Financial Statements and Independent Auditor's Report

"Premium Credit" UCO CJSC

31 December 2023

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Independent auditor's report

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To the shareholder of "Premium Credit" Universal Credit Organization Closed-Joint Stock Company

Opinion

We have audited the financial statements of "Premium Credit" UCO CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Armen Hovhannisyan	Naira Ulunts
Chief Executive Officer	Engagement Manager

25 June 2024

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2023	2022
Interest income calculated using effective interest rate	6	362,666	296,689
Interest and similar expense	6	(61,133)	(42,732)
Net interest income		301,533	253,957
Fee and commission income	7	-	36
Fee and commission expense	7	(5,733)	(3,050)
Net fee and commission expense		(5,733)	(3,014)
Net gain/(loss) from foreign currency transactions	8	86,368	(22,468)
Other income	9	8,774	14,432
(Credit loss expense)/reversal of credit loss expense	10	43,062	(67,851)
Staff costs		(82,496)	(62,607)
Depreciation of property and equipment and amortization of intangible assets	16	(17,106)	(18,105)
Other expenses	11	(46,001)	(49,886)
Profit before income tax		288,401	44,458
Income tax expense	12	(55,726)	(26,331)
Profit for the year		232,675	18,127
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net change in fair value		11,987	(12,512)
Changes in allowance for expected credit losses		(815)	(168)
Income tax relating to items that will be reclassified		(2,011)	2,282
Net gain/(loss) on financial investments at fair value through other comprehensive income		9,161	(10,398)
Total other comprehensive income for the year, net of tax		9,161	(10,398)
Total comprehensive income for the year		241,836	7,729

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 9 to 52.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Assets			
Cash	13	8,640	49,184
Loans to customers	14	2,230,448	1,361,548
Investment securities	15	17,394	-
Securities pledged under repurchase agreements	15	163,157	267,323
Property, equipment and intangible assets	16	78,694	95,447
Repossessed assets	18	75,258	75,258
Deferred income tax assets	12	2,845	5,444
Other assets	17	4,520	7,938
Total assets		2,580,956	1,862,142
Liabilities and equity			
Liabilities			
Loans from banks and credit organizations	19	908,403	451,246
Current tax liabilities		38,245	4,266
Other liabilities	20	106,190	120,348
Total liabilities		1,052,838	575,860
Equity			
Share capital	21	1,100,000	1,100,000
Statutory general reserve		11,735	10,828
Other reserves		(7,249)	(16,410)
Retained earnings		423,632	191,864
Total equity		1,528,118	1,286,282
Total liabilities and equity		2,580,956	1,862,142

The financial statements were approved on 25 June 2024 by:

Karen Karakhanyan
Chief Executive Officer

Gayane Korekyan
Acting 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 9 to 52.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve for investment securities	Retained earnings	Total
Balance as of 01 January 2023	1,100,000	10,828	(16,410)	191,864	1,286,282
Profit for the year	-	-	-	232,675	232,675
Other comprehensive income:					
Net change in fair value of investment securities at FVOCI	-	-	11,987	-	11,987
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	(815)	-	(815)
Income tax relating to components of other comprehensive income	-	-	(2,011)	-	(2,011)
Total comprehensive income for the year	-	-	9,161	232,675	241,836
Distribution to reserve	-	907	-	(907)	-
Total transactions with owners	-	907	-	(907)	-
Balance as of 31 December 2023	1,100,000	11,735	(7,249)	423,632	1,528,118
Balance as of 1 January 2022	1,100,000	8,490	(6,012)	176,075	1,278,553
Profit for the year	-	-	-	18,127	18,127
Total comprehensive income for the year					
Net change in fair value of investment securities at FVOCI	-	-	(12,512)	-	(12,512)
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	(168)	-	(168)
Income tax relating to components of other comprehensive income	-	-	2,282	-	2,282
Total comprehensive income for the year	-	-	(10,398)	18,127	7,729
Distribution to reserve	-	2,338	-	(2,338)	-
Total transactions with owners	-	2,338	-	(2,338)	-
Balance as of 31 December 2022	1,100,000	10,828	(16,410)	191,864	1,286,282

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 9 to 52.

Statement of cash flows

In thousand Armenian drams

	2023	2022
Cash flows from operating activities		
Profit before income tax	288,401	44,458
Adjustments for		
Amortization and depreciation allowances	17,106	18,105
Credit loss expense/(reversal of credit loss expense)	(43,062)	67,851
Loss from foreign currency translation	4,493	86,004
Interest payable	14,539	14,942
Cash flows from operating activities before changes in operating assets and liabilities	281,477	231,360
(Increase)/decrease in operating assets		
Loans to customers	(831,708)	(570,217)
Other assets	3,418	723
Increase in operating liabilities		
Other liabilities	2,362	4,753
Net cash flow used in operating activities before income tax	(544,451)	(333,381)
Income tax paid	(21,159)	(3,087)
Net cash used in operating activities	(565,610)	(336,468)
Cash flows from investing activities		
(Purchase)/sale of investment securities	98,759	(1,626)
Purchase of property, equipment and intangible assets	(353)	(70)
Net cash (used in)/from investing activities	98,406	(1,696)
Cash flow from financing activities		
Loans and borrowings received	2,783,460	1,858,992
Loans and borrowings repaid	(2,330,247)	(1,476,043)
Payment of lease liabilities	(24,400)	(25,600)
Net cash from financing activities	428,813	357,349
Net increase/(decrease) in cash	(38,391)	19,185
Cash at the beginning of the year	49,184	69,270
Exchange differences on cash	(2,153)	(39,271)
Cash at the end of the year (Note 13)	8,640	49,184
Supplementary information:		
Interest received	(362,666)	296,689
Interest paid	64,572	(42,732)

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 9 to 52.

Notes to the financial statements

1 Principal activities

«Premium Credit» UCO CJSC (the “Company”), is a closed joint stock company, which was incorporated in the Republic of Armenia (RA) on 7 July 2017. The Company is regulated by the legislation of RA and conducts its business under the license number N43, granted on 7 July 2017, by the Central Bank of Armenia (the “CBA”).

The Company provides micro and medium-sized loans to legal entities and sole proprietors for business purposes and to individuals for mortgage, agricultural, consumer purposes.

Its main office is in Yerevan. The registered office of the Company is located at: 1/3 Byuzand street, buildings 1 and 2, Yerevan.

As of 31 December 2023 the number of Company employees was 10 (2022:10 employees).

2 Armenian business environment

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

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

Despite the complex challenges, the Armenian economy has shown and continues to show quite high sustainability due to the effective macroeconomic policy and adequate actions constantly implemented by the Government of Armenia and the Central Bank of Armenia. The rates of economic growth and activity remain high, also due to the large inflow of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022-2023, Armenian banks recorded a significant increase in income from intermediary activities.

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)).
- International Tax Reform-Pillar Two Model Rules (Amendments to IAS 16)
- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.

3.5 Standards and interpretations not yet applied by the Company

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

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

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

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

4 Summary of material accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Fee and commission income

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.

Net trading gain/loss

Net trading gain/loss comprises gains less losses related to income and expenses from foreign exchange differences and net gain and loss from trading of foreign currency is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded at 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 own equity

In the Company's financial statements, all assets, liabilities and transactions of Company entities with a functional currency other than the AMD (the Company's presentation currency) are translated into AMD.

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

	31 December 2023	31 December 2022
AMD/1 US Dollar	404.79	393.57
AMD/1 EUR	447.90	420.06
AMD/1 RUB	4.50	5.59

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognizes loans to customers, deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized 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 of FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

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

Reclassifications

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

Financial liabilities

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

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 of FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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

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.

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

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 27.1.2.

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

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

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

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

The PD, the EAD and the LGD are further explained in note 27.1.2.

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 4.4.4) and ECL are measured as follows.

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

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, bank balances.

Cash are carried at amortised cost.

4.6 Loans to customers

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

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

4.7 Investment securities

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

- debt securities measured at FVOCI; and

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

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

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

4.8 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.

4.9 Leases

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

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

Measurement and recognition of leases

Company as a lessee

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

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

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

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

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

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

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

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

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

4.10 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation.

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 and communication	5	20
Property and office equipment	8	12.5
Other fixed assets	8	12.5

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

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

4.11 Intangible assets

Intangible assets include computer software, licences etc.

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 and in the absence of that period or the impossibility of determining it, over 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.12 Repossessed assets

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company's policy.

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.

4.13 Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

4.14 Loans and borrowings

Loans and borrowings, which include loans from the RA commercial banks and credit organizations, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and 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 Equity

Share capital

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

Statutory general reserve

The statutory general reserve is created in accordance with the requirements of the RA legislation to cover general banking risks, including possible losses and other unforeseen risks and expenses. The reserve has been created in accordance with the statue of the Company, which provides for the creation of a reserve for these purposes in the amount of not less than 15% of the share capital reflected in the accounting books.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Fair value reserve for investments securities at FVOCI

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

5 Critical accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in 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 24).

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.

Impairment of financial instruments

The Company assesses 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 27.1.2), 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 22.

6 Net interest income

In thousand Armenian drams	2023	2022
Interest income calculated using effective interest rate		
Cash	10	30
Loans to customers	344,380	273,533
Investment securities	18,276	23,126
Total interest income	362,666	296,689
Loans from banks and credit organizations	(29,551)	(10,038)
Borrowings from shareholders	(51)	-
Loans under repurchase agreements	(20,431)	(19,055)
Interest expense on lease	(11,100)	(13,639)
Total interest expense	(61,133)	(42,732)
Total net interest income	301,533	253,957

7 Fee and commission income and expense

In thousand Armenian drams	2023	2022
Loans withdrawal	-	36
Total fee and commission income	-	36
Cash operations/Wire transfer fees	(973)	(1,814)
Payment settlement organizations	(4,760)	(1,236)
Total fee and commission expense	(5,733)	(3,050)

8 Net gain/(loss) from foreign currency transactions

In thousand Armenian drams	2023	2022
Net income from trading in foreign currencies	90,861	63,536
Net loss from foreign currency translation	(4,493)	(86,004)
Total net gain/(loss) from foreign currency transactions	86,368	(22,468)

9 Other income

In thousand Armenian drams	2023	2022
Fines and penalties received	7,903	13,728
Other income	871	704
Total other income	8,774	14,432

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

In thousand Armenian drams					2023
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	14	(2,271)	2,859	(42,835)	(42,247)
Investment securities	15	(815)	-	-	(815)
Total credit loss expense/(reversal of credit loss expense)		(3,086)	2,859	(42,835)	(43,062)

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	14	7,384	(2,296)	62,884	67,972
Investment securities	15	(168)	-	-	(168)
Other financial assets	17	47	-	-	47
Total credit loss expense/(reversal of credit loss expense)		7,263	(2,296)	62,884	67,851

11 Other expenses

In thousand Armenian drams	2023	2022
Fixed and intangible assets maintenance	6,818	23,362
Consulting and other services	7,720	6,659
Communications	737	625
Office supplies	6,097	4,094
Expenses for checking the credit worthiness	1,236	705
Taxes, other than income tax, duties	8,549	8,113
Penalties paid	10,000	-
Security	632	689
Representative expenses	1,408	2,383
Financial mediator expenses	1,132	1,048
Other expenses	1,672	2,208
Total other expenses	46,001	49,886

12 Income tax expense

In thousand Armenian drams	2023	2022
Current tax expense	55,138	17,610
Deferred tax	588	8,721
Total income tax expense	55,726	26,331

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

Numerical reconciliation between the tax loss and accounting gain is provided below:

In thousand Armenian drams	2023	Effective rate (%)	2022	Effective rate (%)
Profit before tax	288,401		44,458	
Income tax	51,912	18	8,002	18
Non-deductible expense	3,005	1	2,848	6
Foreign exchange loss	809	-	15,481	35
Total income tax expense	55,726	19	26,331	59

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2022	Recognized in other comprehensive income	Recognized in profit or loss	31 December 2023 Net balance	Deferred tax asset	Deferred tax liability
Loans to customers	2,895	-	986	3,881	3,881	-
Investments in securities	3,842	(2,011)	(147)	1,684	1,684	-
Other liabilities	815	-	178	993	993	-
Lease liabilities	(2,108)	-	(1,605)	(3,713)	-	(3,713)
Deferred tax asset/(liability)	5,444	(2,011)	(588)	2,845	6,558	(3,713)

In thousand Armenian drams	31 December 2021	Recognized in other comprehensive income	Recognized in profit or loss	31 December 2022 Net balance	Deferred tax asset	Deferred tax liability
Cash	(4)	-	4	-	-	-
Loans to customers	6,858	-	(3,963)	2,895	2,895	-
Investments in securities	1,590	2,282	(30)	3,842	3,842	-
Other assets	(7)	-	7	-	-	-
Other liabilities	404	-	411	815	815	-
Lease liabilities	3,042	-	(5,150)	(2,108)	-	(2,108)
Deferred tax asset/(liability)	11,883	2,282	(8,721)	5,444	7,552	(2,108)

13 Cash

In thousand Armenian drams	31 December 2023	31 December 2022
Cash on hand	8,110	14,574
Bank accounts	530	34,610
Total cash	8,640	49,184

The ECLs relating to cash amounts to zero.

As of 31 December 2023 there was no concentration of bank accounts (2022: AMD 32,950 thousand (95.2%) were concentrated in one bank).

14 Loans to customers

In thousand Armenian drams	31 December 2023			31 December 2022		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Gold-secured loans	197,231	(1,216)	196,015	268,218	(3,797)	264,421
Consumer and mortgage lending	1,058,505	(41,536)	1,016,969	657,242	(37,562)	619,680
Total consumer and mortgage loans (including gold-secured loans)	*1,255,736*	*(42,752)*	*1,212,984*	*925,460*	*(41,359)*	*884,101*
Commercial loans	*1,038,760*	*(21,296)*	*1,017,464*	*504,388*	*(26,941)*	*477,447*
Total loans to customers	2,294,496	(64,048)	2,230,448	1,429,848	(68,300)	1,361,548

As of 31 December 2023, the Company had a concentration of loans represented by AMD 1,125,051 thousand due from the ten largest third-party entities and parties related with them (49.0% of gross loan portfolio) (2022: AMD 737,562 thousand due from the ten largest third-party entities and parties related with them (51.6% of gross loan portfolio)). The ECL allowance of AMD 22,245 thousand was made against these loans (2022: AMD 30,776 thousand).

As of 31 December 2023, the right to claim on loans to customers in the amount of AMD 1,007,365 thousand (2022: AMD 204,595 thousand) was pledged by the Company as a security for credit line received from the bank (refer to note 19).

As of 31 December 2023, the right to claim on loans to customers in the amount of AMD 50,897 thousand (2022: AMD 22,100 thousand) was pledged by the Company as a security for loans from credit organizations (refer to note 19).

An analysis of changes in gross carrying amounts in relation to consumer and mortgage lending (including gold-secured loans) and commercial lending are as follows:

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Consumer and mortgage lending (including gold-secured loans)				
Balance as of 1 January	838,074	13,762	73,624	925,460
New assets originated	2,488,085	21,065	10,532	2,519,682
Assets repaid	(2,150,902)	(6,058)	(30,295)	(2,187,255)
Transfer to Stage 1	8,896	(8,896)	-	-
Transfer to Stage 2	(3,451)	3,451	-	-
Transfer to Stage 3	(34,211)	(1,502)	35,713	-
Change in balance of asset from interest and foreign exchange	22,342	13,969	(50,075)	(13,764)
Recoveries	-	-	43,726	43,726
Amounts written off during the year	-	-	(32,113)	(32,113)
Balance as of 31 December	1,168,833	35,791	51,112	1,255,736

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance at of 1 January	477,356	-	27,032	504,388
New assets originated	1,156,818	-	-	1,156,818
Assets repaid	(615,447)	(2,388)	(11,897)	(629,732)
Transfer to Stage 2	(19,208)	19,208	-	-
Transfer to Stage 3	(19,377)	-	19,377	-
Change in balance of asset from interest and foreign exchange	41,460	338	(60,894)	(19,096)
Recoveries	-	-	58,352	58,352
Amounts written off during the year	-	-	(31,970)	(31,970)
Balance as of 31 December	1,021,602	17,158	-	1,038,760

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Consumer and mortgage lending (including gold-secured loans)				
Balance as of 1 January	563,013	57,984	25,196	646,193
New assets originated	1,094,847	14,111	28,099	1,137,057
Assets repaid	(771,321)	(25,329)	(2,073)	(798,723)
Transfer to Stage 1	2,081	(2,081)	-	-
Transfer to Stage 3	(29,692)	(30,193)	59,885	-
Change in balance of asset from interest and foreign exchange	(20,854)	(730)	(469)	(22,053)
Recoveries	-	-	51,246	51,246
Amounts written off during the year	-	-	(88,260)	(88,260)
Balance as of 31 December	838,074	13,762	73,624	925,460

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance at of 1 January	255,078	34,692	41,773	331,543
New assets originated	521,504	-	-	521,504
Assets repaid	(274,129)	-	(16,821)	(290,950)
Transfer to Stage 1	6,597	(6,597)	-	-
Transfer to Stage 3	(13,183)	(24,452)	37,635	-
Change in balance of asset from interest and foreign exchange	(18,511)	(3,643)	(1,197)	(23,351)
Recoveries	-	-	33,864	33,864
Amounts written off during the year	-	-	(68,222)	(68,222)
Balance as of 31 December	477,356	-	27,032	504,388

An analysis of changes in ECL allowances on loans is as follows:

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Consumer and mortgage lending (including gold-secured loans)				
ECL allowance as of 1 January	28,147	2,256	10,956	41,359
Transfer to Stage 1	1,490	(1,490)	-	-
Transfer to Stage 2	(338)	338	-	-
Transfer to Stage 3	(425)	(37)	462	-
Net remeasurement of loss allowance	(24,858)	(831)	(19,389)	(45,078)
Net remeasurement of loss allowances on new originated or acquired financial assets	29,030	2,378	3,450	34,858
Recoveries	-	-	43,726	43,726
Amounts written off during the year	-	-	(32,113)	(32,113)
Balance as of 31 December	33,046	2,614	7,092	42,752

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as at 1 January	26,941	-	-	26,941
Transfer to Stage 3	(514)	-	514	-
Net remeasurement of loss allowance	(24,805)	1,312	(26,896)	(50,389)
Net remeasurement of loss allowances on new originated or acquired financial assets	18,362	-	-	18,362
Recoveries	-	-	58,352	58,352
Amounts written off during the year	-	-	(31,970)	(31,970)
Balance at 31 December	19,984	1,312	-	21,296

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Consumer and mortgage lending (including gold-secured loans)				
ECL allowance as of 1 January	31,540	13,143	9,946	54,629
Transfer to Stage 1	224	(224)	-	-
Transfer to Stage 3	(403)	(8,367)	8,770	-
Net remeasurement of loss allowance	(25,610)	(4,552)	25,131	(5,031)
Net remeasurement of loss allowances on new originated or acquired financial assets	22,396	2,256	4,123	28,775
Recoveries	-	-	51,246	51,246
Amounts written off during the year	-	-	(88,260)	(88,260)
Balance as of 31 December	28,147	2,256	10,956	41,359

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as at 1 January	16,343	728	-	17,071
Transfer to Stage 3	-	(728)	728	-
Net remeasurement of loss allowance	(13,010)	-	33,630	20,620
Net remeasurement of loss allowances on new originated or acquired financial assets	23,608	-	-	23,608
Recoveries	-	-	33,864	33,864
Amounts written off during the year	-	-	(68,222)	(68,222)
Balance at 31 December	26,941	-	-	26,941

At 31 December 2023 and 2022 the estimated fair value of loans to customers approximates it carrying value (refer to note 24).

Maturity analysis of loans to customers are disclosed in note 26.

Credit, currency and interest rate analysis of loans to customers are disclosed in note 27.

The information on related party balances is disclosed in note 23.

15 Investment securities

Debt securities measured at amortised cost

In thousand Armenian drams	31 December 2023	31 December 2022
Investment securities at fair value through other comprehensive income		
RA state bonds	17,394	-
Total investment securities at fair value through other comprehensive income	17,394	-
Investment securities measured at fair value through other comprehensive income pledged under repurchase agreements		
RA state bonds	163,157	267,323
Total investment securities at fair value through other comprehensive income pledged under repurchase agreements	163,157	267,323
Total investment securities at fair value through other comprehensive income including pledged securities	180,551	267,323

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as of 1 January	1,332	1,500
Net remeasurement of loss allowance	(815)	(168)
Balance as of 31 December	517	1,332

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

All debt securities have fixed coupons.

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

In thousand Armenian drams	31 December 2023		31 December 2022	
	%	Maturity	%	Maturity
RA state bonds	7-8	2026-2031	6.5-8	2023-2031

16 Property and equipment and intangible assets

In thousand Armenian drams	Computer and other equipment	Equipment and office supplies	Other fixed assets	Intangible assets	Right-of-use assets (Buildings)	Total
Cost						
At 1 January 2022	3,601	10,430	2,949	8,970	145,433	171,383
Additions	-	-	70	-	-	70
At 31 December 2022	3,601	10,430	3,019	8,970	145,433	171,453
Additions	-	151	202	-	-	353
At 31 December 2023	3,601	10,581	3,221	8,970	145,433	171,806
Accumulated depreciation						
At 1 January 2022	1,955	7,343	393	5,557	42,653	57,901
Expenses for the year	428	1,844	378	959	14,496	18,105
At 31 December 2022	2,383	9,187	771	6,516	57,149	76,006
Expenses for the year	428	1,255	401	527	14,495	17,106
At 31 December 2023	2,811	10,442	1,172	7,043	71,644	93,112
Carrying amount						
At 31 December 2022	1,218	1,243	2,248	2,454	88,284	95,447
At 31 December 2023	790	139	2,049	1,927	73,789	78,694

Right-of-use assets

The Company has leases for the head office. The Company classifies its right-of-use assets in a consistent manner to its property and equipment.

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. 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

Fully depreciated items

As of 31 December 2023 property, equipment and intangible assets include fully depreciated assets at cost of AMD 10,871 thousand (2022: AMD 7,256 thousand).

Restrictions on title of fixed or intangible assets

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

Contractual commitments

As of 31 December 2023 the Company had no contractual commitments in respect of acquisition of property and equipment and intangible assets (2022: either).

17 Other assets

In thousand Armenian drams	31 December 2023	31 December 2022
Debtors and other receivables	1,420	2,589
Total other financial assets	1,420	2,589
Prepayments	-	1,352
Settlements with employees	100	291
Other prepaid taxes	3,000	3,706
Total non-financial assets	3,100	5,349
Total other assets	4,520	7,938

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
Other financial assets		
ECL allowance as at 1 January	-	-
Net remeasurement of loss allowance	-	47
Amounts written-off	-	(47)
Balance at 31 December	-	-

18 Repossessed assets

Details of non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans as of December 31 are shown below:

In thousand Armenian drams	31 December 2023	31 December 2022
Land	16,253	16,253
Real estate	59,005	59,005
Total repossessed assets	75,258	75,258

As of 31 December 2023 the repossessed assets are fully pledged against a loan of AMD 100,000 thousand received from the bank (see Note 19).

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.

19 Loans from banks and credit organizations

In thousand Armenian drams	31 December 2023	31 December 2022
Credit line from the bank	699,924	173,063
Loans from credit organizations	51,179	22,183
Loans from banks under repurchase agreements	157,300	256,000
Total loans from banks and credit organizations	908,403	451,246

As of 31 December 2023 credit line from the bank is secured by the right to claim on loans to customers in the amount of AMD 1,007,365 thousand (2022: AMD 204,595 thousand) (refer to note 14).

As of 31 December 2023 the repossessed assets are fully pledged against a loan of AMD 100,000 thousand received from the bank (see Note 18).

As of 31 December 2023 the loans attracted under repurchase agreements are secured by investment securities at FVOCI in the amount of AMD 163,157 thousand (2022: AMD 267,323 thousand) pledged by the Company (refer to note 15).

As of 31 December 2023 loans from credit organizations are secured by the right to claim on loans to customers in the gross amount of AMD 50,897 thousand (2022: AMD 22,100 thousand) (refer to note 14).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2023 (2022: either).

Information on interest rates on loans from banks and credit organizations is presented in note 27.2.1.

20 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022
Amounts payable	1,367	5,431
Due to personnel	5,518	4,526
Lease liabilities	94,417	107,717
Other financial liabilities	869	-
Total other financial liabilities	102,171	117,674
Tax payable, other than income tax	4,019	2,416
Other liabilities	-	258
Total other non-financial liabilities	4,019	2,674
Total other liabilities	106,190	120,348

Lease liabilities

The Company has leases for the head office. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 16).

Set out below are presented the movements of lease liabilities during the period.

In thousand Armenian drams	31 December 2023	31 December 2022
As of 1 January	107,717	119,678
Accretion of interest	11,100	13,639
Payments	(24,400)	(25,600)
Total lease liabilities as of 31 December	94,417	107,717

In 2023 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 11.2% (2022: 11.2%).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2023 is reflected in note 27.3.

Lease payments not recognised as a liability

As of 31 December 2023 the Company had no lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets (2022: either).

21 Equity

As of 31 December 2023 and 31 December 2022 the Company’s registered and paid-in share capital was AMD 1,100,000 thousand. In accordance with the Company’s statutes, the share capital consists of 220,000 ordinary shares, all of which have a par value of AMD 5,000 each.

As of 31 December 2023 and 2022, 100% of the Company's shares belong to Vardan Kopyan.

Distributable among shareholders reserves equal the amount of accumulated loss, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund.

22 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

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. 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.

23 Transactions with related parties

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

The ultimate controlling party of the Company is Vardan Kopyan.

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	2023		2022	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans to customers				
Loans outstanding at 1 January gross	22,808	5,160	15,836	16,425
Loans issued during the year	25,000	60,521	10,000	8,628
Loan repayments during the year	(14,268)	(53,027)	(3,028)	(19,893)
Loans outstanding at 31 December, gross	33,540	12,654	22,808	5,160
Impairment allowance	(2,626)	(1,224)	(2,298)	(389)
Loans outstanding at 31 December	30,914	11,430	20,510	4,771
Borrowings received				
Borrowings outstanding at 1 January gross	-	-	-	-
Received during the year	18,685	-	-	-
Repaid during the year	(18,685)	-		
Borrowings outstanding at 31 December gross	-	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	2,263	1,705	2,154	2,185
Interest loss on borrowings	(51)	-	-	-
Impairment (loss)/reversal	(328)	(835)	(313)	1,172

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2023	2022
Salaries and bonuses	46,291	41,560
Total key management compensation	46,291	41,560

As of 31 December 2023, loans extended to related parties are repayable within 1-5 years (2022:1-5 years) and the average weighted interest rate for those loans is 16.70% (2022: 16.14%).

24 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).

24.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					31 December 2023
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	8,640	-	8,640	8,640
Loans to customers	-	2,230,448	-	2,230,448	2,230,448
Other financial assets	-	1,420	-	1,420	1,420
Financial liabilities					
Loans from banks and credit organizations	-	908,403	-	908,403	908,403
Lease liabilities	-	94,417	-	94,417	94,417
Other financial liabilities	-	7,754	-	7,754	7,754

In thousand Armenian drams					31 December 2022
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	49,184	-	49,184	49,184
Loans to customers	-	1,361,548	-	1,361,548	1,361,548
Other financial assets	-	2,589	-	2,589	2,589
Financial liabilities					
Loans from banks and credit organizations	-	451,246	-	451,246	451,246
Lease liabilities	-	107,717	-	107,717	107,717
Other financial liabilities	-	9,957	-	9,957	9,957

Loans to customers

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

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

Loans from banks and credit organizations

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

24.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2023
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities pledged under repurchase agreements	-	180,551	-	180,551
Total	-	180,551	-	180,551

In thousand Armenian drams				31 December 2022
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities pledged under repurchase agreements	-	267,323	-	267,323
Total	-	267,323	-	267,323

25 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2023					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Non-cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (note 19)	157,300	-	157,300	(163,157)	-	(5,857)
Total	157,300	-	157,300	(163,157)	-	(5,857)

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 liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Non-cash collateral received	Net
Financial liabilities						
Loans from banks under repurchase agreements (note 19)	256,000	-	256,000	(267,323)	-	(11,323)
Total	256,000	-	256,000	(267,323)	-	(11,323)

26 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. Refer to note 27.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2023						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash	8,640	-	8,640	-	-	-	8,640
Loans to customers	58,847	391,735	450,582	1,715,661	64,205	1,779,866	2,230,448
Investments securities	-	-	-	-	17,394	17,394	17,394
Securities pledged under repurchase agreements	163,157	-	163,157	-	-	-	163,157
Other financial assets	1,420	-	1,420	-	-	-	1,420
	232,064	391,735	623,799	1,715,661	81,599	1,797,260	2,421,059

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2023
Liabilities							
Loans from banks and credit organizations	158,295	157,468	315,763	554,346	38,294	592,640	908,403
Lease liabilities	1,726	13,520	15,246	77,189	1,982	79,171	94,417
Other financial liabilities	2,236	5,518	7,754	-	-	-	7,754
	162,257	176,506	338,763	631,535	40,276	671,811	1,010,574
Net position	69,807	215,229	285,036	1,084,126	41,323	1,125,449	1,410,485
Accumulated gap	69,807	285,036		1,369,162	1,410,485		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2022
Assets							
Cash	49,184	-	49,184	-	-	-	49,184
Loans to customers	61,004	209,833	270,837	1,044,008	46,703	1,090,711	1,361,548
Investment securities pledged under repurchase agreements	267,323	-	267,323	-	-	-	267,323
Other financial assets	2,589	-	2,589	-	-	-	2,589
	380,100	209,833	589,933	1,044,008	46,703	1,090,711	1,680,644
Liabilities							
Loans from banks and credit organizations	257,342	519	257,861	174,499	18,886	193,385	451,246
Lease liabilities	1,687	10,835	12,522	69,395	25,800	95,195	107,717
Other financial liabilities	5,431	4,526	9,957	-	-	-	9,957
	264,460	15,880	280,340	243,894	44,686	288,580	568,920
Net position	115,640	193,953	309,593	800,114	2,017	802,131	1,111,724
Accumulated gap	115,640	309,593		1,109,707	1,111,724		

27 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.

Company's Board

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

Management Board

Is responsible for implementing and maintaining risk related procedures to ensure an independent control process. Is responsible for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Accounting

Accounting is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

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 General Meeting.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a quarterly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Company.

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.

A daily briefing is given to the Management and all other relevant employees of the Company on the utilisation of market limits, liquidity, plus any other risk developments.

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.

27.1 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 Management Board and reported to the Board.

27.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements..

Explanation of internal rating grades is included in note 27.1.2.

In thousand Armenian drams				**31 December 2023**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
High	8,110	-	-	8,110
Standard	530	-	-	530
Net carrying amount	8,640	-	-	8,640
Loans to consumer and mortgage customers (including gold-secured)				
High grade	1,139,718	-	-	1,139,718
Standard grade	29,115	-	-	29,115
Low grade	-	35,791	-	35,791
Non-performing	-	-	51,112	51,112
Gross carrying amount	1,168,833	35,791	51,112	1,255,736
Credit loss allowance	(33,046)	(2,614)	(7,092)	(42,752)
Net carrying amount	1,135,787	33,177	44,020	1,212,984
Commercial lending				
High	1,021,602	-	-	1,021,602
Low	-	17,158	-	17,158
Gross carrying amount	1,021,602	17,158	-	1,038,760
Credit loss allowance	(19,984)	(1,312)	-	(21,296)
Net carrying amount	1,001,618	15,846	-	1,017,464

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Investment securities pledged under repurchase and sale agreements				
Standard	180,551	-	-	180,551
	180,551	-	-	180,551
Credit loss allowance	517	-	-	517
Other financial assets				
Standard	1,420	-	-	1,420
Net carrying amount	1,420	-	-	1,420

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
High	14,574	-	-	14,574
Standard	34,610	-	-	34,610
Net carrying amount	49,184	-	-	49,184
Loans to consumer and mortgage customers (including gold-secured)				
High grade	824,630	-	-	824,630
Standard grade	13,444	1,939	-	15,383
Low grade	-	11,823	-	11,823
Non-performing	-	-	73,624	73,624
Gross carrying amount	838,074	13,762	73,624	925,460
Credit loss allowance	(28,147)	(2,256)	(10,956)	(41,359)
Net carrying amount	809,927	11,506	62,668	884,101
Commercial lending				
High	457,979	-	-	457,979
Standard	19,377	-	-	19,377
Non-performing	-	-	27,032	27,032
Gross carrying amount	477,356	-	27,032	504,388
Credit loss allowance	(26,941)	-	-	(26,941)
Net carrying amount	450,415	-	27,032	477,447
Investment securities pledged under repurchase and sale agreements				
Standard	267,323	-	-	267,323
Credit loss allowance	1,332	-	-	1,332
Other financial assets				
Standard	2,589	-	-	2,589
Net carrying amount	2,589	-	-	2,589

27.1.2 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 material 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 from financial institutions

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- 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 and quantitative (primarily driven by days past due: Not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days – substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

		2023	2022
In thousand Armenian drams	Grade	12 month PD range	12 month PD range
Loans to consumer and mortgage customers (including gold-secured)	Standard	2.43-16.26%	2.92-25.40%
	Substandard	19.83-60.43%	21.73-61.21%
	Non-Performing	95.28-100%	100%
Loans to commercial customers	Standard	-	21.58%
	Substandard	63.99%	66.75%
	Non-Performing	100%	100%

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

International external rating agency (S&P) rating	Grade	2023 12 month PD range	2022 12 month PD range
AAA to A-	Hight	0.001-0.028%	0.001-0.026%
BBB+ to B-	Standard	0.047-2.813%	0.045-3.231%
CCC+ to CC	Low	4.695-21.841%	5.519-27.516%
D	Non-Performing	100%	100%

Collective or individual assessment

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

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as due from banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.
- Those assets for which ECL does not calculated individually the Company groups into segment on the basis of shared credit risk characteristics (mortgage, consumer loans, etc.).

Definition of default and cure

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

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

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

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

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

Forborne and modified loan

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

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

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

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

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

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

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

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Company.

In thousand Armenian drams	2023	2022
Amortised costs of financial assets modified during the period	-	1,939
Net modification loss	-	(382)

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

- GDP growth
- Net current transfers from abroad
- Unemployment
- Company nonperforming loans to total gross loans
- Trade
- Industry (growth rate%)

27.1.3 Risk concentrations

Geographical sectors

Assets are fully located in the territory of Armenia.

27.1.4 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 commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- 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.

Allowance for ECL on loans at the total amount of AMD 700,583 thousand has not been recognized because of collaterals (2022: AMD 481,366 thousand).

Collateral securing financial assets other than loans is determined by the nature of the financial instrument. In general, financial institutions, especially banks, do not require collateral to provide loans or prepayments.

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

In thousand Armenian drams	31 December 2023	31 December 2022
Loans collateralized by real estate	1,531,331	918,481
Loans collateralized by cars	524,007	196,367
Loans collateralized by gold and other items	197,231	271,370
Unsecured loans	41,927	43,630
Total loans to customers (gross)	2,294,496	1,429,848

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.

As of 31 December 2023, the gross carrying amount of credit-impaired loans to customers amounted to AMD 51,112 thousand (2022: 100,656 thousand) and the value of identifiable collateral (mainly commercial properties) held against those loans amounted to AMD 121,329 thousand (2022: AMD 197,789 thousand).

27.2 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. The Company classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

27.2.1 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.

The Company did not possess any financial assets and financial liabilities at floating rate as of 31 December 2023.

The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI as of 31 December 2023 based on the expected changes in the yield curve.

In thousand Armenian drams			2023
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(6,439)
AMD	-1	-	6,822

In thousand Armenian drams	2022		
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(7,117)
AMD	-1	-	7,557

Average effective interest rates

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

	2023		2022	
	Average effective interest rate, %		Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest earning assets				
Loans to customers	23.45	17.03	19.40	16.24
Investment securities	9.48	-	8.83	-
Interest bearing liabilities				
Loans from banks under repurchase agreements	10.25	-	12.17	-
Credit line from the bank	13.31	9.00	14.00	-
Loans from credit organizations	7.94	-	4.59	-

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 has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2023 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 2023			31 December 2022		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+10	24,618	24,618	+10	35,570	35,570
EUR	+10	120	120	+10	295	295
RUB	+10	79	79	+10	1	1

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

In thousand Armenian drams	31 December 2023			
	Armenian Dram	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
Assets				
Cash	7,081	364	1,195	8,640
Loans to customers	1,792,080	438,368	-	2,230,448
Investment securities	17,394	-	-	17,394
Securities pledged under sale and repurchase agreements	163,157	-	-	163,157
Other financial assets	1,420	-	-	1,420
	1,981,132	438,732	1,195	2,421,059
Liabilities				
Loans from banks and credit organizations	716,649	191,754	-	908,403
Other financial liabilities (including lease liabilities)	102,167	4	-	102,171
Total	818,816	191,758	-	1,010,574
Net position as of 31 December 2023	1,162,316	246,974	1,195	1,410,485
As of 31 December 2022				
Total financial assets	1,335,082	342,609	2,953	1,680,644
Total financial liabilities	568,920	-	-	568,920
Net position as of 31 December 2022	766,162	342,609	2,953	1,111,724

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

27.3 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 basis. 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.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2023 based on contractual undiscounted repayment obligations. Refer to note 26 for the expected maturities of these liabilities.

In thousand Armenian drams						31 December 2023
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Liabilities						
Loans from banks and credit organizations	158,646	160,467	567,617	47,593	934,323	908,403
Lease liabilities	2,000	22,000	96,000	2,000	122,000	94,417
Other financial liabilities	2,236	5,518	-	-	7,754	7,754
Total financial liabilities	162,882	187,985	663,617	49,593	1,064,077	1,010,574

In thousand Armenian drams						31 December 2022
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Liabilities						
Loans from banks and credit organizations	260,231	24,477	190,796	21,516	497,020	451,246
Lease liabilities	2,000	22,000	96,000	26,000	146,000	107,717
Other financial liabilities	5,431	4,526	-	-	9,957	9,957
Total financial liabilities	267,662	51,003	286,796	47,516	652,977	568,920

27.4 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 Management Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

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

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Controller. The results of Controller reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

28 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	Loans from banks and credit organizations	Lease liabilities	Total reconciliation of liabilities arising from financing activities
Carrying amount as of 31 December 2021	66,994	119,678	186,672
Proceeds	1,858,992	-	1,858,992
Redemption	(1,476,043)	(25,600)	(1,501,643)
Other	1,303	13,639	14,942
Carrying amount as of 31 December 2022	451,246	107,717	558,963
Proceeds	2,783,460	-	2,783,460
Redemption	(2,231,547)	(24,400)	(2,255,947)
Other	(94,756)	11,100	(83,656)
Carrying amount as of 31 December 2023	908,403	94,417	1,002,820

The "Other" line includes interests on loans and borrowings and lease liabilities and and foreign exchange differences. The Company classifies interest payments as cash flows from operating activities.

29 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 Central Bank of Armenia.

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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

In 2019, the Company's charter was amended to allow the Company to attract loans through public offerings. As a result of these changes, the Company, in accordance with the provisions of the Central Bank of Armenia, must comply with additional regulatory requirements, in particular N 1 "Minimum size of border ration among the amounts of regulatory capital and the risk-weighted assets" and "Maximum risk for one borrower".

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

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

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

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

	Unaudited	
In thousand Armenian drams	31 December 2023	31 December 2022
Tier 1 capital	1,535,730	1,306,442
Risk-weighted assets	2,915,706	2,308,175
Capital adequacy ratio	52.7%	56.6%

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

The Central Bank of Armenia has determined the minimal required regulatory capital at AMD 1,000,000 thousand for credit organizations conducting foreign currency transactions.