	28,219,354	49,965,702	236,677,501	229,413,186
Lease liability	59,814	119,629	176,805	344,938	3,013,029	3,714,215	3,302,023
Other financial liabilities	1,027,308	-	-	-	-	1,027,308	1,027,308
Total financial liabilities	**148,400,204**	**8,567,651**	**12,620,546**	**39,810,112**	**109,517,250**	**318,915,763**	**301,184,063**
Credit related commitments	**17,991,833**	**-**	**-**	**-**	**-**	**17,991,833**	**-**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	324,073	614,513	1,360,831	1,104,592	1,536,583	4,940,592	4,641,996
Other borrowed funds and subordinated liabilities	1,569,858	2,358,248	3,881,430	13,670,217	58,251,621	79,731,374	69,727,963
Amounts payable under repurchase agreements	12,009,668	-	-	-	-	12,009,668	12,008,019
Debt securities issued	2,608,304	2,694,309	3,986,447	1,406,001	6,045,479	16,740,540	12,998,487
Current accounts and deposits from customers	54,616,503	859,428	518,096	3,212,356	74,328,036	133,534,419	124,766,775
Lease liability	67,082	120,627	180,940	422,195	4,315,827	4,315,827	5,106,671
Other financial liabilities	1,240,644	-	-	-	-	1,240,644	1,240,644
Total financial liabilities	**72,428,864**	**6,646,127**	**9,923,609**	**19,738,104**	**143,174,748**	**251,911,454**	**228,685,907**
Credit related commitments	**17,493,283**	**-**	**-**	**-**	**-**	**17,493,283**	**-**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	85,496,674	-	-	-	-	-	-	85,496,674
Derivative financial assets	2,068	-	-	-	-	-	-	2,068
Investment securities measured at fair value through other comprehensive income	168,826	2,386,054	10,115,277	23,539,676	6,106,655	110,448	-	42,426,936
Investment securities measured at amortised cost	90	157,792	1,727,785	5,582,879	1,562,953	-	-	9,031,499
Loans and advances to banks and other financial institutions	10,409,617	30,397	587,966	430,865	567,601	21,303,692	-	33,330,138
Amounts receivable under reverse repurchase agreements	7,662,267	212,974	-	-	-	-	-	7,875,241
Loans to customers	4,136,908	11,646,063	32,096,473	93,341,370	23,888,376	-	1,336,414	166,445,604
Property, equipment and intangible assets	-	-	-	-	-	5,239,001	-	5,239,001
Right of use asset	-	-	-	-	-	3,121,428	-	3,121,428
Repossessed assets	-	-	-	-	-	1,805,492	-	1,805,492
Deferred tax asset	-	-	-	-	-	318,275	-	318,275
Other assets	1,444,774	-	-	-	-	973,209	-	2,417,983
Total assets	**109,321,224**	**14,433,280**	**44,527,501**	**122,894,790**	**32,125,585**	**32,871,545**	**1,336,414**	**357,510,339**
LIABILITIES								
Deposits and balances from banks and other financial institutions	1,283,060	314,650	831,936	2,877,440	-	-	-	5,307,086
Other borrowed funds and subordinated liabilities	1,925,575	1,870,637	12,607,391	36,456,318	3,787,454	-	-	56,647,375
Debt securities issued	35,231	26,122	1,285,184	4,140,548	-	-	-	5,487,085
Current accounts and deposits from customers	144,050,056	6,145,158	34,706,775	44,418,167	93,030	-	-	229,413,186
Lease liability	40,834	84,292	370,013	2,446,505	360,379	-	-	3,302,023
Current tax liabilities	-	-	2,414,567	-	-	-	-	2,414,567
Other liabilities	2,220,912	-	-	-	-	-	238,925	2,459,837
Total liabilities	**149,555,668**	**8,440,859**	**52,215,866**	**90,338,978**	**4,240,863**	**-**	**238,925**	**305,031,159**
Net position	**(40,234,444)**	**5,992,421**	**(7,688,365)**	**32,555,812**	**27,884,722**	**32,871,545**	**1,097,489**	**52,479,180**

* Overdue portion of outstanding overdue loans

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

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	43,415,731	-	-	-	-	-	-	43,415,731
Derivative financial assets	2,733	-	-	-	-	-	-	2,733
Investment securities measured at fair value through other comprehensive income	302,769	1,660,171	6,522,915	16,043,605	8,332,065	110,967	-	32,972,492
Investment securities measured at amortised cost	2,418	106,191	4,394,687	6,817,895	2,539,055	-	-	13,860,246
Loans and advances to banks and other financial institutions	760,489	-	1,065,180	496,190	843,842	6,217,352	-	9,383,053
Amounts receivable under reverse repurchase agreements	6,592,620	-	-	-	-	-	-	6,592,620
Loans to customers	5,319,580	13,020,666	35,111,048	73,692,099	22,971,820	-	1,138,087	151,253,300
Property, equipment and intangible assets	-	-	-	-	-	5,280,358	-	5,280,358
Right of use asset	-	-	-	-	-	2,917,337	-	2,917,337
Goodwill	362,602	-	-	-	-	-	-	362,602
Repossessed assets	-	-	-	-	-	1,884,816	-	1,884,816
Deferred tax asset	-	-	-	-	-	192,189	-	192,189
Other assets	1,224,792	-	-	-	-	1,565,123	-	2,789,915.00
Total assets	**57,621,132**	**14,787,028**	**47,093,830**	**97,049,789**	**34,686,782**	**17,975,953**	**1,138,087**	**270,907,392**
LIABILITIES								
Derivative financial liabilities	397	-	-	-	-	-	-	397
Current accounts and deposits from customers	54,614,789	848,882	3,542,578	65,684,628	75,898	-	-	124,766,775
Other borrowed funds and subordinated liabilities	1,168,057	2,327,645	16,940,925	45,066,272	4,225,064	-	-	69,727,963
Debt securities issued	2,025,263	2,092,044	4,187,062	4,694,118.00	-	-	-	12,998,487
Deposits and balances from banks and other financial institutions	333,746	613,245	2,440,019	1,254,589	-	-	-	4,641,599
Amounts payable under repurchase agreements	12,008,019	-	-	-	-	-	-	12,008,019
Lease liability	40,885	115,744	347,231	1,777,571	1,249,655	-	-	3,531,085
Current tax liabilities	-	-	234,752	-	-	-	-	234,752
Other liabilities	2,215,032	-	-	-	-	162,015.00	-	2,377,047
Total liabilities	**72,406,188**	**5,997,560**	**27,692,567**	**118,477,178**	**5,550,617**	**162,015**	**-**	**230,286,124**
Net position	**(14,785,056)**	**8,789,468**	**19,401,263**	**(21,427,389)**	**29,136,165**	**17,813,938**	**1,138,087**	**40,621,268**

* Overdue portion of outstanding overdue loans

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

28 Capital management

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

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

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

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2022 and 2021, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2022 and 2021.

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

	2022 AMD'000 Unaudited	**2021 AMD'000 Unaudited**
Tier 1 capital	43,454,083	37,087,874
Tier 2 capital	(1,276,309)	591,602
Total capital	**42,177,774**	**37,679,476**
Total risk weighted assets	**281,185,160**	**254,638,774**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.0%**	**14.8%**

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

29 Credit related commitments

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

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

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

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

	2022 AMD'000	2021 AMD'000
Contracted amount		
Credit card commitments	5,560,326	6,040,963
Loan and credit line commitments	7,527,931	9,130,563
Guarantees and letter of credit	4,903,576	2,321,757
	17,991,833	**17,493,283**
Impairment allowance	**(15,903)**	**(4,347)**

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

As at 31 December 2022 and 2021 total financial credit related commitments were allocated to Stage 1. Guarantees and letters of credit are provided to corporate borrowers of the Bank, which had no overdue liabilities to the Bank as at 31 December 2022 and 2021.

Agreements on obligation to provide loans and credit lines provide for the Bank's right to unilaterally withdraw from the agreement in the event of any conditions unfavorable for the Bank.

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

AMD'000	2022			
	Stage 1	Stage 2	Stage 3	Total
Commitments				
Balance at 1 January	4,347	-	-	4,347
Net remeasurement of loss allowance	11,556	-	-	11,556
Balance at 31 December	**15,903**	**-**	**-**	**15,903**

AMD'000	2021			
	Stage 1	Stage 2	Stage 3	Total
Commitments				
Balance at 1 January	27,887	-	-	27,887
Net remeasurement of loss allowance	(23,540)	-	-	(23,540)
Balance at 31 December	**4,347**	**-**	**-**	**4,347**

30 Contingencies

(a) Litigation

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

(b) Taxation contingencies

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

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

31 Related party transactions

(a) Control relationships

The ultimate controlling party of the Bank is businessman Barsegh Beglaryan, who is the shareholder of the Bank and simultaneously the owner of “Flash” LLC. No publicly available financial statements are produced by the Bank’s parent company.

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

Total remuneration included in personnel expenses for the years ended 31 December 2022 and 2021 is as follows:

	2022 AMD’000	**2021 AMD’000**
Members of the Council of the Bank	117,477	102,184
Members of the Management Board	366,733	290,564
	484,210	**392,748**

These amounts include cash and non-cash benefits in respect of members of the Council and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2022 and 2021 for transactions with members of the Council and the Management Board are as follows:

	2022 AMD'000	Average effective interest rate, %	2021 AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans issued (gross)	310,358	9%	362,819	9.16%
Loan impairment allowance	(950)		(3,320)	
LIABILITIES				
Current accounts and deposits from customers				
− Current accounts	167,409		100,031	
− Term deposits	1,898,568	5.84%	935,297	6.28%
Debt securities issued	89,125	5.27%	163,959	5.45%
Commitments	1,582,939		100,777	

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

	2022 AMD'000	2021 AMD'000
Profit or loss		
Interest income	29,668	27,585
Interest expense	(92,617)	(11,215)
Impairment gain net	2,370	551

(c) Transactions with other related parties

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

	Shareholders		Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position							
ASSETS							
Loans to customers	18,371,321	11%	1,863,133	11%	145,982	11%	20,380,436
LIABILITIES							
Subordinated liabilities	1,622,546	7%	-	-	-	-	1,622,546
Current accounts and deposits from customers							
− Current accounts	6,357,466	-	226,884	-	139,934	-	6,724,284
− Term deposits	1,561,007	9%	-	-	58,864	6%	1,619,871
Lease liabilities	88,339	7.9%	2,125,246	7.6%	148,762	7.9%	2,362,347
Debt securities issued	228,516	5%	-	-	3,178	5%	231,694
Profit (loss)							
Interest income	1,603,410		96,669		7,574		1,707,653
Impairment loss, net	(146,398)		(5,944)		217		(152,125)
Interest expense	(266,075)		(170,388)		(11,063)		(447,525)

Loan to shareholder is fully secured by Government bonds of Republic of Armenia with total amount of AMD 18,584,672 thousand and frozen deposit with carrying amount of AMD 1,769,491 thousand.

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

	Shareholders		Entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Loans to customers	-	-	241,960	13%	64,202	11%	306,162
LIABILITIES							
Subordinated liabilities	1,979,440	6.7%	-	-	-	-	1,979,440
Current accounts and deposits from customers							
− Current accounts	3,726,406		63,919		83,985		3,874,310
− Term deposits	1,319,896	9%	-	-	2,537	5%	1,322,433
Lease liabilities	120,035	8%	2,345,111	8%	82,184	8%	2,547,330
Debt securities issued	729,854	5%	-	-	7,202	5%	737,055
Profit (loss)							
Interest income	-		32,456		8,612		41,068
Impairment loss, net	-		212		36		248
Interest expense	(419,908)		(193,902)		(7,611)		(621,421)

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

32 Financial assets and liabilities: fair values and accounting classifications

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

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

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

As at 31 December 2022 and 2021 the Bank had outstanding borrowings from the Central Bank of Armenia denominated in AMD and bearing nominal interest rate of 6.5%-7.5% (Note 23). The loans are considered to be separate market segment loans, therefore the Bank assesses that the loans are received at market rates.

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

2022	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	166,445,604	168,390,796	(1,945,192)
Investment securities measured at amortised cost	9,031,499	8,378,041	653,458
Total	**175,477,103**	**176,768,837**	**(1,291,734)**

2021	**Carrying amount AMD'000**	**Fair value AMD'000**	**Difference AMD'000**
Loans to customers	151,253,300	150,917,440	335,860
Investment securities measured at amortised cost	13,860,246	13,706,299	153,947
Total	**165,113,546**	**164,623,739**	**489,807**

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

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
− Derivative assets	-	2,068	2,068
Investment securities			
− Debt and other fixed income instruments	-	42,426,936	42,426,936
− Equity instruments	-	110,448	110,448

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

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
− Derivative financial assets	-	2,733	2,733
− Derivative financial liabilities	-	(397)	(397)
Investment securities			
− Debt and other fixed income instruments	-	32,972,492	32,972,492
− Equity instruments	-	110,967	110,967

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

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

The following assumptions are used by management to estimate the fair values of loans to customers: discount rates of 7.6%-12.8% for loans denominated in foreign currency and 10.7%-15.4% for loans denominated in Armenian drams, are used for discounting future cash flows from loans to customers.

The following assumptions are used by management to estimate the fair values of investment securities measured at amortised cost – 10.9%-12.0% for securities denominated in AMD and rates of 1.9%-4.6% for securities denominated in foreign currency.