Financial Statements and Independent Auditor's Report

“GLOBAL CREDIT” closed joint-stock company universal credit organization

31 December 2022

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Գրիգոր Լուսավորիչ 9
Հ. + 374 10 260 964
Ֆ.+ 374 10 260 961

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich street
0015 Yerevan, Armenia
T + 374 10 500 964
F + 374 10 500 961

Independent auditor's report

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

Opinion

We have audited the financial statements of "GLOBAL CREDIT" closed joint-stock company universal credit organization (the "Company"), which comprise the statement of financial position as of 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Armen Hovhannisyan

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

31 May 2023

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2022	2021
Interest income calculated using effective interest rate	6	4,179,796	5,489,328
Interest and similar expense	6	(2,277,218)	(2,150,964)
Net interest income		1,902,578	3,338,364
Fee and commission income		7,798	4,821
Fee and commission expense	7	(125,171)	(94,472)
Net fee and commission expense		(117,373)	(89,651)
Net trading gain/(loss)	8	3,607	(43,479)
Net loss on derecognition of financial assets measured at fair value through other comprehensive income		(35,362)	(44,598)
Net gain from foreign currency translation of non-trading assets and liabilities		77,068	172,186
Other income	9	156,893	363,680
Credit loss expense	10	(567,400)	(3,016,598)
Staff costs	11	(598,661)	(580,252)
Other expenses	12	(987,493)	(997,818)
Loss before income tax		(166,143)	(898,166)
Income tax (expense)/recovery	13	36,744	(5,248)
Loss for the year		(129,399)	(903,414)
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value		(1,137,889)	(430,083)
Changes in allowance for expected credit losses		(11,080)	(11,750)
Income tax relating to components of other comprehensive income		204,820	77,415
Net loss on investment securities at FVOCI		(944,149)	(364,418)
Total comprehensive result for the year		(1,073,548)	(1,267,832)

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 59.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2022	31 December 2021
Assets			
Cash	14	77,985	400,375
Amounts due from financial institutions	15	160,041	143,543
Investment securities	16	-	524,431
Securities pledged under repurchase agreements	16	9,889,474	10,813,349
Loans to customers	17	13,093,499	14,827,482
Property and equipment	18	103,338	175,560
Intangible assets	19	875,843	522,242
Deferred income tax assets	13	302,036	60,472
Repossessed assets	20	37,096	31,577
Other assets	21	92,716	40,859
Total assets		24,632,028	27,539,890
Liabilities and equity			
Liabilities			
Loans and borrowings	22	24,161,379	26,963,524
Lease liabilities	23	68,920	127,074
Other liabilities	24	221,463	195,478
Total liabilities		24,451,762	27,286,076
Equity			
Share capital	25	3,000,000	2,000,000
Statutory general reserve		77,328	77,328
Fair value reserve		(1,240,227)	(296,078)
Accumulated loss		(1,656,835)	(1,527,436)
Total equity		180,266	253,814
Total liabilities and equity		24,632,028	27,539,890

The financial statements were signed on 31 May 2023 by:

Luiza Igraryan — Executive Director

Susanna Khachatryan — Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 59.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve for investment securities	Accumulated loss	Total
Balance as of 1 January 2022	2,000,000	77,328	(296,078)	(1,527,436)	253,814
Loss for the year	-	-	-	(129,399)	(129,399)
Other comprehensive income:					
Net change in fair value of investment securities at FVOCI	-	-	(1,160,165)	-	(1,160,165)
Net loss reclassified to profit or loss on sale of investment securities at FVOCI	-	-	22,276	-	22,276
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	(11,080)	-	(11,080)
Income tax relating to components of other comprehensive income	-	-	204,820	-	204,820
Total comprehensive income for the year	-	-	(944,149)	(129,399)	(1,073,548)
Increase in share capital	1,000,000	-	-	-	1,000,000
Total transactions with owners	1,000,000	-	-	-	1,000,000
Balance as of 31 December 2022	3,000,000	77,328	(1,240,227)	(1,656,835)	180,266
Balance as of 1 January 2021	2,000,000	77,328	68,340	(624,022)	1,521,646
Loss for the year	-	-	-	(903,414)	(903,414)
Other comprehensive income:					
Net change in fair value of investment securities at FVOCI	-	-	(458,319)	-	(458,319)
Net loss reclassified to profit or loss on sale of investment securities at FVOCI	-	-	28,236	-	28,236
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	(11,750)	-	(11,750)
Income tax relating to components of other comprehensive income	-	-	77,415	-	77,415
Total comprehensive income for the year	-	-	(364,418)	(903,414)	(1,267,832)
Balance as of 31 December 2021	2,000,000	77,328	(296,078)	(1,527,436)	253,814

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 59.

Statement of cash flows

In thousand Armenian drams

	2022	2021
Cash flows from operating activities		
Interest received	4,435,364	5,466,019
Interest paid	(2,289,690)	(2,090,683)
Fee and commission received	7,798	4,821
Fee and commission paid	(125,171)	(94,472)
Net trading (gain)/loss	3,607	(43,398)
Net loss from Investment securities	(35,362)	(44,598)
Other income	156,842	361,263
Payments of employees	(574,404)	(561,610)
Other expenses	(854,459)	(894,596)
Cash flows from operating activities before changes in operating assets and liabilities	724,525	2,102,746
(Increase)/decrease in operating assets		
Loans to customers	603,711	238,012
Repossessed assets	103	14,397
Other assets	(80,356)	41,708
Increase/(decrease) in operating liabilities		
Other liabilities	(2,947)	39,037
Net cash from operating activities	1,245,036	2,435,900
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(414,413)	(329,945)
Loans to financial institutions	(16,667)	(44,560)
Sale of investment securities	306,303	1,018,704
Net cash (used in)/from investing activities	(124,777)	644,199

Statement of cash flows (continued)

In thousand Armenian drams

	2022	2021
Cash flow from financing activities		
Repayment of bonds issued	-	(990,638)
Loans and borrowings received	4,225,444	13,432,599
Loans and borrowings repayment	(6,567,740)	(15,200,495)
Issue of share capital	1,000,000	-
Repayment of lease liabilities	(66,384)	(66,384)
Net cash used in financing activities	(1,408,680)	(2,824,918)
Net increase/(decrease) in cash	(288,421)	255,181
Cash as at the beginning of the year	400,375	141,701
Effect of changes in allowance for expected credit losses	3,118	(2,543)
Effect of changes in exchange rates on cash	(37,087)	6,036
Cash at the end of the year (note 14)	77,985	400,375

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 59.

Notes to the financial statements

1 Principal activities

“Global Credit” UCO CJSC (the “Company”) was established in 2010 as a result of merging of “Washington Capital” UCO CJSC and “Credit Union” UCO CJSC and is a closed joint stock company. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 26 October 2010 under license N 35, granted by the Central Bank of Armenia (the “CBA”).

The Company’s main activity is the provision of micro- to medium-sized loans to individuals and legal entities in the Republic of Armenia.

The Company’s office is located in Yerevan. The Company does not have branches. The registered office of the Company is located at: Sasna Tsrer 2, area 251, Yerevan, Republic of Armenia.

The number of employees at the end of reporting period was 77 (2021: 89).

2 Armenian business environment

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

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

The Ukraine and Russia are important trading partners of Armenia and Armenian business environment has not been spared from this influence. It is noteworthy that as a result of the war in Armenia, a certain economic activity was observed in 2022 due to the large influx of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022, Armenian banks recorded a significant increase in income from intermediary activities.

Since the hostilities have not yet stopped, it is impossible to reliably assess its final impact on the business environment of Armenia.

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2022, did not have a material impact on the financial statements of the Company.

- *Proceeds before intended use (Amendments to IAS 16)*
- *References to the conceptual framework (Amendments to IFRS 3)*
- *Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Bank applies the amendment to financial liabilities of 2022.

3.5 Standards and interpretations not yet applied by the Company

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

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

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

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (IFRS 17 and IFRS 4)*
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Deferred Tax related to Assets and Liabilities from a Single Transaction*.

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

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

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

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

Dividend income

Revenue is recognized when the Company's right to receive the payment is established.

Net trading gain

Net trading gain comprises income and expense related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interests, all income and expenses arising from dividends and foreign exchange differences. Net trading gain also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currencies

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

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI are included in the fair value reserve in equity.

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

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

	31 December 2022	31 December 2021
AMD/1 US Dollar	393.57	480.14
AMD/1 EUR	420.06	542.61

4.3 Taxation

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

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

In making the assessment, the Company considers:

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

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company 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.

Reclassifications

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

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

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 32.1.2.

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

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

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

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

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

The PD, the EAD and the LGD are further explained in note 32.1.2.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position.

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

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.5 Cash

Cash comprise cash on hand and accounts in other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Loans to customers

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

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

4.8 Investment securities

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

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

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

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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 OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.9 Repurchase and reverse repurchase agreements

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

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

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

4.10 Leases

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

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

Measurement and recognition of leases

Company as a lessee

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

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

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

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

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

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

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

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

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

4.11 Property and equipment

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

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

	Useful life (years)	Rate (%)
Computers	3	33.33
Vehicles	8	20
Other property and equipment	1-8	20-100

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

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

4.12 Intangible assets

I Intangible assets include computer software, licences and other. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 13 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.13 Repossessed assets

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

4.14 Borrowings

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

4.15 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Company 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 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

4.16 Provisions

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

4.17 Equity

Share capital

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

Accumulated loss

Accumulated loss Include accumulated loss of current and previous periods.

Dividends

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

Fair value reserve for investments securities at FVOCI

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

5 Critical accounting estimates and judgements

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

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

5.1 Judgements

Classification of financial assets:

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

Establish criteria for calculating ECL

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

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 29).

Useful Life of property and equipment

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

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 28).

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 32.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 27.

6 Interest and similar income and expense

In thousand Armenian drams	2022	2021
Interest income calculated using effective interest rate		
Loans to customers	3,126,780	4,515,937
Investment securities at FVOCI	1,043,810	973,307
Cash	9,206	84
Total interest income	4,179,796	5,489,328
Loans and borrowings	1,293,201	1,335,133
Repurchase transactions	975,787	757,539
Debt securities issued	-	45,258
Lease liabilities	8,230	13,034
Total interest expense	2,277,218	2,150,964
Total interest and similar income	1,902,578	3,338,364

7 Fee and commission income and expense

In thousand Armenian drams	2022	2021
Payment and settlement services	112,001	81,843
Bank transactions	13,170	10,248
Bonds issued	-	2,381
Total fee and commission expense	125,171	94,472

8 Net trading gain/(loss)

In thousand Armenian drams	2022	2021
Net gain/(loss) from trading in foreign currencies	3,607	(5,133)
Net loss from derivative financial instruments	-	(38,346)
Total net trading gain/(loss)	3,607	(43,479)

9 Other income

In thousand Armenian drams	2022	2021
Fines and penalties received	145,239	346,851
Net income from sale of property and equipment	51	2,417
Other income	11,603	14,412
Total other income	156,893	363,680

10 Credit loss expense/(credit loss reversal)

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Cash	14	(3,118)	-	-	(3,118)
Amounts due from other financial institutions	15	168	-	-	168
Investment securities	16	(11,080)	-	-	(11,080)
Loans to customers	17	(94,154)	(29,773)	671,997	548,070
Other assets	21	28,489	-	-	28,489
Financial guarantees	26	4,871	-	-	4,871
Total credit loss expense/(credit loss reversal)		(74,824)	(29,773)	671,997	567,400

					2021
In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
Cash	14	2,543	-	-	2,543
Amounts due from other financial institutions	15	439	-	-	439
Investment securities	16	(11,750)	-	-	(11,750)
Loans to customers	17	(77,200)	51,870	3,060,394	3,035,064
Other assets	21	(6,212)	-	-	(6,212)
Financial guarantees	26	(3,486)	-	-	(3,486)
Total credit loss expense/(credit loss reversal)		(95,666)	51,870	3,060,394	3,016,598

11 Staff costs

In thousand Armenian drams	2022	2021
Compensations of employees, related taxes included	585,031	568,904
Staff training costs	1,988	1,091
Other staff costs	11,642	10,257
Total staff costs	598,661	580,252

12 Other expenses

In thousand Armenian drams	2022	2021
Loan collection service	291,610	322,598
Taxes, other than income tax, and duties	83,466	129,804
Advertising costs	149,597	96,006
Depreciation of property and equipment and amortization of intangible assets	133,034	103,222
Maintenance costs of fixed assets and computer software	104,521	56,450
Lease expenses of short-term and low-value assets	16,821	23,388
Loan provision costs	75,590	96,961
Office supplies	52,829	53,004
Financial mediator fees	19,460	22,610
Consulting and other services	18,840	28,021
Representative expenses	7,485	5,804
Business trip expenses	6,842	3,690
Charity	-	21,000
Other expenses	27,398	35,260
Total other expense	987,493	997,818

13 Income tax expense/(recovery)

In thousand Armenian drams	2022	2021
Adjustments of income tax of previous years	-	14,515
Deferred tax	(36,744)	(9,267)
Total income tax expense/(recovery)	(36,744)	5,248

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

Numerical reconciliation between the tax expenses/(recovery) and accounting loss is provided below:

In thousand Armenian drams	2022	Effective rate (%)	2021	Effective rate (%)
Loss before tax	(166,143)		(898,166)	
Income tax	(29,906)	(18)	(161,670)	(18)
Non-deductible expenses	87,399	53	102,798	11
Foreign exchange gains	(13,872)	(8)	(30,993)	(3)
Adjustments of income tax of previous years	-	-	14,515	2
Impact of unrecognized tax loss	(80,365)	(48)	80,598	9
Income tax expense/(recovery)	(36,744)	(22)	5,248	1

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2021	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2022		
				Net	Deferred tax asset	Deferred tax liability
Investments in securities	89,106	(1,994)	204,820	291,932	291,932	-
Loans to customers	(43,543)	24,321	-	(19,222)	-	(19,222)
Property and equipment	19,760	(29,654)	-	(9,894)	-	(9,894)
Loans and borrowings	(1,979)	2,360	-	381	381	-
Lease liabilities	(22,873)	36,327	-	13,454	13,454	-
Other liabilities	20,001	5,384	-	25,385	25,385	-
Tax losses carried forward	142,845	(80,365)	-	62,480	62,480	-
	203,317	(43,621)	204,820	364,516	393,632	(29,116)
Assessment of tax assets	(142,845)	80,365	-	(62,480)	-	(62,480)
Deferred tax asset/(liability)	60,472	36,744	204,820	302,036	393,632	(91,596)

In thousand Armenian drams	31 December 2020	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2021		
				Net	Deferred tax asset	Deferred tax liability
Investments in securities	13,806	(2,115)	77,415	89,106	89,106	-
Loans to customers	(56,555)	13,012	-	(43,543)	-	(43,543)
Property and equipment	19,734	26	-	19,760	19,760	-
Loans and borrowings	2,136	(4,115)	-	(1,979)	-	(1,979)
Lease liabilities	(16,885)	(5,988)	-	(22,873)	-	(22,873)
Other liabilities	11,554	8,447	-	20,001	20,001	-
Tax losses carried forward	62,247	80,598	-	142,845	-	-
	36,037	89,865	77,415	203,317	128,867	(68,395)
Assessment of tax assets	(62,247)	(80,598)	-	(142,845)	-	-
Deferred tax asset/(liability)	(26,210)	9,267	77,415	60,472	128,867	(68,395)

As of 31 December 2022 deferred tax assets for AMD 62,480 thousand (2021: AMD 142,845 thousand) were not recognized due to uncertainty of their future utilization.

14 Cash

In thousand Armenian drams	31 December 2022	31 December 2021
Cash on hand	-	13,807
Current accounts with the banks	78,773	390,474
	78,773	404,281
Credit loss allowance	(788)	(3,906)
Total cash	77,985	400,375

As of 31 December 2022 the amounts of correspondent accounts in total amount of AMD 54,775 thousand (70%) (2021: AMD 304,532 thousand (78%), two bank) were due from two commercial banks.

In the current accounts, the cash flows are pledged against loans from banks (refer to note 22).

Non-cash transactions performed during 2022 are represented by repayment of AMD 5,570 thousand loans by repossessed collateral (2021: AMD 29,986 thousand).

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

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as of 1 January	3,906	1,363
Net remeasurement of loss allowance	(3,118)	2,543
Balance at 31 December	788	3,906

15 Amounts due from financial institutions

In thousand Armenian drams	31 December 2022	31 December 2021
Amounts due from payment and settlement organizations	161,600	144,811
Other accounts	57	180
	161,657	144,991
Credit loss allowances	(1,616)	(1,448)
Total amounts due from financial institutions	160,041	143,543

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as of 1 January	1,448	1,009
Net remeasurement of loss allowance	168	439
Balance at 31 December	1,616	1,448

16 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2022	31 December 2021
Investment securities measured at FVOCI		
RA state bonds	-	509,431
RA equity instruments	-	15,000
Total investment securities measured at FVOCI	-	524,431
Investment securities measured at FVOCI pledged under repurchase agreements		
RA state bonds	9,889,474	10,813,349
Total investment securities measured at FVOCI pledged under repurchase agreements	9,889,474	10,813,349

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

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as at 1 January	60,351	72,101
Net remeasurement of loss allowance	(11,080)	(11,750)
Balance at 31 December	49,271	60,351

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

All debt securities have fixed coupons.

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

In thousand Armenian drams	31 December 2022		31 December 2021	
	%	Maturity	%	Maturity
RA state bonds	7.9-10.2	2027-2047	7.9-10.2	2027-2047

Equity instruments included in investment securities measured at FVOCI are non-quoted equity securities as follows:

Name	Country of incorporation	% controlled 2022	% controlled 2021	In thousand Armenian drams 2022	In thousand Armenian drams 2021
"Coding Pro" CJSC	Republic of Armenia	-	8.99	-	5,000
"AR MAGIC" CJSC	Republic of Armenia	-	9.99	-	5,000
"Audio Guide" CJSC	Republic of Armenia	-	19.99	-	5,000
				-	15,000

17 Loans and advances to customers

In thousand Armenian drams	31 December 2022			31 December 2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage and house improvement loans	7,446,706	(73,601)	7,373,105	8,031,587	(63,092)	7,968,495
Consumer lending	1,851,953	(271,528)	1,580,425	2,577,135	(777,373)	1,799,762
Auto loans	2,204,233	(669,071)	1,535,162	3,174,223	(1,098,867)	2,075,356
	11,502,892	(1,014,200)	10,488,692	13,782,945	(1,939,332)	11,843,613
Commercial lending						
Agriculture	1,493,795	(43,923)	1,449,872	1,741,834	(87,979)	1,653,855
Trade	278,683	(12,700)	265,983	458,754	(29,936)	428,818
Industry	489,759	(20,842)	468,917	365,444	(9,357)	356,087
Other	434,472	(14,437)	420,035	755,387	(210,278)	545,109
	2,696,709	(91,902)	2,604,807	3,321,419	(337,550)	2,983,869
Total	14,199,601	(1,106,102)	13,093,499	17,104,364	(2,276,882)	14,827,482

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

During the year ended 31 December 2022 the Company obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 5,570 thousand (2021: AMD 29,986 thousand). The Company sells these assets in a short period (refer to note 20).

As of 31 December 2022 the Company's right of demand on loans to customers in the amount of AMD 7,528,255 thousand (2021: 6,913,936 thousand) were pledged as collateral for loans and borrowings from other organizations in the amount of AMD 7,634,796 thousand (2021: AMD 6,859,311 thousand) (refer to note 22).

As of 31 December 2022 the Company has 54 borrowers whose loans exceed 10% of equity in the amount of AMD 2,160,748 thousand (2021: AMD 1,715,618 thousand, 26 borrowers).

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

In thousand Armenian drams	2022			
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	9,404,023	1,293,830	3,085,092	13,782,945
New assets originated	10,355,672	69,545	201,410	10,626,627
Assets repaid	(9,676,924)	(473,327)	(1,102,951)	(11,253,202)
Transfer to Stage 1	350,700	(348,535)	(2,165)	-
Transfer to Stage 2	(176,318)	181,240	(4,922)	-
Transfer to Stage 3	(555,089)	(355,130)	910,219	-
Change in balance of asset from interest and foreign exchange	(13,560)	(9,852)	(2,265)	(25,677)
Net amounts written off during the year	-	-	(1,627,801)	(1,627,801)
Balance as of 31 December	9,688,504	357,771	1,456,617	11,502,892

In thousand Armenian drams	2022			
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	2,242,334	188,461	890,624	3,321,419
New assets originated	2,189,379	250,733	15,526	2,455,638
Assets repaid	(2,349,555)	(6,238)	(334,008)	(2,689,801)
Transfer to Stage 1	196,934	(46,195)	(150,739)	-
Transfer to Stage 2	(159,831)	259,490	(99,659)	-
Transfer to Stage 3	(132,241)	(83,641)	215,882	-
Change in balance of asset from interest and foreign exchange	(188,336)	(10,139)	(101,023)	(299,498)
Net amounts written off during the year	-	-	(91,049)	(91,049)
Balance as of 31 December	1,798,684	552,471	345,554	2,696,709

In thousand Armenian drams	2021			
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	10,396,706	839,581	9,933,968	21,170,255
New assets originated	7,164,708	197,442	195,527	7,557,677
Assets repaid	(6,716,463)	(363,802)	(548,669)	(7,628,934)
Transfer to Stage 1	259,357	(234,397)	(24,960)	-
Transfer to Stage 2	(768,087)	992,139	(224,052)	-
Transfer to Stage 3	(880,361)	(130,001)	1,010,362	-
Change in balance of asset from interest and foreign exchange	(51,837)	(7,132)	(17,006)	(75,975)
Net amounts written off during the year	-	-	(7,240,078)	(7,240,078)
Balance as of 31 December	9,404,023	1,293,830	3,085,092	13,782,945

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	3,252,919	49,278	699,829	4,002,026
New assets originated	2,374,912	1,308	127,435	2,503,655
Assets repaid	(2,385,815)	(99,311)	(197,123)	(2,682,249)
Transfer to Stage 1	32,144	(12,298)	(19,846)	-
Transfer to Stage 2	(238,095)	283,661	(45,566)	-
Transfer to Stage 3	(700,447)	(26,337)	726,784	-
Change in balance of asset from interest and foreign exchange	(93,284)	(7,840)	(37,051)	(138,175)
Net amounts written off during the year	-	-	(363,838)	(363,838)
Balance as of 31 December	2,242,334	188,461	890,624	3,321,419

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

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	330,616	224,416	1,384,300	1,939,332
Transfer to Stage 1	42,977	(41,993)	(984)	-
Transfer to Stage 2	(10,822)	13,312	(2,490)	-
Transfer to Stage 3	(50,562)	(92,201)	142,763	-
Net remeasurement of loss allowance	(212,869)	(58,732)	632,850	361,249
Net remeasurement on loss allowance for financial assets new provided or acquired	233,770	20,594	87,056	341,420
Net amounts written off during the year	-	-	(1,627,801)	(1,627,801)
Balance at 31 December	333,110	65,396	615,694	1,014,200

In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
				2022
Commercial lending				
ECL allowance as at 1 January	44,280	17,985	275,285	337,550
Transfer to Stage 1	116,286	(6,986)	(109,300)	-
Transfer to Stage 2	(8,755)	8,755	-	-
Transfer to Stage 3	(2,466)	(2,458)	4,924	-
Net remeasurement of loss allowance	(130,943)	(9,267)	(48,524)	(188,734)
Net remeasurement on loss allowance for financial assets new provided or acquired	15,888	17,632	615	34,135
Net amounts written off during the year	-	-	(91,049)	(91,049)
Balance at 31 December	34,290	25,661	31,951	91,902

In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
				2021
Mortgage and consumer lending				
ECL allowance as at 1 January	606,948	152,968	5,763,397	6,523,313
Transfer to Stage 1	21,209	(15,265)	(5,944)	-
Transfer to Stage 2	(51,447)	129,907	(78,460)	-
Transfer to Stage 3	(183,187)	(89,098)	272,285	-
Net remeasurement of loss allowance	(303,024)	(30,445)	2,565,779	2,232,310
Net remeasurement on loss allowance for financial assets new provided or acquired	240,117	76,349	107,321	423,787
Net amounts written off during the year	-	-	(7,240,078)	(7,240,078)
Balance at 31 December	330,616	224,416	1,384,300	1,939,332

In thousand Armenian drams	Stage 1	Stage 2	Stage 3	Total
				2021
Commercial lending				
ECL allowance as at 1 January	80,289	19,438	222,694	322,421
Transfer to Stage 1	8,326	(5,769)	(2,557)	-
Transfer to Stage 2	(8,187)	16,842	(8,655)	-
Transfer to Stage 3	(21,855)	(18,492)	40,347	-
Net remeasurement of loss allowance	(36,885)	5,966	331,694	300,775
Net remeasurement on loss allowance for financial assets new provided or acquired	22,592	-	55,600	78,192
Net recoveries during the year	-	-	(363,838)	(363,838)
Balance at 31 December	44,280	17,985	275,285	337,550

Maturity analysis of loans and advances to customers are disclosed in note 31.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 32. Information on related parties is disclosed in note 28.

18 Property and equipment

In thousand Armenian drams	Computer equipment	Right-of-use assets	Vehicles	Office equipment	Total
Cost					
At 1 January 2021	74,194	274,231	7,900	121,096	477,421
Additions	6,888	-	12,325	7,434	26,647
Disposal	-	-	(7,900)	-	(7,900)
At 31 December 2021	81,082	274,231	12,325	128,530	496,168
Additions	8,124	-	-	837	8,961
At 31 December 2022	89,206	274,231	12,325	129,367	505,129
Accumulated depreciation					
At 1 January 2021	55,478	109,632	7,900	73,072	246,082
Expenses for the year	12,964	54,817	692	13,953	82,426
Disposal	-	-	(7,900)	-	(7,900)
At 31 December 2021	68,442	164,449	692	87,025	320,608
Expenses for the year	10,316	54,816	1,540	14,511	81,183
At 31 December 2022	78,758	219,265	2,232	101,536	401,791
Carrying amount					
At 31 December 2022	10,448	54,966	10,093	27,831	103,338
At 31 December 2021	12,640	109,782	11,633	41,505	175,560

Fully depreciated items

As of 31 December 2022 fixed assets included fully depreciated assets in cost amount of AMD 77,769 thousand (2021: AMD 49,972 thousand).

Restrictions on title of fixed assets

As of 31 December 2022 and 2021 the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

19 Intangible assets

In thousand Armenian drams	Investments in intangible assets	Acquired software licenses	Total
Cost			
At 1 January 2021	31,304	228,126	259,430
Additions	-	303,298	303,298
Reclassification	(31,304)	31,304	-
At 31 December 2021	-	562,728	562,728
Additions	405,452	-	405,452
Reclassification	(227,111)	227,111	-
At 31 December 2022	178,341	789,839	968,180
Accumulated amortization			
At 1 January 2021	-	19,690	19,690
Amortisation charge	-	20,796	20,796
At 31 December 2021	-	40,486	40,486
Amortisation charge	-	51,851	51,851
At 31 December 2022	-	92,337	92,337
Carrying amount			
At 31 December 2022	178,341	697,502	875,843
At 31 December 2021	-	522,242	522,242

As of 31 December 2022 and 2021, the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As of 31 December 2022 the intangible asset with a carrying amount of AMD 366,785 thousand is the Cashme mobile application software, which accepts and approves loan applications (2021: AMD 303,177 thousand).

20 Repossessed assets

In thousand Armenian drams

	31 December 2022	31 December 2021
Vehicles	1,879	-
Real estate	35,217	31,577
	37,096	31,577

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

21 Other assets

In thousand Armenian drams	31 December 2022	31 December 2021
Receivables and other proceeds	30,185	6,392
Credit loss allowance	(3,793)	(1,207)
Total other financial assets	26,392	5,185
Prepayments	66,324	35,674
Total non-financial assets	66,324	35,674
Total other assets	92,716	40,859

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

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as of 01 January	1,207	1,233
Net remeasurement on loss allowance for financial assets new provided	3,793	1,207
Net remeasurement of loss allowance	24,696	(7,419)
Net amounts (written-off)/recovered	(25,903)	6,186
Balance at 31 December	3,793	1,207

22 Loans and borrowings

In thousand Armenian drams	31 December 2022	31 December 2021
Loans from the Central Bank of Armenia through international programs	1,885,043	2,129,010
Loans from refinancing credit organizations	5,510,407	5,402,882
Loans from banks under repurchase agreements (Note 16)	9,164,104	9,651,256
Loans from banks and credit lines	6,171,777	7,086,518
Loans from RA Government through international programs	987,354	1,075,899
Borrowings from commercial and non-commercial organizations	442,694	1,136,521
Borrowings from shareholders	-	481,438
Total loans and borrowings	24,161,379	26,963,524

As of 31 December 2022 the Company has loans and borrowings from 13 organizations (2021: 18), whose loans and borrowings balances exceed 10% of equity. The total amount of such loans as of 31 December 2022 is AMD 24,142,612 thousand (2021: AMD 26,924,702 thousand).

The Company's current accounts turnover and the shareholders' guarantees are collateralized for the Company loans and credit lines.

As of 31 December 2022 the Company's right of claim on loans to customers in the amount of AMD 7,634,796 thousand (2021: AMD 6,859,311 thousand) were pledged as collateral for loans and borrowings in the amount of AMD 7,528,255 thousand (2021: AMD 6,913,936 thousand) (refer to note 17).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2021: either).

23 Leases

Lease liabilities

The Company has leases for the head office. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 18).

Leases of for the building and office area are generally limited to a lease term of 5 years. Lease payments are generally fixed.

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

Below is the movement of lease liabilities in the reporting period:

In thousand Armenian drams	31 December 2022	31 December 2021
As of 1 January	127,074	180,424
Accretion of interest	8,230	13,034
Payments	(66,384)	(66,384)
Total lease liabilities as at 31 December	68,920	127,074

In 2022 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 is 9% (2021: either).

The maturity analysis of undiscounted lease liabilities as of 31 December 2022 is presented in note 32.3.

24 Other liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
Payables	83,228	80,764
Due to personnel	86,902	62,645
Subsidized interests	15,014	15,574
Total other financial liabilities	185,144	158,983
ECL for guarantee*	24,936	20,065
Tax payable, other than income tax	11,383	16,430
Total other non-financial liabilities	36,319	36,495
Total other liabilities	221,463	195,478

*Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on loan commitments and financial guarantees refer to note 26.

25 Equity

As of 31 December 2022 the Company's registered and paid-in share capital was AMD 3,000,000 thousand. In accordance with the Company's statues, the share capital consists of 3,000,000 ordinary shares, all of which have a par value of AMD 1,000 each.

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

In thousand Armenian drams	2022		2021	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Eduard Marutyan	1,250,000	41.67	1,000,000	50.0
Arayik Karapetyan	1,149,599	38.32	899,599	44.98
Hayk Gharibyan	600,401	20.01	100,401	5.02
	3,000,000	100	2,000,000	100

As of 31 December 2022, the Company did not possess any of its own shares.

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

In 2022 the Company increased its share capital in amount of AMD 1,000,000. The increase of the Company's share capital was carried out by the shareholders in AMD.

26 Loan commitments and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2022	31 December 2021
Undrawn loan commitments	-	17,002
Guarantees	383,441	363,406
	383,441	380,408

An analysis of changes in the ECLs on loan commitment included in allowances of loans to customers (refer to note 17). The changes in the ECLs on financial guarantees are presented in other liabilities (refer to note 24). An analysis of these changes as follow:

In thousand Armenian drams	2022	2021
	Stage 1	Stage 1
Financial guarantees		
ECL allowance as of 1 January	20,065	23,551
Remeasurement of loss allowances for new guarantees	(21,528)	(2,869)
Net remeasurement of loss allowance	26,399	(617)
Balance as of 31 December	24,936	20,065

27 Contingencies

Tax and legal matters

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

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

According to the requirements of Article 43 of the RA Law "On Joint Stock Companies", if after the end of the second and every subsequent financial year it is found that the value of the Company's net assets is less than the minimum amount of the statutory capital established by law, then the Company is obliged to announce and register the reduction of the statutory capital in the prescribed manner or make a decision on liquidation.

The Company will implement a program of events and will ensure compliance with legal requirements in 2023.

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

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

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company have partial coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

28 Transactions with related parties

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

The Company does not have ultimate controlling party.

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

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

In thousand Armenian drams	2022		2021	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans to customers				
At 1 January	239,170	81,354	201,071	81,808
Issued during the year	348,259	33,410	154,071	41,875
Repaid during the year	(75,160)	(66,240)	(115,972)	(42,329)
At 31 December	512,269	48,524	239,170	81,354
Impairment allowance	(21,187)	(2,550)	(15,274)	(17,323)
Balance at 31 December	491,082	45,974	223,896	64,031
Loans and borrowings				
Loans outstanding at 1 January	481,438	-	524,003	-
Received during the year	16,636	-	85,040	-
Repaid during the year	(498,074)	-	(127,605)	-
Loans outstanding at 31 December	-	-	481,438	-
Guarantees	150,000	-	250,000	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	50,013	7,952	28,300	5,065
Credit loss (expense)/reversal	(5,913)	14,773	(11,961)	(13,961)
Interest expense on borrowings	(5,397)	-	(55,699)	-
Interest expense on lease	(8,230)	-	(13,034)	-
Depreciation charge of right-of-use assets	(54,816)	-	(54,817)	-
Other expenses	(13,016)	-	(15,441)	-
Charity	-	-	(20,000)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2022	2021
Salaries and bonuses	85,652	86,345
Total key management compensation	85,652	86,345

The loans issued to related parties during the year are repayable monthly over 1-12 years and have interest rates of 8.5-18.0% (2021: 8.5-18.0%). The loans advanced are collateralised by real estate and guarantees.

29 Fair value measurement

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

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

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

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

29.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2022				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash	-	77,985	-	77,985	77,985
Amounts due from financial institutions	-	160,041	-	160,041	160,041
Loans to customers	-	13,076,731	-		13,093,499
Other assets	-	26,392	-	26,392	26,392
Financial liabilities					
Loans and borrowings	-	24,161,379	-	24,161,379	24,161,379
Lease liabilities	-	68,920	-	68,920	68,920
Other liabilities	-	185,144	-	185,144	185,144

In thousand Armenian drams	31 December 2021				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash	-	400,375	-	400,375	400,375
Amounts due from financial institutions	-	143,543	-	143,543	143,543
Loans to customers	-	14,824,214	-	14,824,214	14,827,482
Other assets	-	5,185	-	5,185	5,185
Financial liabilities					
Loans and borrowings	-	26,963,524	-	26,963,524	26,963,524
Lease liabilities	-	127,074	-	127,074	127,074
Other liabilities	-	158,983	-	158,983	158,983

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

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

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

Attracted loans and borrowings

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

29.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2022
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities at FVOCI pledged under repurchase agreements	-	9,889,474	-	9,889,474
Total	-	9,889,474	-	9,889,474
Net fair value	-	9,889,474	-	9,889,474

In thousand Armenian drams				31 December 2021
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities at FVOCI including the securities pledged under repurchase agreements	-	11,337,780	-	11,337,780
Total	-	11,337,780	-	11,337,780
Net fair value	-	11,337,780	-	11,337,780

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

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Company uses the closing price at the reporting date.

Normally, the derivatives entered into by the Company are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Company are included in Level 2 and consist of foreign currency forward contracts.

30 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2022					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (notes 16, 22)	9,164,104	-	9,164,104	(9,889,474)	-	(725,370)
Total financial liabilities	9,164,104	-	9,164,104	(9,889,474)	-	(725,370)

In thousand Armenian drams	31 December 2021					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (Note 16, 22)	9,651,256	-	9,651,256	(10,813,349)	-	(1,162,093)
Total financial liabilities	9,651,256	-	9,651,256	(10,813,349)	-	(1,162,093)

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

- Assets and liabilities resulting from loans under repurchase agreements are measured at amortised cost

31 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 32.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2022						
	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
Assets							
Cash	77,985	-	77,985	-	-	-	77,985
Amounts due from financial institutions	160,041	-	160,041	-	-	-	160,041
Investment securities pledged under repurchase agreements	9,670,642	218,832	*9,889,474*	-	-	-	9,889,474
Loans to customers	1,652,191	2,332,907	*3,985,098*	3,001,688	6,106,713	*9,108,401*	13,093,499
Other assets	26,392	-	*26,392*	-	-	-	26,392
	11,587,251	2,551,739	*14,138,990*	3,001,688	6,106,713	*9,108,401*	23,247,391
Liabilities							
Loans and borrowings	9,175,265	6,417,590	*15,592,855*	2,744,998	5,823,526	*8,568,524*	24,161,379
Lease liabilities	5,067	58,321	*63,388*	5,532	-	*5,532*	68,920
Other liabilities	185,144	-	*185,144*	-	-	-	185,144
	9,365,476	6,475,911	*15,841,387*	2,750,530	5,823,526	*8,574,056*	24,415,443
Net position	2,221,775	(3,924,172)	*(1,702,397)*	251,158	283,187	*534,345*	(1,168,052)
Accumulated gap	2,221,775	(1,702,397)		(1,451,239)	(1,168,052)		

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
Assets							
Cash	400,375	-	400,375	-	-	-	400,375
Amounts due from financial institutions	143,543	-	143,543	-	-	-	143,543
Investment securities	-	-	-	15,000	509,431	*524,431*	524,431
Investment securities pledged under repurchase agreements	10,813,349	-	*10,813,349*	-	-	-	10,813,349
Loans to customers	157,824	1,417,137	*1,574,961*	5,569,951	7,682,570	*13,252,521*	14,827,482
Other assets	5,185	-	*5,185*	-	-	-	5,185
	11,520,276	1,417,137	*12,937,413*	5,584,951	8,192,001	*13,776,952*	26,714,365

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Liabilities							
Loans and borrowings	10,813,252	7,405,776	*18,219,028*	5,802,425	2,942,071	*8,744,496*	26,963,524
Lease liabilities	4,639	53,515	*58,154*	68,920	-	*68,920*	127,074
Other liabilities	158,983	-	*158,983*	-	-	-	158,983
	10,976,874	7,459,291	*18,436,165*	5,871,345	2,942,071	*8,813,416*	27,249,581
Net position	543,402	(6,042,154)	*(5,498,752)*	(286,394)	5,249,930	*4,963,536*	(535,216)
Accumulated gap	543,402	(5,498,752)		(5,785,146)	(535,216)		

32 Risk management

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

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

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

Risk management structure

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

Board of Directors

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

Executive Director

The Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for the risk management in the process of loan provision.

Controller

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

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

32.1 Credit risk

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

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

32.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 32.1.2.

In thousand Armenian drams	31 December 2022			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash (net of cash on hand)				
Standard	78,773	-	-	78,773
Gross carrying amount	78,773	-	-	78,773
Credit loss allowance	(788)	-	-	(788)
Net carrying amount	77,985	-	-	77,985
Amounts due from financial institutions				
Standard	161,657	-	-	161,657
Gross carrying amount	161,657	-	-	161,657
Credit loss allowance	(1,616)	-	-	(1,616)
Net carrying amount	160,041	-	-	160,041

In thousand Armenian drams				31 December 2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer landing				
High grade	9,458,547	-	-	9,458,547
Standard grade	229,957	188,941	-	418,898
Substandard grade	-	168,830	-	168,830
Non-performing grade	-	-	1,456,617	1,456,617
Gross carrying amount	9,688,504	357,771	1,456,617	11,502,892
Credit loss allowance	(333,110)	(65,396)	(615,694)	(1,014,200)
Net carrying amount	9,355,394	292,375	840,923	10,488,692
Commercial landing				
High grade	1,783,058	-	-	1,783,058
Standard grade	15,626	533,613	-	549,239
Substandard grade	-	18,858	-	18,858
Non-performing grade	-	-	345,554	345,554
Gross carrying amount	1,798,684	552,471	345,554	2,696,709
Credit loss allowance	(34,290)	(25,661)	(31,951)	(91,902)
Net carrying amount	1,764,394	526,810	313,603	2,604,807
Investment securities at FVOCI under repurchase agreements				
Standard grade	9,889,474	-	-	9,889,474
Carrying amount (fair value)	9,889,474	-	-	9,889,474
Credit loss allowance	(49,271)	-	-	(49,271)
Other financial assets				
High grade	30,185	-	-	30,185
Gross carrying amount	30,185	-	-	30,185
Credit loss allowance	(3,793)	-	-	(3,793)
Net carrying amount	26,392	-	-	26,392
Loan commitments and financial guarantee				
High grade	383,441	-	-	383,441
	383,441	-	-	383,441
Impairment allowance *	(24,936)	-	-	(24,936)

In thousand Armenian drams				31 December 2021
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash (net of cash on hand)				
Standard	390,474	-	-	390,474
Gross carrying amount	390,474	-	-	390,474
Credit loss allowance	(3,906)	-	-	(3,906)
Net carrying amount	386,568	-	-	386,568
Amounts due from financial institutions				
Standard	144,991	-	-	144,991
Gross carrying amount	144,991	-	-	144,991

In thousand Armenian drams	31 December 2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit loss allowance	(1,448)	-	-	(1,448)
Net carrying amount	143,543	-	-	143,543
Mortgage and consumer landing				
High grade	9,246,340	-	-	9,246,340
Standard grade	157,683	898,730	-	1,056,413
Substandard grade	-	395,100	-	395,100
Non-performing grade	-	-	3,085,092	3,085,092
Gross carrying amount	9,404,023	1,293,830	3,085,092	13,782,945
Credit loss allowance	(330,616)	(224,416)	(1,384,300)	(1,939,332)
Net carrying amount	9,073,407	1,069,414	1,700,792	11,843,613
Commercial landing				
High grade	2,229,781	-	-	2,229,781
Standard grade	12,553	125,568	-	138,121
Substandard grade	-	62,893	-	62,893
Non-performing grade	-	-	890,624	890,624
Gross carrying amount	2,242,334	188,461	890,624	3,321,419
Credit loss allowance	(44,280)	(17,985)	(275,285)	(337,550)
Net carrying amount	2,198,054	170,476	615,339	2,983,869
Investment securities at FVOCI (including pledged securities)				
Standard grade	11,322,780	-	-	11,322,780
Carrying amount (fair value)	11,322,780	-	-	11,322,780
Credit loss allowance	(60,351)	-	-	(60,351)
Other financial assets				
High grade	6,392	-	-	6,392
Gross carrying amount	6,392	-	-	6,392
Credit loss allowance	(1,207)	-	-	(1,207)
Net carrying amount	5,185	-	-	5,185
Loan commitments and financial guarantee				
High grade	380,408	-	-	380,408
	380,408	-	-	380,408
Credit loss allowance *	(20,065)	-	-	(20,065)

*The ECL allowance in these tables includes only ECL on guarantee, because the Company cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

32.1.2 Impairment assessment

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

Significant increase in credit risk

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

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

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

Criteria for Loans and advances to customers

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for Amounts due to financial institutions

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

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

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

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

Credit risk grades

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

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

		2022	**2021**
	Grade	**12 month PD range**	**12 month PD range**
Mortgage and consumer landing	High, Standard	0.44-34.41%	1.40-35.50%
	Substandard	13.42-70.44%	11.90-72.46%
	Non-Performing	73.65-100%	69.20-100%
Commercial landing	High, Standard	3.76-10.53%	5.50-10.60%
	Substandard	4.73-38.70%	5.50-41.00%
	Non-Performing	80.76-100%	73.40-100%

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

		2022	**2021**
International external rating agency (S&P) rating	**Grade**	**12 month PD range**	**12 month PD range**
AAA to A-	High	0.001-0.026%	0.001-0.025%
BBB+ to B-	Standard	0.045-3.231%	0.073-3.472%
CCC+ to CC	Substandard	5.519-27.516%	6.003-31.025%
D	Non-Performing	100%	100%

Collective or individual assessment

Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and inter Company relationships such as Due from Companies, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognized as a result of a credit driven debt restructuring.

The Company groups those assets for which ECL does not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

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

Definition of default and cure

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

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

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

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

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

Forborne and modified loan

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

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

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

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

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

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

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

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

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

Forward looking information

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

- GDP growth
- Net current transfers from abroad
- Unemployment
- Nonperforming loans to total gross loans
- Industry growth
- Agriculture growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

32.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

Loan placements by economy branches are disclosed on note 17.

32.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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

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

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

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

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

In thousand Armenian drams	31 December 2022	31 December 2021
Loans collateralized by real estate	4,359,747	5,051,097

In thousand Armenian drams	31 December 2022	31 December 2021
Loans collateralized by inventories	4,469,520	4,579,995
Loans collateralized by fixed assets	46,879	127,439
Loans collateralized by vehicles	2,387,967	3,484,774
Loans collateralized by guarantees of organizations and individuals	806,363	1,070,716
Unsecured loans	2,112,760	2,587,798
Other collateral	16,365	202,545
Total loans and advances to customers (gross)	14,199,601	17,104,364

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

32.2 Market risk

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

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

32.2.1 Market risk – Non-trading

Interest rate risk

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

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

As of 31 December 2022 and 31 December 2021 the Company has not had financial assets and liabilities with variable interest rate.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effects of the assumed changes in interest rates as of 31 December 2022.

In thousand Armenian drams						2022
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	(11,640)	(11,549)	(81,247)	(406,882)	(511,318)
AMD	-1	12,922	12,787	89,421	439,575	554,705

In thousand Armenian drams	2021

Currency	Change in basis points	Sensitivity of equity				
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	(14,963)	(14,864)	(109,611)	(517,124)	(656,562)
AMD	-1	16,839	16,677	121,679	573,520	728,715

Average effective interest rates

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

	2022			2021		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Investment securities	9.1	-	-	9.2	-	-
Loans to customers	45.5	14.1	-	45.6	17.4	-
Interest bearing liabilities						
Loans from the CBA through international programs	5.6	-	-	5.5	-	-
Loans from refinancing credit organizations	7.3	-	-	7.4	-	-
Loans from banks under repurchase agreements	12.3	-	-	9.4	-	-
Loans from banks and credit lines	12.8	10.5	-	10.2	10.5	-
Loans from RA Government with international programs	6.9	4.1	-	7.2	4.1	-
Borrowings from commercial and non-commercial organizations	5.1	6.2	-	5.2	9.7	-
Borrowings from shareholders	-	-	-	-	11.6	-
Lease liabilities	9	-	-	9	-	-

Currency risk

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

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

In thousand Armenian drams	31 December 2022		31 December 2021	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	923	5	(48,572)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
Assets			
Cash	56,088	21,897	77,985
Amounts due from financial institutions	160,041	-	160,041
Investment securities pledged under repurchase agreements	9,889,474	-	9,889,474
Loans to customers	11,867,165	1,226,334	13,093,499
Other assets	26,392	-	26,392
	21,999,160	1,248,231	23,247,391
Liabilities			
Loans and borrowings	22,931,673	1,229,706	24,161,379
Lease liabilities	68,920	-	68,920
Other liabilities	185,070	74	185,144
Total	23,185,663	1,229,780	24,415,443
Net position as of 31 December 2022	(1,186,503)	18,451	(1,168,052)
Commitments and contingent liabilities as of 31 December 2022	383,441	-	383,441
Total financial assets	24,319,507	2,394,858	26,714,365
Total financial liabilities	23,883,275	3,366,306	27,249,581
Net position as of 31 December 2021	436,232	(971,448)	(535,216)
Commitments and contingent liabilities as of 31 December 2021	380,408	-	380,408

Freely convertible currencies represent mainly US.

32.3 Liquidity risk

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 32 for the expected maturities of these liabilities.

In thousand Armenian drams						31 December 2022
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	9,175,333	6,422,420	3,098,616	7,481,227	26,177,596	24,161,379
Lease liabilities	5,532	60,852	5,532	-	71,916	68,920
Other liabilities	185,144	-	-	-	185,144	185,144
Total undiscounted non-derivative financial liabilities	9,366,009	6,483,272	3,104,148	7,481,227	26,434,656	24,415,443
Commitments and contingent liabilities	-	162,751	220,690	-	383,441	383,441

In thousand Armenian drams						31 December 2021
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	10,822,474	7,782,446	7,170,311	3,243,055	29,018,286	26,963,524
Lease liabilities	5,532	60,852	71,916	-	138,300	127,074
Other liabilities	158,983	-	-	-	158,983	158,983
Total undiscounted non-derivative financial liabilities	10,986,989	7,843,298	7,242,227	3,243,055	29,315,569	27,249,581
Commitments and contingent liabilities	17,002	321,411	41,995	-	380,408	380,408

32.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

33 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams			**31 December 2022**
	Loans and borrowings	**Lease liabilities**	**Total**
Carrying amount as of 1 January 2022	26,963,524	127,074	27,090,598
Proceeds from issue	4,225,444	-	4,225,444
Outflow	(6,567,740)	(66,384)	(6,634,124)
Foreign currency translation	(439,147)	-	(439,147)
Interests accrued	(20,702)	8,230	(12,472)
As of 31 December 2022	24,161,379	68,920	24,230,299

In thousand Armenian drams				**31 December 2021**
	Loans and borrowings	**Debt securities issued**	**Lease liabilities**	**Total**
Carrying amount as of 1 January 2021	29,025,543	1,030,499	180,424	30,236,466
Proceeds from issue	13,432,599	-	-	13,432,599
Outflow	(15,200,495)	(990,638)	(66,384)	(16,257,517)
Foreign currency translation	(341,370)	(39,861)	-	(381,231)
Interests accrued	47,247	-	13,034	60,281
As of 31 December 2021	26,963,524	-	127,074	27,090,598

34 Capital adequacy

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

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

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

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

The Central Bank of Armenia has set for credit organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.