ACBA Federation OJSC

International Financial Reporting Standards Consolidated financial statements and Independent Auditor's Report

Contents

Independent Auditor's Report

To the Board and Shareholders of ACBA Federation CJSC

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ACBA Federation CJSC (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Levan Kankava

Responsible Auditor

Nino Kadagishvili

Director

PricewaterhouseCoopers Armenia LLC

30 June 2023

Yerevan, Republic of Armenia

In thousands of Armenian Drams	Note	31 December 2022	31 December 2021 (restated*)	1 January 2021 (restated*)
ASSETS				
Cash and cash equivalents	5	88,369,285	96,447,988	66,398,135
Trading securities	6	-	433,697	319,353
Derivative financial assets	7	363,284	38,625	250,207
Loans and advances to banks	8	50,806,230	19,619,083	57,171,584
Investment securities				
- Held by the Bank	9	17,622,138	23,994,829	17,405,067
- Pledged under sale and repurchase agreements	9	6,019,389	-	-
Loans to customers	10	406,318,797	340,528,365	302,202,232
Receivables from finance leases	11	53,423,221	31,233,067	25,017,394
Investments in associates	35	1,362,224	1,218,677	984,442
Property, equipment and intangible assets and right-of-use assets	12	28,948,668	23,729,559	21,211,192
Other assets	15	16,114,880	10,727,098	5,318,983
Deferred tax assets	13	-	91,722	167,436
Total assets		**669,348,116**	**548,062,710**	**496,446,025**
LIABILITIES				
Derivative financial liabilities		-	-	79,893
Deposits and balances from banks	16	9,937,634	1,070,890	45,717
Current accounts and deposits from customers	17	423,912,324	336,550,246	296,742,238
Debt securities issued	18	6,206,060	5,068,908	8,439,060
Other borrowed funds	19	84,323,152	92,331,761	101,043,374
Current income tax liabilities		4,698,987	1,187,740	126,703
Deferred tax liabilities	13	1,016,530	1,296,678	680,497
Other liabilities	21	18,427,939	13,016,499	10,618,279
Subordinated loans	20	7,805,036	9,794,000	11,130,839
Total liabilities		**556,327,662**	**460,316,722**	**428,906,600**
EQUITY				
Share capital	22	22,312,000	22,312,000	22,312,000
Share-based payment reserve	22	32,738	26,038	-
Revaluation reserve for property and equipment		5,934,032	3,012,381	2,056,843
Revaluation reserve for investment securities		1,492,423	1,749,594	1,658,000
Retained earnings		65,525,389	46,253,940	37,987,127
Total equity attributable to shareholders of the parent		95,296,582	73,353,953	64,013,970
Non-controlling interests		17,723,872	14,392,035	3,525,455
Total equity		**113,020,454**	**87,745,988**	**67,539,425**
TOTAL EQUITY AND LIABILITIES		**669,348,116**	**548,062,710**	**496,446,025**

*See note 3 for details regarding the restatement.

Signed and authorised for release on behalf of the Management of the Company on 30 June 2023.

Harutyun Poghosyan
General Director

Lida Tadeosyan
Chief Accountant

In thousands of Armenian Drams	**Note**	**2022**	**2021 (restated*)**
Interest revenue calculated using effective interest rate	25	51,906,555	45,084,579
Other interest revenue	25	5,852,766	3,524,713
Interest expense	25	(24,243,979)	(21,085,686)
Net interest income		**33,515,342**	**27,523,606**
Reversal of credit loss expense	14	2,290,443	228,883
Net interest income after credit loss expense		**35,805,785**	**27,752,489**
Fee and commission income	26	9,703,458	6,294,559
Fee and commission expense	26	(3,651,739)	(2,510,554)
Net gain on financial instruments at fair value through profit and loss		(115,359)	309,931
Net gain from foreign exchange trading activities		13,516,463	2,919,335
Net loss from foreign exchange translation		(197,117)	(634,753)
Share of profit of associates	35	736,475	579,024
Other income	27	1,447,000	883,620
Non-interest income		**21,439,181**	**7,841,162**
Personnel expenses		(16,804,816)	(14,983,392)
Depreciation and amortization	12	(2,609,599)	(2,497,486)
Other operating expenses	28	(2,446,395)	(2,011,119)
Other general administrative expenses	29	(4,055,894)	(4,023,453)
Charge for other impairment and provisions	30	(3,283,385)	(95,529)
Non-interest expense		**(29,200,089)**	**(23,610,979)**
Profit before income tax expense		**28,044,877**	**11,982,672**
Income tax expense	13	(5,747,221)	(2,758,290)
Profit for the year		**22,297,656**	**9,224,382**
Earnings per share			
Attributable to:			
- Shareholders of the parent		18,619,452	8,358,567
- Non-controlling interests		3,678,204	865,815
Profit for the year		**22,297,656**	**9,224,382**

*See note 3 for details regarding the restatement.

In thousands of Armenian Drams	**Note**	**2022**	**2021 (restated*)**
Profit for the year		**22,297,656**	**9,224,382**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of investment securities at fair value through other comprehensive income		(476,694)	(226,739)
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income		158,454	304,374
Income tax relating to components of other comprehensive income	13	57,283	(13,974)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(260,957)**	**63,661**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings and motor vehicles	12	3,637,000	1,165,549
Losses on equity instruments at fair value through other comprehensive income		(3,104)	(2,495)
Income tax relating to components of other comprehensive income	13	(355,301)	(118,515)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**3,278,595**	**1,044,539**
Not to be reclassified to profit or loss in subsequent periods			
Share of the other comprehensive income of associates		(53,122)	20,686
Income tax relating to components of other comprehensive income	13	9,562	-
Total share of the other comprehensive income of associates		**(43,560)**	**20,686**
Other comprehensive income for the year, net of tax		**2,974,078**	**1,128,886**
Total comprehensive income for the year		**25,271,734**	**10,353,268**
Attributable to:			
- shareholders of the parent		21,380,016	9,328,097
- non-controlling interests		3,891,718	1,025,171
Total comprehensive income for the year		**25,271,734**	**10,353,268**

*See note 3 for details regarding the restatement.

	Attributable to shareholders of the Parent							
In thousands of Armenian Drams	**Share capital**	**Share-based payment reserve**	**Revaluation surplus for property and equipment (restated*)**	**Revaluation reserve for financial assets at FVOCI (restated*)**	**Retained earnings (restated*)**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2021 (restated*)	**22,312,000**	**–**	**2,056,843**	**1,658,000**	**37,987,127**	**64,013,970**	**3,525,455**	**67,539,425**
Total comprehensive income								
Profit for the year	–	–	–	–	8,358,567	**8,358,567**	865,815	**9,224,382**
Other comprehensive income	–	–	964,671	91,594	(86,735)	**969,530**	159,356	**1,128,886**
Total comprehensive income for the year	**–**	**–**	**964,671**	**91,594**	**8,271,832**	**9,328,097**	**1,025,171**	**10,353,268**
Transfer of revaluation surplus to retained earnings due to disposal of fixed assets	–	–	(9,133)	–	9,133	**–**	–	**–**
Transactions with owners, recorded directly in equity								
Decrease in ownership in subsidiary (Note 22)	–	–	–	–	(429,456)	**(429,456)**	7,929,456	**7,500,000**
Dividends to non-controlling interests (Note 22)	–	–	–	–	–	**–**	(125,000)	**(125,000)**
Total transactions with owners	**–**	**–**	**–**	**–**	**(429,456)**	**(429,456)**	**7,804,456**	**7,375,000**
Share-based payments (Note 23)	–	26,038	–	–	415,304	**441,342**	2,036,953	**2,478,295**
Balance as at 31 December 2021 (restated*)	**22,312,000**	**26,038**	**3,012,381**	**1,749,594**	**46,253,940**	**73,353,953**	**14,392,035**	**87,745,988**
Total comprehensive income								
Profit for the year	–	–	–	–	18,619,452	**18,619,452**	3,678,204	**22,297,656**
Other comprehensive income	–	–	3,017,735	(257,171)	–	**2,760,564**	213,514	**2,974,078**
Total comprehensive income for the year	**–**	**–**	**3,017,735**	**(257,171)**	**18,619,452**	**21,380,016**	**3,891,718**	**25,271,734**
Transfer of revaluation surplus to retained earnings due to disposal of fixed assets	–	–	(96,084)	–	96,084	**–**	–	**–**
Transactions with owners, recorded directly in equity								
Increase in ownership in subsidiary	–	–	–	–	33,102	**33,102**	(123,887)	**(90,785)**
Dividends to non-controlling interests (Note 22)	–	–	–	–	–	**–**	(537,421)	**(537,421)**
Total transactions with owners	**–**	**–**	**–**	**–**	**33,102**	**33,102**	**(661,308)**	**(628,206)**
Share-based payments (Note 23)	–	6,700	–	–	522,811	**529,511**	101,427	**630,938**
Balance as at 31 December 2022	**22,312,000**	**32,738**	**5,934,032**	**1,492,423**	**65,525,389**	**95,296,582**	**17,723,872**	**113,020,454**

*See note 3 for details regarding the restatement.

In thousands of Armenian Drams	Note	2022	2021 *(restated*)*
Cash flows from operating activities			
Interest received (calculated using effective interest rate)		49,011,418	44,792,819
Other interest received		6,102,070	3,524,713
Interest paid		(23,471,489)	(20,736,704)
Fees and commissions received		9,703,542	6,429,127
Fees and commissions paid		(3,651,890)	(2,510,553)
Net receipt from financial instruments at fair value through profit or loss		196,839	772,393
Net receipts from foreign exchange	27	13,516,463	2,919,335
Other operating expenses paid		(2,326,498)	(2,426,799)
Other income received		234,183	573,836
Salaries and other payments to employees		(14,548,898)	(11,926,258)
Other general administrative expenses paid		(4,051,492)	(3,946,766)
Cash flows from operating activities before changes in operating assets and liabilities		**30,714,248**	**17,465,143**
Net (increase)/decrease in operating assets			
Trading securities		428,072	(114,344)
Derivative financial assets		(31,083)	-
Loans and advances to banks		(32,847,258)	37,508,706
Loans to customers		(83,168,876)	(38,283,739)
Receivables from finance leases and related assets		(22,270,275)	(12,598,205)
Other assets		(4,683,157)	(389,545)
Net increase/(decrease) in operating liabilities			
Derivative financial liabilities		-	(79,831)
Deposits and balances from banks		8,738,065	1,019,240
Current accounts and deposits from customers		116,651,696	39,447,997
Other liabilities		2,723,820	1,381,367
Net cash flows from operating activities before income tax		**16,255,252**	**45,356,789**
Income tax paid		(2,687,672)	(1,137,847)
Net cash from operating activities		**13,567,580**	**44,218,942**
Cash flows from investing activities			
Purchase of property, equipment		(1,909,837)	(2,025,077)
Purchase of intangible assets		(1,613,821)	-
Proceeds from sale of property, equipment and intangible assets		53,404	103,225
Purchases of investment securities		(6,195,291)	(11,458,482)
Sale and repayment of investment securities		2,944,680	3,824,060
Dividends received		539,806	-
Increase in ownership in subsidiary		(90,785)	-
Net cash from investing activities		**(6,271,844)**	**(9,556,274)**
Cash flows from financing activities			
Decrease in ownership in subsidiary	22	-	7,500,000
Proceeds from debt securities issued	36	2,191,500	3,461,498
Redemption of debt securities issued	36	(789,212)	(6,033,577)
Proceeds from other borrowed funds	36	34,288,004	33,778,000
Repayment of other borrowed funds	36	(37,932,197)	(43,034,045)
Dividends paid to non-controlling interests	22	(537,421)	(125,000)
Net cash used in financing activities		**(2,779,326)**	**(4,453,124)**
Effect of exchange rates changes on cash and cash equivalents		(12,664,004)	(84,277)
Effect of changes in impairment allowance on cash and cash equivalents		68,891	(75,414)
Net increase in cash and cash equivalents		**(8,078,703)**	**30,049,853**
Cash and cash equivalents, beginning		**96,447,988**	**66,398,135**
Cash and cash equivalents, ending	**5**	**88,369,285**	**96,447,988**

*See note 3 for details regarding the restatement.

1 ACBA Federation CJSC and its operations

ACBA Federation CJSC (the “Company”) is the parent company in the Group, which is comprised of the Company
and its subsidiaries ACBA Bank OJSC (the “Bank”) (with ACBA Bank OJSC’s subsidiaries ACBA Leasing Credit Organization CJSC and ACBA Technolab LLC), ACBA Technologies CJSC and ACBA Trade LLC (together the “Group”). It was founded on 6 May 2017 by 10 Rural Mutual Assistance Regional Unions (RMARUs), former shareholders of ACBA Bank OJSC, which are currently shareholders of ACBA Federation CJSC. The RMARUs are NGOs working in the 10 regions of RA which were founded to develop agriculture in the regions. The 10 RMARUs together have 73,949 members. According to type of activities, it is a profit-oriented organization.

The main goal of the Company is to promote the development of agriculture in the whole territory of RA, the development of small and medium enterprises in rural regions, development of communities, enlivening and development of business environment in rural areas and communities.

The Company undertakes programs for introduction of innovative approaches in the agricultural field, finding and implementation of startup initiatives, research of advanced agricultural technologies of the world and their possible implementation in the agriculture of Armenia.

The Bank was formed in 1995 as a cooperative bank with collective ownership under the laws of the Republic of Armenia and reorganized into closed joint stock company in 2006. The Bank operates under a general banking license issued by the Central Bank of Armenia and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan, and it has 63 branches (including Head office) in Yerevan and other regions of Armenia. The Bank’s registered legal address is 82-84 Aram Street, Yerevan, 0002, Armenia.

ACBA Leasing Credit Organization was formed on 30 March 2003 as a closed joint-stock company under the laws of the Republic of Armenia. The company’s principal activities are finance lease operations with corporate and individual customers. The company possesses a credit organization license from the Central Bank of Armenia. The company is a subsidiary of the Group and was consolidated in these financial statements. The Bank owns 100% shares of ACBA Leasing CJSC.

ACBA Federation CJSC owns 83.80% shares of ACBA Bank OJSC.

ACBA Technologies CJSC was founded on 7 September 2021 by ACBA Federation CJSC (51%) and Revolutionary Technologies CJSC (49%). The main types of activities of the company are software development, consulting activities in the field of computer technologies, data processing and etc.

ACBA Trade LLC was founded on 23 May 2022 by ACBA Federation CJSC (100%). The main types of activities of the company are organization of mediated sale of goods in Armenia and also export from Armenia thought online marketplace.

As at 31 December 2022 and 31 December 2021, shareholder of the Group are:

№	Name of the Shareholder	Type of organization	Paid-in share capital	% of paid-in capital
1	Armavir Agricultural Cooperative Regional Union	Non-governmental organization	4,441,000	19.9
2	Ararat Agricultural Cooperative Regional Union	Non-governmental organization	3,878,000	17.4
3	Aragatsotn Agricultural Cooperative Regional Union	Non-governmental organization	2,319,000	10.4
4	Lori Agricultural Cooperative Regional Union	Non-governmental organization	2,081,000	9.3
5	Shirak Agricultural Cooperative Regional Union	Non-governmental organization	2,080,000	9.3
6	Kotayk Agricultural Cooperative Regional Union	Non-governmental organization	1,759,000	7.9
7	Gegharkunik Agricultural Cooperative Regional Union	Non-governmental organization	1,662,000	7.5
8	Tavush Agricultural Cooperative Regional Union	Non-governmental organization	1,499,000	6.7
9	Syunik Agricultural Cooperative Regional Union	Non-governmental organization	1,339,000	6.0
10	Vayots Dzor Agricultural Cooperative Regional Union	Non-governmental organization	1,254,000	5.6
Total			**22,312,000**	**100.00**

The Group has no single controlling party.

2 Basis of preparation

General
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of premises and equipment (land, building and vehicle), financial instruments categorised at fair value through other comprehensive income ("FVOCI"), financial instruments, derivative instruments and trading assets at fair value through profit or loss ("FVTPL"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These consolidated financial statements are presented in thousands of Armenian Drams ("AMD"), except for per share amounts or unless otherwise indicated.

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

Due to the escalation of the Russia and Ukraine conflict, and the sanctions imposed on the Russian Federation, a 10% yearly decline in the Russian economy was predicted for 2022 at the end of the first quarter of 2022 (EIU's March 2022 forecast). As Russian Federation is the largest trade partner of the RA and the country that hires the most labour migrants from the RA, the pessimistic economic developments of Russian Federation were anticipated to have a negative influence on a number of sectors of the RA economy as well as on remittances received from the Russian Federation. On the basis of the aforementioned, it was anticipated that the RA economy's growth would decelerate.

According to the CBA's March Forecast and the EIU's April 2022 Forecast, the yearly growth of RA economy was forecasted to be around 1%. When preparing its PD forecasts and ECL calculations at the end of the 2022 first quarter,

Group considered the above-mentioned observations and expectations. Since the first days of the Russian-Ukrainian conflict ACBA bank adjusted its limits for Russian banks (maximum limits for banks have been reduced).

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

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

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

Estimation uncertainty
To the extent that information is available as at 31 December 2022, the Group has reflected revised estimates of expected future cash flows in its ECL assessment (Note 10, 11), estimation of fair values of financial instruments, property, revaluation of plant and equipment (Note 32).

3 Significant accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The application of the amendments had no significant impact on the Group's consolidated financial statements.

3 Significant accounting policies (continued)

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

3 Significant accounting policies (continued)

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

3 Significant accounting policies (continued)

Loans and advances to banks, loans to customers, investment securities at amortised cost

The Group only measures loans and advances to banks, loans to customers and investment securities at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.
The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

3 Significant accounting policies (continued)

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Advances given for finance leases

The Group treats advances received from lessees and advances given to suppliers as monetary items and recognises financial liabilities and financial assets for them.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Performance guarantees are measured under IFRS 4, which allows to disclose performance guarantees under IFRS 9 if they meet the definition of a financial instrument. IFRS 9 defines a financial instrument as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Performance guarantees may meet this definition if they meet certain criteria, such as being legally enforceable and specifying a payment obligation.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Nostro accounts in banks and amounts due from the CBA, including obligatory reserves in AMD free from contractual encumbrances. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Mandatory cash balances with the CBA.

Mandatory cash balances with the CBA are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated 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. The corresponding liability is presented within amounts due to banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Significant accounting policies (continued)

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts, are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to banks, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Subordinated loans

Subordinated loans can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Debt securities issued

Debt securities in issue include promissory notes, bonds issued by the Group. Debt securities are stated at AC.

Leases

3 Significant accounting policies (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below AMD 2,500 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Operating − Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Finance − Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term.
The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease by applying the rate implicit in the lease to (i) the gross book value of lease receivables in stage 1 and 2 and (ii) net carrying amount of lease receivables in

stage 3 of the ECL model. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within "Other interest revenue" in profit or loss.

3 Significant accounting policies (continued)

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in reverse sale and repurchase agreements, master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate (EIR), the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3. In order for the restructured loan to be reclassified out of Stage 3 the below mentioned conditions should be met:

- Loans with monthly payment schedules, overdue amounts have been fully paid for, 3 consecutive payments of principal and interest in accordance with the modified payment schedule have been made and there are no overdue days exceeding 7 days;
- Loans with flexible payment schedules, overdue amounts have been fully paid, afterwards, regular payments of principal and interest have been made for a minimum 6-month probation period in accordance with the modified payment schedule and there are no overdue days exceeding 7 days.

In the context of IBOR reform, many financial instruments have already been amended or will be amended as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in Note 3, to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised.

3 Significant accounting policies (continued)

If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.
If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

3 Significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Armenia.

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Property and equipment

Property and equipment are initially carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land, buildings and motor vehicles are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

3 Significant accounting policies (continued)

	Useful life in years
Buildings	46
Equipment	5-10
Motor vehicles	7-10
Other	7-10

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

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than the operating segment as defined in IFRS 8 Operating Segments before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. 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 over the useful economic lives of 7 to 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 indefinite useful lives are reviewed at least at each financial year-end.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and net releasable value.

3 Significant accounting policies (continued)

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any pension arrangements and significant post-employment benefits.

Share capital

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

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Agriculture, Trading and Investment banking and Finance lease.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

3 Significant accounting policies (continued)

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

Interest revenue from penalties on loans to customers presented in "Interest revenue calculated using effective interest rate" in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses − are recognised on completion of the underlying transaction.

Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognized a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

3 Significant accounting policies (continued)

Dividend income

Income is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in thousands Armenian Drams, which is the Bank's and its subsidiary's functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit or loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBA exchange rates at 31 December 2022 and 31 December 2021, were 393.57 Drams and 480.14 Drams to 1 USD and 420.06 Drams and 522.59 Drams to 1 EUR, respectively.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions) of the Bank.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 23.

That cost is recognised in personnel expenses together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

3 Significant accounting policies (continued)

Standards issued but not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted.

IFRS 17 Insurance Contracts **effective for reporting periods beginning on or after 1 January 2023**
When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction. Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group is currently assessing the impact of the amendments on its financial statements

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Group is currently assessing the impact of the amendments on its financial statements.

3 Significant accounting policies (continued)

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed.

However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Correction of errors

During the year, the Group has made corrections in these consolidated financial statements in relation to corresponding statements presented for the year ended 31 December 2021 and 1 January 2021.

In accordance with IAS 8, amendments have been made retrospectively, and comparative figures have been adjusted accordingly.

Corrections are as follows:

Correction 1: Investment securities

The Group has Class C Visa shares which were carried forward as equity instruments at FVTOCI. However, VISA Inc. Class C Preferred Stock shares are debt instruments that fail SPPI. During the year, the Group has made a correction in these financial statements in relation to corresponding statements presented for the year ended 31 December 2021 and 1 January 2021. In financial statements Group reclassified equity investments in Visa Series C preferred shares as equity investments at FVTPL.

Correction 2: Property and equipment

During the year, the Group has made a correction in these financial statements in relation to corresponding statements presented for the year ended 31 December 2021 and 1 January 2021. In financial statements for the year ended 31 December 2021 the Cost and Accumulated depreciation of certain written off properties and equipment was not deducted from cost and accumulated depreciation amount in disclosure of property, equipment, right-of-use assets and intangible assets (Note12).

Error had no effect on the Groups equity, statement of financial position and statement of profit or loss.

Correction 3: Income received from fines and penalties

During the year, the Group has made a correction in these financial statements in relation to corresponding statements presented for the year ended 31 December 2021. In financial statements for the year ended 31 December 2021 income received from fines and penalties was presented under "Other income" in statement of profit or loss. Group reclassified income from fines and penalties from "Other income" to "Interest revenue calculated using effective interest rate" for penalties received from loans to customers, "Other interest revenue" for penalties received from receivables from finance leases, and netted interest expense for penalties received from termination of term deposits.

3 Significant accounting policies (continued)

Reclassification

During the year, the Group has changed it's classification of other comprehensive income recognized in revaluation reserve for financial assets at FVOCI to revaluation surplus for property and equipment within Consolidated statement of financial position and Consolidated statement of changes in equity presented for the year ended 31 December 2021. The Group believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

The effect of corrections on Consolidated statement of financial position and Consolidated statement of changes in equity was as follows as at 31 December 2021.
The effect of corrections on Consolidated statement of financial position was as follows as at 1 January 2021.

In thousands of Armenian Drams	**As originally presented**	**Correction 1**	**As restated for the year ended 1 January 2021**
Revaluation reserve for investment securities	2,890,036	(1,232,036)	1,658,000
Retained earnings	36,755,091	1,232,036	37,987,127

The effect of corrections on Consolidated statement of financial position was as follows as at 31 December 2021.

In thousands of Armenian Drams	**As originally presented**	**Correction 1**	**Reclassification**	**As restated for the year ended31 December 2021**
Revaluation reserve for property and equipment	2,550,569	-	461,812	3,012,381
Revaluation reserve for investment securities	3,168,514	(957,108)	(461,812)	1,749,594
Retained earnings	45,296,832	957,108	-	46,253,940

The effect of reclassification on Consolidated statement of profit or loss and other comprehensive income was as follows as at 31 December 2021.

In thousands of Armenian Drams	Note	**As originally presented**	**Correction 1**	**Correction 3**	**As restated for the year ended 31 December 2021**
Consolidated statement of profit or loss					
Interest revenue calculated using effective interest rate	25	43,240,112	-	1,844,467	45,084,579
Other interest revenue	25	3,498,291	-	26,422	3,524,713
Interest expense	25	(21,353,781)	-	268,095	(21,085,686)
Net gain/(loss) on financial instruments at fair value through profit and loss		560,811	(250,880)	-	309,931
Other income	27	3,022,604		(2,138,984)	883,620
Income tax expense	13	(2,803,449)	45,159	-	(2,758,290)
Other comprehensive income					
Losses on equity instruments at fair value through other comprehensive income		(253,375)	250,880	-	(2,495)
Income tax relating to components of other comprehensive income		(73,356)	(45,159)	-	(118,515)

4 Critical accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Revaluation of land, buildings and motor vehicles (Note 32)

Fair value of the properties is determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The Group engages independent experts for valuation of its premises and vehicles.

Fair value measurement

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 32.

The cost of equity-settled transactions is determined by the fair value of the Bank's shares at the date when the grant is made using an acceding to discounted cash flow model as of the grant date. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values further details of which are given in Note 23.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan and finance lease impairment recognized in consolidated statement of financial position at 31 December 2022 was AMD 5,982,161 thousand (2021: AMD 8,319,892 thousand). More details are provided in Notes 10 and 11.

Leases − estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

4 Critical accounting judgments and estimates (continued)

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Leases - extension options

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

5 Cash and cash equivalents

Cash and cash equivalents comprise:

In thousands of Armenian Drams	**2022**	**2021**
Cash on hand	21,703,944	17,723,893
Current accounts with the Central Bank, including obligatory reserves (not restricted part, see Note 8)	58,759,074	76,712,728
Current accounts with other banks		
- rated BBB-(Baa3) and over	1,243,082	1,477,055
- rated lower than BBB-(Baa3) and without rating	6,716,379	667,605
Impairment	(53,194)	(133,293)
Cash and cash equivalents	**88,369,285**	**96,447,988**

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

As at 31 December 2022, current accounts with Central Bank of Armenia include obligatory reserve in the amount of AMD 19,602,439 thousand (2021: AMD 23,850,732 thousand).

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 4% (2021: 4%) of the amounts attracted in Armenian drams and 18% (2021: 18%) of the amounts attracted in foreign currencies.

As at 31 December 2022 67% AMD 5,322,574 thousand from Current accounts with other banks are balances in correspondent account in one foreign bank (2021: 60% AMD 1,278,048 thousand two foreign banks)

Starting from July 2022, the banks are required to maintain 12% (2021: 10%) of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 6% (2021: 8%) − in the foreign currency.

Moreover, the banks' ability to withdraw reserved amounts in foreign currency is restricted, so the Group classifies obligatory reserves deposited in foreign currency as loans and advances to banks (Note 8).

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

5 Cash and cash equivalents (continued)

In thousands of Armenian Drams	**2022**	**2021**
ECL allowance as at 1 January	133,293	69,831
Changes in ECL	(68,891)	75,414
Foreign exchange adjustments	(11,208)	(11,952)
At 31 December	**53,194**	**133,293**

Information about credit quality of cash and cash equivalents is presented in Note 31 "Risk management".

6 Trading securities

Trading securities owned comprise:

In thousands of Armenian Drams	2022	2021
Corporate bonds of Armenian banks	-	433,697
Trading securities	**-**	**433,697**

In May 2019 the Group purchased corporate bonds of an Armenian bank with an interest rate of 9.75% and maturity in May 2022.

7 Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2022		2021	
In thousands of Armenian Drams	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Assets				
Derivative financial instruments				
Interest rate swap	5,673,542	327,011	9,166,309	36,221
Currency swap	2,136,573	36,273	3,415,776	2,404
	7,810,115	**363,284**	**12,582,085**	**38,625**
Liabilities				
Derivative financial instruments				
Currency swap	-	-	–	–
	-	**-**	**–**	**–**

8 Loans and advances to banks

Loans and advances to banks comprise:

In thousands of Armenian Drams	2022	2021
Due from the CBA		
Credit card settlement deposit with the CBA	2,777,500	1,572,500
Mandatory reserves in CBA (in foreign currency) (Note 5)	21,675,649	11,585,135
Total	**24,453,149**	**13,157,635**
Loans and advances to other banks		
Armenian banks	199,889	487,894
Foreign banks	1,153,961	739,754
Total loans and deposits to other banks	**1,353,850**	**1,227,648**
Other receivables		
Unsettled transactions	22,273,672	4,119,022
Amounts receivable from money transfer systems	1,852,078	1,047,268
Amounts receivable from transactions with plastic cards	425,196	123,526
Amounts receivable under reverse repurchase agreements		
Amounts receivable from Armenian banks	559,459	–
Loans and advances to banks before impairment	50,917,404	19,675,099
Impairment	(111,174)	(56,016)
Total loans and advances to banks	**50,806,230**	**19,619,083**

As at 31 December 2022, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 21,675,649 thousand (2021: AMD 11,585,135 thousand) (See Note 5).

Unsettled transactions includes amount was not settled as at December 31 in Group's CBA account. This amount was settled first working day of January as cash to Group's current account.

As at 31 December 2022, AMD 1,153,961 thousand (2021: AMD 739,754 thousand) were placed as deposited amounts with four (2021: three) internationally recognized OECD banks, who are the main counterparties of the Group in performing international settlements.

8 Loans and advances to banks (continued)

As at 31 December 2022, loans and advances to banks include loans in the amount of AMD 199,889 thousand (2021: AMD 487,894 thousand) placed with one Armenian bank (2021: one).

As at 31 December 2022 the Group had entered into reverse repurchase agreements with one Armenian bank. The collateral under these agreements is Armenian government bonds with a fair value of AMD 737,176 thousand.

An analysis of changes in gross carrying value and corresponding ECL allowance on loans and advances to banks during the year ended 31 December 2022 is as follows:

In thousands of Armenian Drams	**Stage 1**	**Total**
ECL allowance as at 1 January 2022	56,016	**56,016**
New assets originated or purchased	111,174	**111,174**
Assets repaid	(56,016)	**(56,016)**
At 31 December 2022	**111,174**	**111,174**

An analysis of changes in gross carrying value and corresponding ECL allowance on loans and advances to banks during the year ended 31 December 2021 is as follows:

In thousands of Armenian Drams	**Stage 1**	**Total**
ECL allowance as at 1 January 2021	71,910	**71,910**
New assets originated or purchased	56,016	**56,016**
Assets repaid	(71,910)	**(71,910)**
At 31 December 2021	**56,016**	**56,016**

Information about credit quality of loans and advances to banks is presented in Note 31 "Risk management".

9 Investment securities

Investment securities as at 31 December 2022 and 31 December 2021 comprise:

In thousands of Armenian Drams	**2022**	**2021**
Debt securities at amortised cost		
Held by the Bank		
Bonds of Armenian companies	169,536	180,897
Less: allowance for impairment	(79,196)	(62,680)
Total securities at amortised cost held by the Bank	**90,340**	**118,217**

In thousands of Armenian Drams	**31 December 2022**	**31 December 2021 (restated)**	**1 January 2021 (restated)**
Debt and other fixed income instruments at FVOCI			
Held by the Bank			
Government bonds			
Government securities of the Republic of Armenia	12,033,575	16,541,954	9,452,410
Corporate bonds			
Bonds of Armenian companies	3,232,827	4,460,248	4,824,872
Equity instruments			
Unquoted equity securities	112,278	115,381	117,876
Total debt and other fixed income instruments at FVOCI held by the Bank	**15,378,680**	**21,117,583**	**14,395,158**

9 Investment securities (continued)

	31 December 2022	31 December 2021 (restated)	1 January 2021 (restated)
Equity instruments held by the Bank at FVTPL			
Quoted equity securities – shares Visa Series C	2,153,118	2,759,029	3,009,908
Total debt and other fixed income instruments at FVTPL held by the Bank	**2,153,118**	**2,759,029**	**3,009,908**

Information in this disclosure was restated (Note 3).

In thousands of Armenian Drams	2022	2021
Pledged instruments under sale and repurchase agreements		
Equity instruments		
Government securities of the Republic of Armenia	6,019,389	-
Total pledged instruments under sale and repurchase agreements at FVOCI	**6,019,389**	**-**

As at 31 December 2022 and 2021 unquoted equity securities at FVOCI primarily include mandatory shares in exchanges and clearing houses.

In 2022, the Group received dividends of AMD 9,199 thousand (2021: AMD 12,455 thousand) from its equities which was recorded in the consolidated statement as other income.

At 31 December 2022 84.5% (2021: 78.76%) of debt instruments are presented by government bonds of the republic of Armenia.

At 31 December 2022 and 2021 no securities were past due or impaired and there were no renegotiated balances of investment securities that would otherwise be past due.

Information about credit quality of debt instruments is presented in Note 31 “Risk management”.

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost is as follows:

Debt securities at amortised cost

In thousands of Armenian Drams	Stage 1	Stage 2	Total
Gross carrying value as at 1 January 2022	**180,897**	**-**	**180,897**
Assets repaid	-	(11,361)	**(11,361)**
Transfers to Stage 2	(180,897)	180,897	**-**
At 31 December 2022	**-**	**169,536**	**169,536**

Debt securities at amortised cost

In thousands of Armenian Drams	Stage 1	Stage 2	Total
ECLs as at 1 January 2022	**62,680**	**-**	**62,680**
Transfers to Stage 2	(62,680)	62,680	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	16,516	**16,516**
At 31 December 2022	**-**	**79,196**	**79,196**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI

In thousands of Armenian Drams	Stage 1	Stage 2	Total
Gross carrying value as at 1 January 2022	**21,002,200**	**-**	**21,002,200**
New assets originated or purchased	6,722,661	-	**6,722,661**
Assets repaid	(4,147,786)	(15,909)	**(4,163,695)**
Transfers to Stage 2	(3,429,525)	3,429,525	**-**
Net change in fair value	(410,670)	(66,024)	**(476,694)**
Foreign exchange adjustments	(1,333,233)	(465,448)	**(1,798,681)**
At 31 December 2022	**18,403,647**	**2,882,144**	**21,285,791**

9 Investment securities (continued)

Debt securities at FVOCI

In thousands of Armenian Drams	Stage 1	Stage 2	Total
ECLs as at 1 January 2022	**613,395**	**-**	**613,395**
New assets originated or purchased	318,675	-	**318,675**
Assets repaid	(14,793)	-	**(14,793)**
Transfers to Stage 2	(649,216)	649,216	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	2,245	**2,245**
Changes to models and inputs used for ECL calculations	(61,564)	-	**(61,564)**
Foreign exchange adjustments	(15,992)	(70,117)	**(86,109)**
At 31 December 2022	**190,505**	**581,344**	**771,849**

Debt securities at amortised cost

In thousands of Armenian Drams	Stage 1	Total
Gross carrying value as at 1 January 2021	**–**	**–**
New assets originated or purchased	180,897	**180,897**
At 31 December 2021	180,897	**180,897**

Debt securities at amortised cost

In thousands of Armenian Drams	Stage 1	Total
ECLs as at 1 January 2021	**–**	**–**
New assets originated or purchased	62,680	**62,680**
At 31 December 2021	**62,680**	**62,680**

Debt securities at FVOCI

In thousands of Armenian Drams	Stage 1	Total
Gross carrying value as at 1 January 2021	**14,277,282**	**14,277,282**
New assets originated or purchased	11,639,379	**11,639,379**
Assets repaid	(3,824,060)	**(3,824,060)**
Net change in fair value	(226,739)	**(226,739)**
Foreign exchange adjustments	(863,660)	**(863,660)**
At 31 December 2021	**21,002,202**	**21,002,202**

Debt securities at FVOCI

In thousands of Armenian Drams	Stage 1	Total
ECLs as at 1 January 2021	**309,022**	**309,022**
New assets originated or purchased	504,687	504,687
Assets repaid	(149,562)	(149,562)
Changes to models and inputs used for ECL calculations	(41,215)	(41,215)
Foreign exchange adjustments	(9,537)	(9,537)
At 31 December 2021	**613,395**	**613,395**

10 Loans to customers

Loans to customers as at 31 December 2022 and 31 December 2021 comprise:

In thousands of Armenian Drams	2022	2021
Loans to corporate customers		
Loans to small and medium size companies	92,434,438	72,036,337
Loans to large corporate customers	53,906,606	47,850,286
Total loans to corporate customers	**146,341,044**	**119,886,623**
Loans to retail customers (other than agricultural loans)		
Consumer loans	101,971,629	76,471,101
Mortgage loans	42,553,868	32,885,091
Credit cards	12,102,219	11,282,532
Gold-secured loans	135	11,021
Total loans to retail customers	**156,627,851**	**120,649,745**
Agricultural loans retail	94,712,827	99,751,788
Agricultural loans corporate	14,069,596	7,902,736
Total agricultural loans to customers	**108,782,423**	**107,654,524**
Gross loans to customers	411,751,318	348,190,892
Impairment allowance	(5,432,521)	(7,662,527)
Net loans to customers at amortised cost	**406,318,797**	**340,528,365**

10 Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2022 is as follows:

Corporate lending

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2022	**103,933,331**	**9,673,924**	**6,147,855**	**131,513**	**119,886,623**
New assets originated or purchased	85,047,567	-	-	-	**85,047,567**
Assets repaid	(41,608,759)	(6,136,334)	(2,836,628)	(102,311)	**(50,684,032)**
Transfers to Stage 1	588,888	(588,888)	-	-	**-**
Transfers to Stage 2	(2,319,256)	2,319,256	-	-	**-**
Transfers to Stage 3	(1,317,531)	(403,030)	1,720,561	-	**-**
Recoveries	-	-	14,998	-	**14,998**
Amounts written off	-	-	(9,845)	-	**(9,845)**
Foreign exchange adjustments	(7,009,059)	(374,966)	(530,242)	-	**(7,914,267)**
At 31 December 2022	**137,315,181**	**4,489,962**	**4,506,699**	**29,202**	**146,341,044**

Corporate lending

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2022	**276,045**	**246,345**	**1,477,136**	**31,224**	**2,030,750**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	471,676	-	-	-	**471,676**
Assets repaid	(68,877)	(136,479)	(289,823)	(9,430)	**(504,609)**
Transfers to Stage 1	13,463	(13,463)	-	-	**-**
Transfers to Stage 2	(32,603)	32,603	-	-	**-**
Transfers to Stage 3	(197,903)	(28,057)	225,960	-	**-**
Impact on period end ECL of exposures transferred between stages during the period	(12,266)	4,089	233,853	-	**225,676**
Changes to models and inputs used for ECL calculations	(15,470)	(37,280)	(480,411)	(13,903)	**(547,064)**
Total movements with impact on credit loss allowance charge for the period	**158,020**	**(178,587)**	**(310,421)**	**(23,333)**	**(354,321)**
Movements without impact on credit loss allowance charge for the period:					
Unwinding of discount (deducted from interest revenue)	-	-	44,699	-	**44,699**
Recoveries	-	-	14,998	-	**14,998**
Amounts written off	-	-	(9,845)	-	**(9,845)**
Foreign exchange adjustments	(22,383)	(4,651)	(105,472)	-	**(132,506)**
At 31 December 2022	**411,682**	**63,107**	**1,111,095**	**7,891**	**1,593,775**

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to agricultural loans during the year ended 31 December 2022 is as follows:

Agricultural loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	**101,256,390**	**2,527,251**	**3,870,883**	**107,654,524**
New assets originated or purchased	51,620,820	-	-	**51,620,820**
Assets repaid	(45,538,171)	(1,398,492)	(2,795,304)	**(49,731,967)**
Transfers to Stage 1	382,211	(378,352)	(3,859)	**-**
Transfers to Stage 2	(882,117)	889,767	(7,650)	**-**
Transfers to Stage 3	(1,362,964)	(232,567)	1,595,531	**-**
Recoveries	-	-	92,387	**92,387**
Amounts written off	-	-	(140,281)	**(140,281)**
Foreign exchange adjustments	(630,192)	(17,064)	(65,804)	**(713,060)**
At 31 December 2022	**104,845,977**	**1,390,543**	**2,545,903**	**108,782,423**

10 Loans to customers (continued)

Agricultural loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**653,967**	**65,199**	**1,090,828**	**1,809,994**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	354,314	-	-	**354,314**
Assets repaid	(112,378)	(16,049)	(435,804)	**(564,231)**
Transfers to Stage 1	12,387	(10,757)	(1,630)	**-**
Transfers to Stage 2	(8,842)	11,777	(2,935)	**-**
Transfers to Stage 3	(198,639)	(15,385)	214,024	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,412)	5,403	173,416	**167,407**
Changes to models and inputs used for ECL calculations	(356,275)	(17,386)	(381,151)	**(754,812)**
Total movements with impact on credit loss allowance charge for the period	**(320,845)**	**(42,397)**	**(434,080)**	**(797,322)**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (deducted from interest revenue)	-	-	70,819	**70,819**
Recoveries	-	-	92,387	**92,387**
Amounts written off	-	-	(140,281)	**(140,281)**
Foreign exchange adjustments	(3,858)	(428)	(14,737)	**(19,023)**
At 31 December 2022	**329,264**	**22,374**	**664,936**	**1,016,574**

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2022 is as follows:

Consumer loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	**68,940,006**	**2,933,787**	**4,597,308**	**76,471,101**
New assets originated or purchased	66,732,347	-	-	**66,732,347**
Assets repaid	(36,019,696)	(1,371,953)	(3,788,823)	**(41,180,472)**
Transfers to Stage 1	175,193	(165,274)	(9,919)	**-**
Transfers to Stage 2	(1,333,937)	1,333,937	-	**-**
Transfers to Stage 3	(2,319,065)	(616,144)	2,935,209	**-**
Recoveries	-	-	28,024	**28,024**
Amounts written off	-	-	(46,160)	**(46,160)**
Foreign exchange adjustments	(28,456)	(2,003)	(2,752)	**(33,211)**
At 31 December 2022	**96,146,392**	**2,112,350**	**3,712,887**	**101,971,629**

Consumer loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**1,062,623**	**250,576**	**1,657,763**	**2,970,962**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	869,057	-	-	**869,057**
Assets repaid	(307,188)	(36,286)	(400,751)	**(744,225)**
Transfers to Stage 1	15,878	(12,522)	(3,356)	**-**
Transfers to Stage 2	(65,054)	65,054	-	**-**
Transfers to Stage 3	(403,523)	(98,320)	501,843	**-**
Impact on period end ECL of exposures transferred between stages during the period	(15,074)	29,818	385,951	**400,695**
Changes to models and inputs used for ECL calculations	(487,827)	(81,773)	(879,865)	**(1,449,465)**
Total movements with impact on credit loss allowance charge for the period	**(393,731)**	**(134,029)**	**(396,178)**	**(923,938)**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (deducted from interest revenue)	-	-	163,945	**163,945**
Recoveries	-	-	28,024	**28,024**
Amounts written off	-	-	(46,160)	**(46,160)**
Foreign exchange adjustments	(73)	(15)	(1,593)	**(1,681)**
At 31 December 2022	**668,819**	**116,532**	**1,405,801**	**2,191,152**

10 Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2022 is as follows:

Mortgage loans *In thousands of Armenian Drams*	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2022	**31,006,708**	**1,044,399**	**778,854**	**55,130**	**32,885,091**
New assets originated or purchased	16,406,575	-	-	-	**16,406,575**
Assets repaid	(5,528,704)	(244,243)	(270,257)	(10,031)	**(6,053,235)**
Transfers to Stage 1	138,782	(138,782)	-	-	**-**
Transfers to Stage 2	(181,428)	181,428	-	-	**-**
Transfers to Stage 3	(329,336)	(121,771)	451,107	-	**-**
Recoveries	-	-	5,795	-	**5,795**
Amounts written off	-	-	(4,385)	-	**(4,385)**
Foreign exchange adjustments	(574,200)	(55,281)	(50,452)	(6,040)	**(685,973)**
At 31 December 2022	**40,938,397**	**665,750**	**910,662**	**39,059**	**42,553,868**

Allowance for impairment of loans to customers at amortised cost

Mortgage loans *In thousands of Armenian Drams*	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2022	**122,484**	**43,678**	**241,802**	**21,986**	**429,950**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	18,967	-	-	-	**18,967**
Assets repaid	(10,359)	(2,536)	(33,178)	(1,045)	**(47,118)**
Transfers to Stage 1	5,767	(5,767)	-	-	**-**
Transfers to Stage 2	(1,997)	1,997	-	-	**-**
Transfers to Stage 3	(13,324)	(9,331)	22,655	-	**-**
Impact on period end ECL of exposures transferred between stages during the period	(5,643)	2,194	86,202	-	**82,753**
Changes to models and inputs used for ECL calculations	(74,805)	(17,876)	(45,171)	(14,185)	**(152,037)**
Total movements with impact on credit loss allowance charge for the period	**(81,394)**	**(31,319)**	**30,508**	**(15,230)**	**(97,435)**
Movements without impact on credit loss allowance charge for the period:					
Unwinding of discount (deducted from interest revenue)	-	-	31,751	-	**31,751**
Recoveries	-	-	5,795	-	**5,795**
Amounts written off	-	-	(4,385)	-	**(4,385)**
Foreign exchange adjustments	(566)	(974)	(17,076)	-	**(18,616)**
At 31 December 2022	**40,524**	**11,385**	**288,395**	**6,756**	**347,060**

An analysis of changes in the gross carrying value and corresponding ECL in relation to credit cards and gold-secured loans during the year ended 31 December 2022 is as follows:

Credit cards and gold-secured loans *In thousands of Armenian Drams*	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	**10,044,163**	**372,724**	**876,666**	**11,293,553**
New assets originated or purchased	5,153,806	-	-	**5,153,806**
Assets repaid	(3,285,537)	(152,195)	(575,200)	**(4,012,932)**
Transfers to Stage 1	41,803	(41,803)	-	**-**
Transfers to Stage 2	(122,226)	122,226	-	**-**
Transfers to Stage 3	(310,792)	(63,168)	373,960	**-**
Recoveries	-	-	12,238	**12,238**
Amounts written off	-	-	(13,728)	**(13,728)**
Foreign exchange adjustments	(287,499)	(10,638)	(32,446)	**(330,583)**
At 31 December 2022	**11,233,718**	**227,146**	**641,490**	**12,102,354**

10 Loans to customers (continued)

Credit cards and gold-secured loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**136,674**	**15,786**	**268,411**	**420,871**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	71,879	-	-	**71,879**
Assets repaid	(39,186)	(3,044)	(102,797)	**(145,027)**
Transfers to Stage 1	1,226	(1,226)	-	**-**
Transfers to Stage 2	(3,762)	3,762	-	**-**
Transfers to Stage 3	(51,169)	(6,591)	57,760	**-**
Impact on period end ECL of exposures transferred between stages during the period	(993)	3,471	57,052	**59,530**
Changes to models and inputs used for ECL calculations	(50,578)	(2,935)	(84,600)	**(138,113)**
Total movements with impact on credit loss allowance charge for the period	**(72,583)**	**(6,563)**	**(72,585)**	**(151,731)**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (deducted from interest revenue)	-	-	24,718	**24,718**
Recoveries	-	-	12,238	**12,238**
Amounts written off	-	-	(13,728)	**(13,728)**
Foreign exchange adjustments	(1,310)	(312)	(6,786)	**(8,408)**
At 31 December 2022	**62,781**	**8,911**	**212,268**	**283,960**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2021 is as follows:

Corporate lending

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2021	**87,531,773**	**14,425,978**	**6,632,360**	**244,519**	**108,834,630**
New assets originated or purchased	69,524,404	–	–	55,849	**69,580,253**
Assets repaid	(46,411,704)	(5,201,685)	(2,938,069)	(162,163)	**(54,713,621)**
Transfers to Stage 1	1,793,465	(1,610,130)	(183,335)	–	**–**
Transfers to Stage 2	(2,887,488)	5,034,918	(2,147,430)	–	**–**
Transfers to Stage 3	(2,817,503)	(2,277,724)	5,095,227	–	**–**
Recoveries	–	–	283,728	–	**283,728**
Amounts written off	–	–	(240,466)	–	**(240,466)**
Foreign exchange adjustments	(2,799,616)	(697,433)	(354,160)	(6,692)	**(3,857,901)**
At 31 December 2021	**103,933,331**	**9,673,924**	**6,147,855**	**131,513**	**119,886,623**

Corporate lending

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2021	**545,108**	**596,723**	**2,170,952**	**31,742**	**3,344,525**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	382,159	–	–	–	**382,159**
Assets repaid	(215,578)	(123,722)	(1,525,480)	(28,959)	**(1,893,739)**
Transfers to Stage 1	131,500	(61,991)	(69,509)	–	**–**
Transfers to Stage 2	(64,107)	653,500	(589,393)	–	**–**
Transfers to Stage 3	(167,292)	(135,968)	303,260	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(127,383)	(545,370)	531,387	–	**(141,366)**
Changes to models and inputs used for ECL calculations	(200,633)	(117,860)	639,690	28,441	**349,638**
Total movements with impact on credit loss allowance charge for the period	**(261,334)**	**(331,411)**	**(710,045)**	**(518)**	**(1,303,308)**
Movements without impact on credit loss allowance charge for the period:					
Unwinding of discount (deducted from interest revenue)	–	–	58,915	–	**58,915**
Recoveries	–	–	283,728	–	**283,728**
Amounts written off	–	–	(240,466)	–	**(240,466)**
Foreign exchange adjustments	(7,729)	(18,967)	(85,948)	–	**(112,644)**
At 31 December 2021	**276,045**	**246,345**	**1,477,136**	**31,224**	**2,030,750**

10 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to agricultural loans during the year ended 31 December 2021 is as follows:

Agricultural loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2021	**87,691,177**	**3,584,703**	**4,072,750**	**95,348,630**
New assets originated or purchased	64,178,309	–	–	**64,178,309**
Assets repaid	(43,819,240)	(1,898,776)	(4,509,519)	**(50,227,535)**
Transfers to Stage 1	164,051	(160,239)	(3,812)	**–**
Transfers to Stage 2	(2,357,065)	2,357,065	–	**–**
Transfers to Stage 3	(4,283,892)	(1,338,829)	5,622,721	**–**
Recoveries	–	–	616,875	**616,875**
Amounts written off	–	–	(1,882,280)	**(1,882,280)**
Foreign exchange adjustments	(316,950)	(16,673)	(45,852)	**(379,475)**
At 31 December 2021	**101,256,390**	**2,527,251**	**3,870,883**	**107,654,524**

Agricultural loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	**1,414,836**	**327,503**	**1,310,750**	**3,053,089**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	644,253	–	–	**644,253**
Assets repaid	(307,654)	(69,324)	(2,513,658)	**(2,890,636)**
Transfers to Stage 1	13,976	(12,197)	(1,779)	**–**
Transfers to Stage 2	(43,853)	43,853	–	**–**
Transfers to Stage 3	(317,405)	(186,179)	503,584	**–**
Impact on period end ECL of exposures transferred between stages during the period	(13,237)	11,115	502,159	**500,037**
Changes to models and inputs used for ECL calculations	(732,697)	(48,982)	2,466,488	**1,684,809**
Total movements with impact on credit loss allowance charge for the period	**(756,617)**	**(261,714)**	**956,794**	**(61,537)**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (deducted from interest revenue)	–	–	105,503	**105,503**
Recoveries	–	–	616,875	**616,875**
Amounts written off	–	–	(1,882,280)	**(1,882,280)**
Foreign exchange adjustments	(4,252)	(590)	(16,814)	**(21,656)**
At 31 December 2021	**653,967**	**65,199**	**1,090,828**	**1,809,994**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2021 is as follows:

Consumer loans

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2021	**60,710,959**	**5,627,471**	**3,978,385**	**70,316,815**
New assets originated or purchased	46,930,420	–	–	**46,930,420**
Assets repaid	(31,922,617)	(2,062,812)	(3,561,081)	**(37,546,510)**
Transfers to Stage 1	25,689	(25,689)	–	**–**
Transfers to Stage 2	(1,297,015)	1,297,015	–	**–**
Transfers to Stage 3	(5,507,430)	(1,902,198)	7,409,628	**–**
Recoveries	–	–	743,454	**743,454**
Amounts written off	–	–	(3,973,078)	**(3,973,078)**
At 31 December 2021	**68,940,006**	**2,933,787**	**4,597,308**	**76,471,101**

10 Loans to customers (continued)

Consumer loans *In thousands of Armenian Drams*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2021	**1,718,187**	**1,005,334**	**2,056,911**	**4,780,432**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	1,025,756	–	–	**1,025,756**
Assets repaid	(519,505)	(164,989)	(1,845,009)	**(2,529,503)**
Transfers to Stage 1	10,785	(10,785)	–	**–**
Transfers to Stage 2	(85,554)	85,554	–	**–**
Transfers to Stage 3	(477,827)	(489,066)	966,893	**–**
Impact on period end ECL of exposures transferred between stages during the period	(10,093)	33,356	829,520	**852,783**
Changes to models and inputs used for ECL calculations	(599,126)	(208,828)	2,676,956	**1,869,002**
Total movements with impact on credit loss allowance charge for the period	(655,564)	(754,758)	2,628,360	**1,218,038**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (deducted from interest revenue)	–	–	202,116	**202,116**
Recoveries	–	–	743,454	**743,454**
Amounts written off	–	–	(3,973,078)	**(3,973,078)**
At 31 December 2021	**1,062,623**	**250,576**	**1,657,763**	**2,970,962**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2021 is as follows:

Mortgage loans *In thousands of Armenian Drams*	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2021	**23,229,283**	**1,216,552**	**513,581**	**68,943**	**25,028,359**
New assets originated or purchased	12,401,495	–	–	–	**12,401,495**
Assets repaid	(3,432,475)	(250,964)	(204,421)	(10,273)	**(3,898,133)**
Transfers to Stage 1	19,908	(19,908)	–	–	**–**
Transfers to Stage 2	(295,548)	382,034	(86,486)	–	**–**
Transfers to Stage 3	(565,130)	(232,526)	797,656	–	**–**
Recoveries	–	–	12,253	–	**12,253**
Amounts written off	–	–	(239,158)	–	**(239,158)**
Foreign exchange adjustments	(350,825)	(50,789)	(14,571)	(3,540)	**(419,725)**
At 31 December 2021	**31,006,708**	**1,044,399**	**778,854**	**55,130**	**32,885,091**

Mortgage loans *In thousands of Armenian Drams*	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2021	61,269	43,048	128,747	38,534	**271,598**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	85,907	–	–	–	**85,907**
Assets repaid	(10,460)	(9,548)	(110,642)	(103)	**(130,753)**
Transfers to Stage 1	5,791	(5,791)	–	–	**–**
Transfers to Stage 2	(10,429)	35,587	(25,158)	–	**–**
Transfers to Stage 3	(25,252)	(13,193)	38,445	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(5,721)	(12,773)	144,210	–	**125,716**
Changes to models and inputs used for ECL calculations	22,828	8,139	277,883	(16,445)	**292,405**
Total movements with impact on credit loss allowance charge for the period	**62,664**	**2,421**	**324,738**	**(16,548)**	**373,275**
Movements without impact on credit loss allowance charge for the period:					
Unwinding of discount (deducted from interest revenue)	–	–	21,500	–	**21,500**
Recoveries	–	–	12,253	–	**12,253**
Amounts written off	–	–	(239,158)	–	**(239,158)**
Foreign exchange adjustments	(1,449)	(1,791)	(6,278)	–	**(9,518)**
At 31 December 2021	**122,484**	**43,678**	**241,802**	**21,986**	**429,950**

10 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to credit cards and gold-secured loans during the year ended 31 December 2021 is as follows:

Credit cards and gold-secured loans *In thousands of Armenian Drams*	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2021	**13,701,259**	**215,363**	**943,648**	**1,401**	**14,861,671**
New assets originated or purchased	4,330,991	–	–	–	**4,330,991**
Assets repaid	(6,486,523)	(109,910)	(1,274,987)	(1,401)	**(7,872,821)**
Transfers to Stage 1	10,388	(5,609)	(4,779)	–	**–**
Transfers to Stage 2	(378,855)	382,897	(4,042)	–	**–**
Transfers to Stage 3	(898,026)	(97,587)	995,613	–	**–**
Recoveries	–	–	903,563	–	**903,563**
Amounts written off	–	–	(659,689)	–	**(659,689)**
Foreign exchange adjustments	(235,071)	(12,430)	(22,661)	–	**(270,162)**
At 31 December 2021	**10,044,163**	**372,724**	**876,666**	**–**	**11,293,553**

Credit cards and gold-secured loans *In thousands of Armenian Drams*	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2021	**320,191**	**44,436**	**372,809**	**793**	**738,229**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	100,322	–	–	–	**100,322**
Assets repaid	(83,828)	(11,715)	(972,807)	–	**(1,068,350)**
Transfers to Stage 1	4,271	(1,601)	(2,670)	–	**–**
Transfers to Stage 2	(13,515)	13,556	(41)	–	**–**
Transfers to Stage 3	(75,892)	(27,700)	103,592	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(4,193)	1,738	126,047	–	**123,592**
Changes to models and inputs used for ECL calculations	(107,195)	(2,408)	373,387	(793)	**262,991**
Total movements with impact on credit loss allowance charge for the period	**(180,030)**	**(28,130)**	**(372,492)**	**(793)**	**(581,445)**
Movements without impact on credit loss allowance charge for the period:					
Unwinding of discount (deducted from interest revenue)	–	–	33,501	–	**33,501**
Recoveries	–	–	903,563	–	**903,563**
Amounts written off	–	–	(659,689)	–	**(659,689)**
Foreign exchange adjustments	(3,487)	(520)	(9,281)	–	**(13,288)**
At 31 December 2021	**136,674**	**15,786**	**268,411**	**–**	**420,871**

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

10 Loans to customers (continued)

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties, gold and guarantees.

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

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

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Description of collateral held for loans to customers is as follows as at 31 December 2022:

In thousands of Armenian Drams	**2022**	**2021**
Real Estate	198,337,349	162,396,276
Guarantees	111,231,203	105,365,176
Working capital/Goods (finished products, goods in circulation, agricultural animals)	19,300,717	14,302,154
Cash	18,091,929	12,613,777
Movables	7,776,606	5,264,114
Security	1,956,613	3,054,526
Agro Equipment	588,924	494,237
Movables (personal property, equipment)	173,013	186,252
Other	201	-
Gold pledge	120	20761
Without Collateral	54,294,643	44,493,619
Total gross loan portfolio	**411,751,318**	**348,190,892**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

The effect of collateral on credit impaired assets at 31 December 2022 and 31 December 2021 is as follows.

2022	**Over-collateralised Assets**		**Under-collateralised Assets**	
In thousands of Armenian Drams	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Credit impaired assets:				
Loans to corporate customers				
Loans to small and medium size companies	3,080,802	23,275,603	334,822	12,473
Loans to large corporate	1,120,277	4,854,609	-	-
Loans to retail customers (other than agricultural loans)				
Consumer loans	713,516	4,039,165	2,999,372	48,927
Mortgage loans	949,721	2,072,983	-	-
Credit cards, Gold-secured loans	126,792	4,852,881	514,698	-
Total loans to retail customers at amortised cost				
Agricultural loans to customers				
Agricultural loans retail	383,307	2,172,272	1,468,835	-
Agricultural loans corporate	501,145	3,416,198	192,615	-
Total	**6,875,560**	**44,683,711**	**5,510,342**	**61,400**

10 Loans to customers (continued)

2021	**Over-collateralised Assets**		**Under-collateralised Assets**	
In thousands of Armenian Drams	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Credit impaired assets:				
Loans to corporate customers				
Loans to small and medium size companies	1,700,476	6,881,520	372,709	-
Loans to large corporate	4,071,412	24,058,956	134,771	35,820
Loans to retail customers (other than agricultural loans)				
Consumer loans	839,148	5,305,797	3,758,160	58,404
Mortgage loans	833,984	1,657,352	-	-
Credit cards, Gold-secured loans	157,766	5,219,875	718,900	1,927
Total loans to retail customers at amortised cost				
Agricultural loans to customers				
Agricultural loans retail	1,070,412	6,898,126	2,793,248	125
Agricultural loans corporate	7,076	15,100	147	-
Total	**8,680,274**	**50,036,726**	**7,777,935**	**96,276**

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2022 and 2021 would have been higher by:

In thousands of Armenian Drams	**2022**	**2021**
Corporate lending	2,985,445	3,416,526
Mortgage loans	70,262	537,052
Total	**3,055,707**	**3,953,578**

Assets under lien

As at 31 December 2022, loans to customers with a gross value of AMD 20,083,903 thousand (2021: AMD 29,428,199 thousand) serve as collateral for other borrowed funds (see Note 19).

Repossessed collateral

During the year, the Group took possession of collateral with an estimated value of AMD 225,706 thousand (2021: AMD 402,802 thousand), which the Group is in the process of selling. It is the Group’s policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2022, the Group had a concentration of loans represented by AMD 29,825,465 thousand due from the ten largest third-party borrowers (7.2% of gross loan portfolio) (2021: AMD 24,161,333 thousand or 7%). An allowance of AMD 87,213 thousand (2021: AMD 146,733 thousand) was recognised against these loans.

Loans are made principally within Armenia in the following industry sectors:

In thousands of Armenian Drams	**2022**	**2021**
Individuals	251,340,679	228,304,269
Food and beverage	43,802,720	38,132,723
Trade	38,320,765	37,125,724
Construction	31,050,322	20,239,550
Manufacturing	10,227,201	6,981,224
Agriculture	16,815,193	4,657,219
Transportation	4,939,521	4,454,886
Financial sector	4,519,114	4,284,067
Energy	3,763,173	2,535,426
Other	6,972,630	1,475,804
Impairment allowance	(5,432,521)	(7,662,527)
Net loans to customers at amortised cost	**406,318,797**	**340,528,365**

11 Receivables from finance leases

In thousands of Armenian Drams	2022	2021
Finance leases to corporate customers	47,807,779	27,328,408
Finance leases to retail customers	6,158,767	4,559,937
Gross finance leases	53,966,546	31,888,345
Impairment allowance	(543,325)	(655,278)
Net investments in finance leases	**53,423,221**	**31,233,067**

The Group provided leases to individuals, small and medium-sized enterprises, farms operating in various sectors of the economy in acquiring equipment and production resources.

The amount of finance lease receivables as at 31 December 2022 includes equipment on the way, purchased in the scope of finance lease agreements in the amount of AMD 601,995 thousand (2021: AMD 274,249 thousand).

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2022 is as follows:

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	**29,985,478**	**1,278,736**	**624,131**	**31,888,345**
New assets originated or purchased	35,908,638			**35,908,638**
Assets repaid	(11,604,537)	(543,588)	(493,109)	**(12,641,234)**
Transfers to Stage 1	651,401	(651,401)	-	**-**
Transfers to Stage 2	(1,064,355)	1,098,742	(34,387)	**-**
Transfers to Stage 3	(154,357)	(340,380)	494,737	**-**
Foreign exchange adjustments	(1,128,216)	(51,544)	(8,648)	**(1,188,408)**
Recovery	-	-	-	**-**
Write-off	-	-	(795)	**(795)**
At 31 December 2022	**52,594,052**	**790,565**	**581,929**	**53,966,546**

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**213,741**	**32,171**	**409,366**	**655,278**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	73,514	-	-	**73,514**
Assets repaid	(17,962)	(2,663)	(70,504)	**(91,129)**
Transfers to Stage 1	13,758	(13,758)	-	**-**
Transfers to Stage 2	(16,282)	40,655	(24,373)	**-**
Transfers to Stage 3	(6,453)	(7,375)	13,828	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,064)	(17,878)	123,885	**94,943**
Changes to models and inputs used for ECL calculations	(1,894)	(2,343)	(190,726)	**(194,963)**
Total movements with impact on credit loss allowance charge for the period	**33,617**	**(3,362)**	**(147,890)**	**(117,635)**
Movements without impact on credit loss allowance charge for the period:				
Unwinding of discount (recognised in interest revenue)	-	-	21,070	**21,070**
Recovery	-	-	-	**-**
Write-off	-	-	(794)	**(794)**
Foreign exchange adjustments	(6,739)	(1,098)	(6,757)	**(14,594)**
At 31 December 2022	**240,619**	**27,711**	**274,995**	**543,325**

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2021 is as follows:

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2021	**22,486,327**	**2,654,184**	**766,369**	**25,906,880**
New assets originated or purchased	17,622,878	–	–	**17,622,878**
Assets repaid	(8,750,018)	(1,441,615)	(294,720)	**(10,486,353)**
Transfers to Stage 1	537,625	(537,625)	–	**–**
Transfers to Stage 2	(721,528)	805,601	(84,073)	**–**
Transfers to Stage 3	(189,429)	(129,685)	319,114	**–**
Foreign exchange adjustments	(1,000,377)	(72,124)	(31,826)	**(1,104,327)**
Recovery	–	–	98,678	**98,678**
Write-off	–	–	(149,411)	**(149,411)**
At 31 December 2021	**29,985,478**	**1,278,736**	**624,131**	**31,888,345**

11 Receivables from finance leases (continued)

In thousands of Armenian Drams	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	**163,473**	**71,137**	**654,876**	**889,486**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	142,645	-	-	**142,645**
Assets repaid	(36,493)	(11,194)	(147,476)	**(195,163)**
Transfers to Stage 1	30,263	(30,263)	-	**-**
Transfers to Stage 2	(4,833)	119,975	(115,142)	**-**
Transfers to Stage 3	(18,381)	6,002	12,379	**-**
Impact on period end ECL of exposures transferred between stages during the period	(26,324)	(105,747)	238,791	**106,720**
Changes to models and inputs used for ECL calculations	(29,322)	(16,013)	(157,114)	**(202,449)**
Total movements with impact on credit loss allowance charge for the period	**57,555**	**(37,240)**	**(168,562)**	**(148,247)**
Movements without impact on credit loss allowance charge for the period:				
Recovery	-	-	98,678	**98,678**
Write-off	-	-	(149,411)	**(149,411)**
Foreign exchange adjustments	(7,287)	(1,726)	(26,215)	**(35,228)**
At 31 December 2021	**213,741**	**32,171**	**409,366**	**655,278**

Assets under lien

As at 31 December 2022, finance lease receivables with a gross value of AMD 15,888,376 thousand (2021: AMD 6,959,933 thousand) serve as collateral for other borrowed funds (see Note 19).

Repossessed assets

The carrying value of the assets repossessed during the period and held as at 31 December 2022 is AMD 30,795 thousand (2021: AMD 30,795 thousand).

Industry and geographical analysis of the finance lease portfolio

Finance lease to corporate customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

In thousands of Armenian Drams	2022	2021
Construction	12,799,029	5,218,432
Food and beverages production	8,441,952	4,823,923
Agriculture	7,585,991	4,616,771
Finance leases to retail customers	6,158,767	4,559,937
Trade	6,404,628	4,198,963
Services	5,123,983	3,445,727
Manufacturing	4,623,227	2,852,638
Transportation	2,027,441	1,217,883
Hydropower plants	142,381	279,495
Manufacture of leather goods	173,284	32,321
Air transportation	149,466	350,490
Other	336,397	291,765
Impairment allowance	(543,325)	(655,278)
Net investments in finance leases	**53,423,221**	**31,233,067**

11 Receivables from finance leases (continued)

The table below provides the maturity profile of gross and net investment in leases as at 31 December 2022:

In thousands of Armenian Drams	**Not later than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Later than 5 years**
Gross investment in finance leases	18,688,857	18,279,144	14,662,938	10,057,619	4,857,855	1,230,283
Unearned future finance income on finance leases	(5,362,090)	(4,172,926)	(2,558,453)	(1,237,650)	(379,336)	(99,695)
Net investment in finance leases before allowance	**13,326,767**	**14,106,218**	**12,104,485**	**8,819,969**	**4,478,519**	**1,130,588**

The table below provides the maturity profile of gross and net investment in leases as at 31 December 2021:

In thousands of Armenian Drams	**Not later than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Later than 5 years**
Gross investment in finance leases	12,445,124	10,280,780	7,551,901	5,135,507	3,013,621	879,724
Unearned future finance income on finance leases	(2,880,320)	(2,241,545)	(1,374,308)	(664,821)	(203,766)	(53,553)
Net investment in finance leases before allowance	**9,564,804**	**8,039,235**	**6,177,593**	**4,470,686**	**2,809,855**	**826,171**

12 Property, equipment, intangible assets and right-of-use assets

The movements in property, equipment, right-of-use assets and intangible assets were as follows:

In thousands of Armenian Drams	Land and buildings	Leasehold improve-ments	Equipment	Fixtures and fittings	Motor vehicles	*Sub-total Property, equipment*	Goodwill	Software and licenses	Right-of-use assets	Total
Cost/revalued amount										
31 December 2021 (restated)	**11,138,017**	**768,481**	**8,493,992**	**3,114,522**	**512,165**	***24,027,177***	**18,132**	**7,036,434**	**3,719,303**	**34,801,046**
Additions	290,151	44,253	1,208,873	330,687	32,699	***1,906,663***	-	1,617,839	239,085	**3,763,587**
Disposals and write-offs	(71,000)	-	(180,153)	(149,347)	(12,631)	***(413,131)***	-	(95,678)	(102,221)	**(611,030)**
Effect of revaluation in profit or loss*	1,198,699	-	-	-	14,118	***1,212,817***	-	-	-	**1,212,817**
Effect of revaluation in OCI*	3,331,771	-	-	-	(8,751)	***3,323,020***	-	-	-	**3,323,020**
Modification	-	-	-	-	-	***-***	-	-	(9,864)	**(9,864)**
Impairment charge to profit or loss	-	-	-	-	-	***-***	-	(591,800)	-	**(591,800)**
31 December 2022	**15,887,638**	**812,734**	**9,522,712**	**3,295,862**	**537,600**	***30,056,546***	**18,132**	**7,966,795**	**3,846,303**	**41,887,776**
Accumulated depreciation, amortisation and impairment										
31 December 2021 (restated)	**23,746**	**327,764**	**4,514,149**	**2,063,247**	**35,034**	***6,963,940***	**-**	**2,464,501**	**1,643,046**	**11,071,487**
Depreciation charge	208,009	90,995	794,627	213,377	61,332	***1,368,340***	-	651,364	589,895	**2,609,599**
Disposals and write-offs	-	-	(112,659)	(116,746)	(9,306)	***(238,711)***	-	(95,677)	(102,221)	**(436,609)**
Effect of revaluation in OCI	(211,311)	-	-	-	(80,083)	***(291,394)***	-	-	-	**(291,394)**
Modification	-	-	-	-	-	***-***	-	-	(13,975)	**(13,975)**
31 December 2022	**20,444**	**418,759**	**5,196,117**	**2,159,878**	**6,977**	***7,802,175***	**-**	**3,020,188**	**2,116,745**	**12,939,108**
Net book value										
31 December 2022	**15,867,194**	**393,975**	**4,326,595**	**1,135,984**	**530,623**	**22,254,371**	**18,132**	**4,946,607**	**1,729,558**	**28,948,668**

* The main reason for the positive revaluation is the significant increase in fair values of real estate.

12 Property, equipment, intangible assets and right-of-use assets (continued)

In thousands of Armenian Drams	Land and buildings	Leasehold improvements	Equipment	Fixtures and fittings	Motor vehicles	*Sub-total Property, equipment*	Goodwill	Software and licenses	Right-of-use assets	Total
Cost/revalued amount										
1 January 2021 (restated)	**9,724,609**	**711,660**	**8,065,901**	**3,028,006**	**645,227**	***22,175,403***	**18,132**	**6,245,173**	**2,298,427**	**30,737,135**
Additions	315,566	56,821	649,426	201,104	17,231	***1,240,148***	–	791,261	1,420,876	**3,452,285**
Disposals and write-offs	–	–	(221,335)	(114,588)	(2,991)	***(338,914)***	–	–	–	**(338,914)**
Effect of revaluation in profit or loss	153,704	–	–	–	(47,157)	***106,547***	–	–	–	**106,547**
Effect of revaluation in OCI	944,138	–	–	–	(100,145)	***843,993***	–	–	–	**843,993**
31 December 2021 (restated)	**11,138,017**	**768,481**	**8,493,992**	**3,114,522**	**512,165**	***24,027,177***	**18,132**	**7,036,434**	**3,719,303**	**34,801,046**
Accumulated depreciation, amortisation and impairment										
1 January 2021 (restated)	**385,523**	**237,028**	**3,809,089**	**1,956,428**	**160,022**	***6,548,090***	**-**	**1,865,311**	**1,112,542**	**9,525,943**
Depreciation charge	174,671	90,736	826,973	200,470	74,971	***1,367,821***	-	599,188	530,504	**2,497,513**
Disposals and write-offs	-	-	(121,913)	(93,651)	(92)	***(215,656)***	-	2	-	**(215,654)**
Effect of revaluation in OCI	(165,000)	-	-	-	(150,250)	***(315,250)***	-	-	-	**(315,250)**
Effect of revaluation in profit or loss	(371,448)	-	-	-	(49,617)	***(421,065)***	-	-	-	**(421,065)**
31 December 2021 (restated)	**23,746**	**327,764**	**4,514,149**	**2,063,247**	**35,034**	***6,963,940***	**-**	**2,464,501**	**1,643,046**	**11,071,487**
Net book value										
31 December 2021	**11,114,271**	**440,717**	**3,979,843**	**1,051,275**	**477,131**	***17,063,237***	**18,132**	**4,571,933**	**2,076,257**	**23,729,559**

Information in this disclosure was restated (Note 3).

Right-of-use assets include only buildings.

The Group engaged an independent valuator to determine the fair value of its land and buildings and motor vehicles. Fair value is determined by reference to market-based evidence.

The date of the revaluation was 1 December 2022. More details about the fair value of buildings are disclosed in Note 32.

As at 31 December 2022 property, plant and equipment included fully depreciated assets in amount of AMD 1,114,979 thousand (2021: AMD 697,010 thousand).

As at 31 December 2022 the Group recognised Impairment charge to profit or loss in amount of AMD 591,800 (Note 30) thousand for group's non-exploited Software. Impairment losses were recognised as a result of the impairment test.

12 Property, equipment, intangible assets and right-of-use assets (continued)

If the land, buildings and motor vehicles were measured using the cost model, the carrying amounts would be as follows:

In thousands of Armenian Drams	**2022**	**2021**
Cost	12,354,402	10,708,596
Accumulated depreciation and impairment	(3,062,320)	(3,152,600)
Net carrying amount	**9,292,082**	**7,555,996**

13 Taxation

The corporate income tax expense comprises:

In thousands of Armenian Drams	**2022**	**2021 (restated)**
Current tax charge	6,198,921	2,198,884
Deferred tax credit/(expense)− origination and reversal of temporary differences	(451,700)	559,406
Income tax expense	**5,747,221**	**2,758,290**

In 2022 the applicable tax rate for current and deferred tax is 18% (2021: 18%). The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

In thousands of Armenian Drams	**2022**	**2021 (restated)**
Profit before income tax	**28,044,876**	**11,982,672**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**5,048,078**	**2,156,881**
(Non-taxable income)/Non-deductible expenses, net	650,042	571,568
Change in unrecognized deferred tax assets	49,101	29,841
Income tax expense	**5,747,221**	**2,758,290**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			**Origination and reversal of temporary differences**		
In thousands of Armenian Drams	**Balance 1 January 2021**	*In the statement of profit or loss*	*In other compre-hensive income (restated)*	**Balance 31 December 2021 (restated)**	*In the statement of profit or loss*	*In other compre-hensive income*	**Balance 31 December 2022**
Deferred tax assets/ (liabilities)							
Cash and cash equivalents	**-**	-	-	**-**	9,575	-	**9,575**
Derivative financial assets	**-**	-	-	**-**	(52,883)	-	**(52,883)**
Loans and advances to banks	**13,706**	(23,064)	-	**(9,358)**	14,690	-	**5,332**
Investment securities	**(800,326)**	49,495	37,539	**(713,292)**	210,624	57,842	**(444,826)**
Loans to customers	**692,498**	(796,841)	-	**(104,343)**	(361,035)	-	**(465,378)**
Finance lease receivable	**143,265**	(81,743)	-	**61,522**	(52,953)	-	**8,569**
Investments in associates	**(46,273)**	(104,224)	-	**(150,497)**	(33,705)	9,562	**(174,640)**
Property, equipment, intangible and right-of-use assets	**(451,635)**	(114,441)	(170,027)	**(736,103)**	(231,241)	(330,678)	**(1,298,022)**
Other assets	**(5,974)**	55,506	-	**49,532**	34,003	-	**83,535**
Other borrowed funds	**(15,027)**	(15,347)	-	**(30,374)**	314,359	-	**283,985**
Other liabilities	**(90,158)**	459,829	-	**369,671**	694,306	-	**1,063,977**
Other financial instruments at amortised cost and provisions	**46,863**	11,423	−	**58,286**	(94,040)	-	**(35,754)**
Deferred tax liabilities, net	**(513,061)**	**(559,407)**	**(132,488)**	**(1,204,956)**	**451,700**	**(263,274)**	**(1,016,530)**

As recognized on the consolidated statement of financial position of the Group:

In thousands of Armenian Drams	**2022**	**2021**
Deferred tax assets	-	91,722
Deferred tax liabilities	(1,016,530)	(1,296,678)

14 Reversal of credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2022:

In thousands of Armenian Drams	Note	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash and cash equivalents	5	68,891	-	-	-	**68,891**
Loans and advances to banks	8	(55,158)	-	-	-	**(55,158)**
Debt securities at amortised cost	9	62,680	(79,196)	-	-	**(16,516)**
Debt securities measured at FVOCI	9	406,898	(651,461)	-	-	**(244,563)**
Loans to customers at amortised cost	10	710,533	392,895	1,182,756	38,563	**2,324,747**
Receivables from finance leases	11	(33,617)	3,362	147,890	-	**117,635**
Other financial assets	15	(5,983)	-	(11,005)	-	**(16,988)**
Guarantees and letters of credit	24	(744)	-	-	-	**(744)**
Loan, credit line and credit card commitments	24	109,355	2,224	1,560	-	**113,139**
Total reversal of credit loss expense		**1,262,855**	**(332,176)**	**1,321,201**	**38,563**	**2,290,443**

Reversal of credit loss expense for the year ended 31 December 2022 mostly resulted by positive macroeconomic expectations.

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The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2021:

In thousands of Armenian Drams	Note	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash and cash equivalents	5	(75,414)	–	–	–	**(75,414)**
Loans and advances to banks	8	15,894	–	–	–	**15,894**
Debt securities at amortised cost	9	(62,680)	–	–	–	**(62,680)**
Debt securities measured at FVOCI	9	(313,910)	–	–	–	**(313,910)**
Loans to customers at amortised cost	10	676,078	1,261,171	(1,600,131)	17,859	**354,977**
Receivables from finance leases	11	(50,506)	132,954	65,799	–	**148,247**
Other financial assets	15	(23,520)	–	8,808	–	**(14,712)**
Guarantees and letters of credit	24	(426)	–	–	–	**(426)**
Loan, credit line and credit card commitments	24	174,690	658	1,559	–	**176,907**
Total reversal of credit loss expense		**340,206**	**1,394,783**	**(1,523,965)**	**17,859**	**228,883**

15 Other assets

Other assets comprise:

In thousands of Armenian Drams	2022	2021
Other receivables	1,557,207	1,353,421
Impairment allowance	(27,831)	(21,848)
Total other financial assets	**1,529,376**	**1,331,573**
Advances paid to leased property suppliers	8,062,460	6,857,303
Advances paid for construction of building	2,915,374	-
Repossessed assets	1,542,858	1,515,768
Prepayments to suppliers	910,537	741,128
VAT recoverable	943,755	410,555
Inventories	273,013	148,842
Property to be leased	464,625	99,996
Returned lease property	30,795	30,795
Other	222,231	346,288
Total other non-financial assets	**15,365,648**	**10,150,675**
Less impairment allowance	(780,144)	(755,150)
Total other assets	**16,114,880**	**10,727,098**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2022 is as follows:

In thousands of Armenian Drams	Stage 1	Stage 3	Total
ECL at 1 January 2022	**21,848**	**-**	**21,848**
New assets originated or redeemed (net)	16,988	-	**16,988**
Transfers to Stage 3	(11,005)	11,005	**-**
Write-off		(11,005)	**(11,005)**
At 31 December 2022	**27,831**	**-**	**27,831**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2021 is as follows:

In thousands of Armenian Drams	Stage 1	Stage 3	Total
ECL at 1 January 2021	**19,967**	**-**	**19,967**
New assets originated or redeemed (net)	28,244	-	**28,244**
Transfers to Stage 3	(21,639)	21,639	**-**
Impact on period end ECL of exposures transferred between stages during the period	–	(8,808)	**(8,808)**
Changes to models and inputs used for ECL calculations	(4,724)	-	**(4,724)**
Write-off	–	(12,831)	**(12,831)**
At 31 December 2021	**21,848**	**-**	**21,848**

An analysis of Impairment allowance for non-financial assets as follows:

In thousands of Armenian Drams	2022	2021
Balance at the beginning of the year	**755,150**	**659,621**
Net charge	24,994	95,529
Balance at the end of the year	**780,144**	**755,150**

16 Deposits and balances from banks

Deposits and balances from banks include the following:

In thousands of Armenian Drams	2022	2021
Sale and repurchase agreements with other banks	6,026,642	-
Loans from other banks of Armenia	3,003,615	-
Loans from International banks	469,764	690,532
Correspondent accounts and overnight placements of other banks	417,662	28,486
Short-term placements of banks	19,951	351,872
Total deposits and balances from banks	**9,937,634**	**1,070,890**

17 Current accounts and deposits from customers

Current accounts and deposits from customers include the following:

In thousands of Armenian Drams	**2022**	**2021**
Current accounts and demand deposits		
Retail	65,375,020	46,917,615
Corporate	113,678,747	71,040,463
Unsettled transactions	6,278,586	-
Term deposits		
Retail	175,670,130	156,966,490
Corporate	62,909,841	61,625,678
Total	**423,912,324**	**336,550,246**
Held as security against guarantees	1,574,261	1,097,872

At 31 December 2022, current accounts and deposits from customers of AMD 80,478,569 thousand (19%) were due to the ten largest customers (2021: AMD 72,646,000 thousand (21.5%).

As at 31 December 2022, the Group has two customers (31 December 2021: two customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2022 is AMD 49,815,645 thousand (31 December 2021: AMD 42,793,584 thousand).

Unsettled transactions includes amount was not settled as at 31 December 2022 in Group’s customers accounts. This amount was settled in first working days of January 2023.

In accordance with the Armenian legislation, Group is obliged to repay deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

18 Debt securities issued

Debt securities issued consisted of the following:

In thousands of Armenian Drams	**2022**	**2021**
Promissory notes	807,986	1,607,410
Domestic bonds issued	5,398,074	3,461,498
Debt securities issued	**6,206,060**	**5,068,908**

Debt securities issued include promissory notes amounting AMD 807,986 thousand (2021: AMD 1,607,410 thousand), which were issued by the Group to non-resident funds for financing purposes.

During the 2022 December the Group issued AMD and USD denominated bonds with nominal amount of AMD 3,000,000 thousand (2021: AMD 2,000,000 thousand) and USD 5,000,000 (2021: USD 3,000,000) accordingly.

Carrying value of the domestic bonds issued consisted:

In thousands of Armenian Drams	**2022**	**2021**
AMD denominated bonds	3,192,719	2,015,577
USD denominated bonds	2,205,355	1,445,921
Total domestic bonds issued	**5,398,074**	**3,461,498**

Bear annual interest rate and maturity dates for placed bonds are consisted of the following:

In thousands of Armenian Drams	**AMD**	**USD**	**Maturity date**
Bonds issued in 2021	9.5%	4.1%	2023
Bonds issued in 2022	11%	5%	2025

19 Other borrowed funds

Other borrowed funds consisted of the following:

In thousands of Armenian Drams	2022	2021
Borrowings from international financial institutions	44,636,290	54,300,591
Borrowings from Government of Armenia	35,187,132	33,617,057
Borrowings from local financial institutions	2,926,091	2,322,917
Lease liabilities	1,573,639	2,091,196
Other borrowed funds	**84,323,152**	**92,331,761**

Borrowings from international financial institutions include AMD, USD and EUR denominated borrowings under several financing programs maturing from 2022 till 2028.

Borrowings from Government of Armenia mainly include AMD denominated borrowings provided under Central Bank of Armenia refinancing programs, maturing from 2022 till 2041.

Borrowings from local financial institutions comprise of AMD borrowings under mortgage refinancing programs, maturing from 2022 till 2034.

As at 31 December 2022, loans to customers and finance lease receivables with a gross value of AMD 35,972,279 thousand (2021: AMD 36,388,132 thousand) serve as collateral for secured borrowings from RA Government and Armenian financial institutions (see Notes 10 and 11).

As at 31 December 2022 the Group has other borrowed funds from five lenders (2021: five lenders), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2022 is AMD 77,167,285 thousand (2021: AMD 81,358,062 thousand).

Breach of covenants

As at 31 December 2022 the Group's subsidiary ACBA Leasing Credit Organization CJSC breached one covenant under loan agreements with financial institution. There are no any cross-default clauses for other parties of the Group in conditions of loan agreement. The amount of borrowed funds with breach of covenants AMD 1,145,153 thousand presented within one year in maturity analysis of assets and liabilities (note 33). Subsequent to the reporting date the Group obtained waiver from counterparty for exposures.

As at 31 December 2021 the Group was in compliance with all covenants.

Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

In thousands of Armenian Drams	2022	2021
As at 1 January	2,091,196	1,365,804
Additions	239,085	122,802
Modification	156,815	1,298,074
Accretion of interest	107,690	110,963
Payments	(658,362)	(692,215)
Forex loss/gain	(260,564)	(114,232)
Termination of contract	(102,221)	–
As at 31 December	**1,573,639**	**2,091,196**

The Group had total cash outflows for leases of AMD 658,362 thousand in 2022 (2021: AMD 692,215 thousand). The Group also had non-cash additions to right-of-use assets and lease liabilities of AMD 239,085 thousand in 2022 (2021: AMD 122,802 thousand).

20 Subordinated loans

Subordinated loans consisted of the following:

In thousands of Armenian Drams	2022	2021
Subordinated loan received from international financial institutions	7,805,036	9,794,000
Subordinated loans	**7,805,036**	**9,794,000**

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

21 Other liabilities

In thousands of Armenian Drams	2022	2021
Accounts payable	3,998,386	5,750,351
Payables to employees	4,321,118	2,366,706
Liabilities for pensions payables	3,307,766	-
Provision for liabilities	2,666,591	-
Provisions for credit-related commitments	94,763	211,416
Total other financial liabilities	**14,388,624**	**8,328,473**
Prepayments from lessees	2,982,241	3,959,354
Taxes payable other than on income	811,643	455,009
Payables to Deposit Guarantee fund	131,143	112,948
Other non-financial liabilities	114,288	160,715
Total other non-financial liabilities	**4,039,315**	**4,688,026**
Total other liabilities	**18,427,939**	**13,016,499**

As at 31 December 2022, accounts payable include payables to former shareholders of ACBA Bank OJSC for purchase of Bank's shares in the amount of USD 2,618,187 equivalent AMD (2021: USD 5,156,929). This liability is subject to repayment until 30 September 2023 by annual equal payments. Payables are secured by 389 shares of ACBA Bank OJSC. For the payables with deferred payment requirement, the Group pays interests with an annual interest rate of 4%.

As at 31 December 2022 provision for liabilities includes provision for certain legal claims brought against the Group in amount AMD 2,666,591 thousand. The balance at 31 December 2022 is expected to be utilised by the end of 2023. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Movements in provisions for liabilities are as follows:

In thousands of Armenian Drams	Note	Total
Provision for legal claim		
Carrying amount at 1 January 2021		**-**
Additions charged to profit or loss	30	2,666,591
Carrying amount at 31 December 2022		**2,666,591**

22 Equity

Issued capital

As at 31 December 2022 and 31 December 2021 the Group's share capital was AMD 22,312,000 thousand. The authorized, issued and outstanding share capital comprises 22,312,000 ordinary shares (2021: 22,312,000 ordinary shares) with a par value of AMD 1,000 (2021: AMD 1,000) each.

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

The list of shareholders of ACBA Federation CJSC is disclosed in Note 1.

Nature and purpose of reserves

Revaluation surplus for property and equipment

The revaluation surplus for land, buildings and motor vehicles comprises the cumulative positive revalued value of land, buildings and motor vehicles until the assets are derecognized or impaired.

Revaluation reserve for investment securities

The revaluation reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

22 Equity (continued)

Non-controlling interest of the Group

Share-based payments

In June 2021 the Group's employees received 147,530 ordinary shares of the Bank from ACBA Federation CJSC, each with a fair value of AMD 12,591 at grant date, with no consideration and conditions attached. As a result of the transaction the non-controlling interest in the subsidiary increased to 7.95%, the company's share decreased to 92.05%. Refer to Note 23.

Increase in ownership in subsidiary

In 2022, ACBA Federation CJSC purchased 6,482 ordinary shares ACBA Bank OJSC in the total amount of AMD 90,785 thousand with a nominal value of AMD 10,000. As a result of the transaction the non-controlling interest in the subsidiary decreased to 16.20%, the company's share decreased to 83.80%.

Decrease in ownership in subsidiary

In 2021, ACBA Bank OJSC, placed 500,000 ordinary shares in the total amount of AMD 7,500,000 thousand with a nominal value of AMD 10,000 and offer price of AMD 15,000 per share. As a result of the transaction the non-controlling interest in the subsidiary increased to 16.32%, the company's share decreased to 83.68%.

Dividends paid by subsidiary to non-controlling interests

The dividends paid to non-controlling interests by ACBA Bank OJSC in 2022 and 2021 amounted to AMD thousand 537,421 and AMD 125,000 thousand accordingly.

23 Share-based payments

The ACBA BANK Open Joint-Stock Company's Employee Stock Ownership Program

In 2021 ACBA Federation CJSC, ACBA Bank OJSC and ACBA Leasing CO CJSC announced the commencement of ACBA BANK Open Joint-Stock Company's Employee Stock Ownership Program (hereinafter referred to as the "Program") as an integral part of the remuneration, rewards and promotion, human resources and talent management systems of the ACBA FEDERATION Closed Joint-Stock Company's, ACBA BANK Open Joint-Stock Company's and ACBA LEASING CO Closed Joint-Stock Company's key and loyal employees.

Under the Program ACBA Federation CJSC will donate up to 300,000 (three hundred thousand) ordinary shares of the shares of the Bank, each with a nominal value of AMD 10,000), to the employees of ACBA Federation CJSC, ACBA Bank OJSC and ACBA Leasing CO CJSC.

In June 2021 the Group's employees received 147,980 ordinary shares of the Bank from ACBA Federation CJSC, each with a fair value of AMD 12,591 at grant date, with no consideration and conditions attached.

Total fair value of shares granted to Group's employees in amount of AMD 630,938 thousand was recognized as personnel expense in the consolidated statement of profit or loss with a corresponding increase in equity for the year ended 31 December 2022 (2021: AMD 2,478,295 thousand).

- The Bank hired independent consultants for fair value estimation of its shares. Dividend discount approach was applied for valuation of the shares which included the following steps:
- Determination of general assumptions and structure of the financial model;
- Forecast of the balance sheet of the Bank and its subsidiaries;
- Forecast of the financial result of the Bank and its subsidiaries;
- Forecast of dividends with consideration of capital adequacy and liquidity requirements;
- Determination of discount rate;
- Determination of the Bank's terminal value;
- Analysis of assets and liabilities not included in forecast of the financial results;
- Calculation of 100% of the Bank's equity.

Discount rate was determined based on a peer bank's required rate of return on equity.

24 Commitments and contingencies

Operating environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal

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

Taxation

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

As at 31 December the Group's commitments and contingencies comprised the following:

In thousands of Armenian Drams	**2022**	**2021**
Credit related commitments		
Loan and credit line commitments	14,750,201	13,916,868
Credit card commitments	15,908,017	14,984,639
Guarantees and letters of credit	23,887,159	14,130,722
Commitments and contingencies	**54,545,377**	**43,032,229**

An analysis of changes in the ECLs during the year ended 31 December 2022 is as follows:

Loan, credit line and credit card commitments *In thousands of Armenian Drams*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECLs as at 1 January 2022	**202,626**	**1,407**	**6,212**	**210,245**
New exposures	43,757	-	-	**43,757**
Expired exposures	(78,279)	(2,056)	(3,759)	**(84,094)**
Transfers to Stage 1	692	(692)	-	**-**
Transfers to Stage 2	(789)	789	-	**-**
Transfers to Stage 3	(1,185)	(43)	1,228	**-**
Impact on period end ECL of exposures transferred between stages during the period	(599)	256	1,085	**742**
Changes to models and inputs used for ECL calculations	(72,952)	(478)	(114)	**(73,544)**
Foreign exchange adjustments	(3,990)	(88)	(169)	**(4,247)**
At 31 December 2022	**89,281**	**(905)**	**4,483**	**92,859**

24 Commitments and contingencies (continued)

Guarantees and letters of credit *In thousands of Armenian Drams*	**Stage 1**	**Total**
ECLs as at 1 January 2022	**1,171**	**1,171**
New exposures	1,846	**1,846**
Expired exposures	(1,120)	**(1,120)**
Changes to models and inputs used for	18	**18**
Foreign exchange adjustments	(11)	**(11)**
At 31 December 2022	**1,904**	**1,904**

An analysis of changes in the ECLs during the year ended 31 December 2021 is as follows:

Loan, credit line and credit card commitments *In thousands of Armenian Drams*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECLs as at 1 January 2021	**389,008**	**2,590**	**5,061**	**396,659**
New exposures	67,060	–	–	**67,060**
Expired exposures	(113,009)	(1,782)	(2,787)	**(117,578)**
Transfers to Stage 1	465	(419)	(46)	**–**
Transfers to Stage 2	(273)	273	–	**–**
Transfers to Stage 3	(2,794)	(178)	2,972	**–**
Impact on period end ECL of exposures transferred between stages during the period	(391)	1,316	1,168	**2,093**
Changes to models and inputs used for ECL calculations	(128,350)	(192)	60	**(128,482)**
Foreign exchange adjustments	(9,090)	(201)	(216)	**(9,507)**
At 31 December 2021	**202,626**	**1,407**	**6,212**	**210,245**

Guarantees and letters of credit *In thousands of Armenian Drams*	**Stage 1**	**Total**
ECLs as at 1 January 2021	**745**	**745**
New exposures	1,154	**1,154**
Expired exposures	(728)	**(728)**
At 31 December 2021	**1,171**	**1,171**

25 Net interest income

Net interest income comprises:

In thousands of Armenian Drams	**2022**	**2021 (restated)**
Financial assets measured at amortized cost		
Loans to legal entities and individuals	50,140,816	42,872,551
Amounts receivable under reverse repurchase agreements	281,069	598,700
Loans and advances to banks	165,688	193,600
Other	1,460	86,340
	50,589,033	**43,751,191**
Financial assets measured at fair value through other comprehensive income		
Debt instruments	1,317,522	1,333,388
Interest revenue calculated using effective rate	**51,906,555**	**45,084,579**
Receivables from finance leases	5,722,526	3,048,611
Other interest income	130,240	476,102
Other interest revenue	**5,852,766**	**3,524,713**
Total interest revenue	**57,759,321**	**48,609,292**
Interest expense		
Current accounts and deposits from customers	15,565,133	12,921,770
Other borrowed funds and subordinated loans except lease liabilities	7,169,520	7,340,858
Amounts payable under repurchase agreements	475,780	261,868
Debt securities issued	252,100	181,868
Other	673,756	268,359
Interest expense calculated using effective interest rate	**24,136,289**	**20,974,723**
Lease liabilities	107,690	110,963
Interest expense	**24,243,979**	**21,085,686**
Net interest income	**33,515,342**	**27,523,606**

Information in this disclosure was restated (Note 3).

26 Net fee and commission income

Net fee and commission income comprise:

In thousands of Armenian Drams	**2022**	**2021**
Plastic card maintenance	6,031,224	3,853,604
Money transfers	1,404,119	668,611
Cash withdrawal services	731,665	262,213
Guarantee and letter of credit issuance	568,406	436,782
Banking account servicing fees	281,068	442,752
Commissions from lease equipment suppliers	148,649	228,322
Commissions for acting as an insurance agent	225,424	135,167
Other	312,903	267,108
Fee and commission income	**9,703,458**	**6,294,559**
Plastic card maintenance	3,093,747	2,319,495
Money transfers	316,813	64,341
Other	241,179	126,718
Fee and commission expense	**3,651,739**	**2,510,554**
Net fee and commission income	**6,051,719**	**3,784,005**

27 Other income

In thousands of Armenian Drams	**2022**	**2021 (restated)**
Gain from revaluation of land and buildings	1,212,817	527,612
Other	234,183	356,008
Total other income	**1,447,000**	**883,620**

Information in this disclosure was restated (Note 3).

28 Other operating expenses

Other operating expenses comprise:

In thousands of Armenian Drams	**2022**	**2021**
Guarantee fees on deposit insurance fund	485,210	448,438
Loan collection expenses	367,100	363,975
Taxes other than on income	342,734	301,414
Encashment expenses	232,930	173,831
Loss on disposal of property, plant and equipment	150,469	112,292
Financial system mediator payments	78,848	70,117
Membership fees	45,480	61,272
Securities registry maintenance fee	13,288	15,016
Fines and penalties paid	8,433	27,163
Other	721,903	437,601
Other operating expenses	**2,446,395**	**2,011,119**

29 Other general administrative expenses

In thousands of Armenian Drams	**2022**	**2021**
Advertising and marketing	876,962	1,073,077
Repairs and maintenance	854,530	678,502
Software maintenance expense	484,258	653,309
Communications	358,974	361,510
Security	303,442	279,454
Utilities and office supplies	254,693	193,222
Insurance	191,136	153,154
Represe.0ntative expenses	182,632	168,424
Operating lease expense	58,671	32,240
Other	490,596	430,561
Other general administrative expenses	**4,055,894**	**4,023,453**

The Group recognised rent expense from short-term leases of AMD 6,381 thousand and leases of low-value assets of AMD 52,290 thousand for the year ended 31 December 2022 (2021 − rent expense from short-term leases of AMD 7,617 thousand and leases of low-value assets of AMD 28,442 thousand).

30 Charge for other impairment and provisions

In thousands of Armenian Drams	2022	2021
Provision charge for liabilities (note 21)	2,666,591	-
Impairment charge for intangible assets	591,800	-
Impairment charge for repossessed assets	24,994	95,529
Charge for other impairment and provisions	**3,283,385**	**95,529**

31 Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and permanent controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group 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.

Business risks such as changes in the environment, technology and industry, are also covered within the scope of the risk management function through the engagement of different divisions concerned.

Risk management structure

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

Board

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

Chief Executive Officer

The Chief Executive Officer has the responsibility to monitor and manage the overall risk process within the Group.

Risk Management Committee

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for the identification, measurement, monitoring and management of all types of risks followed by reporting after each step to ensure an independent control process.

Assets and Liabilities Management Division

The Assets and Liabilities Management Division is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Internal Audit Committee.

31 Risk management (continued)

Risk measurement and reporting systems

The Group takes individual approach when analyzing and assessing different types of risks through applying statistical models, sensitivity analysis, as well as analyzing the dynamics of various risk indicators and taking appropriate actions in case of necessity. The models are further backtested for checking the validity. The Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Credit risk information related to all the business lines is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Chief Executive Officer, the Risk Management Committee, and the head of each business division. The report to Risk Management Committee includes aggregate credit exposure analysis, credit concentration limits monitoring results, GAP analysis, VaR estimations, liquidity ratios and benchmark analysis, stress test analysis, overall risk appetite control and risk profile changes. On a quarterly basis detailed reporting of industry, customer and business line risks takes place.

The Risk Management Committee discusses the critical risk issue and approves on actions to mitigate and control them. The 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 Group.

For all levels throughout the Group, 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.

Daily alerts are given in case of breaches of risk limits to the relevant business divisions of the Group, as well as to the Chief Executive Officer, and corresponding actions are discussed and applied.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

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 Group's performance to developments affecting a particular industry or geographical location.

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting risk appetite limits for the Group and its separate business lines and concentration limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industrial concentrations, and by monitoring exposures in relation to such limits.

31 Risk management (continued)

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers financial guarantees and letters of credit which may require that the Group make payments on their behalf. Such payments are collected from customers based on the contractual terms. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk of financial instrument

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Notes 10 and 11.

Impairment assessment

The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

31 Risk management (continued)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when:

- the borrower becomes 91 days past due on its contractual payments;
- all liabilities of the given borrower, if at least one of them has more than 90 overdue days in the Bank and/or other financial organizations (also includes the affiliation of a natural person and an individual entrepreneur);
- all the liabilities of the given borrower, if at least one of the liabilities of the affiliated persons is more than 90 days overdue in the Bank;
- refinanced or revised assets due to borrower's poor financial condition, for which there are more than 30 overdue days with the Bank.
- all the liabilities of the given borrower, if at least one of them is subject to refinancing or revision in the Bank, which is overdue for more than 30 days.

The Group considers amounts due from banks defaulted and takes immediate action if counterparty at the end of reporting date fails to do payment of the accrued interest (coupon) and/or principal amount more than 15 business days.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as:

- the quality of credits due to affiliated parties;
- the state of being rescheduled;
- the outcome of financial monitoring, which are approved by the management;
- reduction of loan security - as a result of total or partial loss of collateral by the mortgagor, physical damage or illegal sale, or decrease in the loan security ratio due to a decrease in the market value
- concentration of loans to other persons, including concentration to family members. Refusal to repay loans by the borrower and presence of more than 30 overdue days. This criterion is assigned to all loans to which the monitoring conclusion applies;
- force majeure: death of the borrower or the sole owner, disability, serious illnesses. This criterion is applied to all loans of the customer, and
- natural disasters or epidemics. This criterion is assigned to all loans to which the monitoring conclusion applies.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay, based on management's judgment. When such events occur, the Group 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.

31 Risk management (continued)

It is the Group'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 six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the debt service by the borrower and existence of other non-primary SICR criteria as of date of the assessment.

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

For stage 1 and stage 2 loans to customers, as well as for individually not significant stage 3 exposures, the Group calculates ECL on portfolio level. The following portfolios are segregated by the Bank, which are further sub-bucketed into smaller target groups for the purposes of PD PIT matrices evaluation.

- Corporate loans;
- Consumer loans;
- Agricultural loans;
- Mortgages loans;
- Other (credit cards and gold-secured loans).

PDs for loans to customers are based on historic information and calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring to defaulted category during 12-month period from the total number of credits at the beginning of the period. In calculation of PDs the Group considers forward looking macroeconomic parameters that had significant impact on the probability of default estimated through time series regression analysis. The forecasts of PDs are evaluated based on the officially available forward-looking macroeconomic parameters. Time series regression analysis are assessed by the following sectors: agriculture, business, consuming and mortgage, the outcome of which are then cascaded down to the predefined sub-buckets of loans to arrive to the PD PIT transition matrices.

Based on the estimated deviation of the historical forecasts of the selected macroeconomic parameters from the actual trends three scenarios of the forward-looking macroeconomic development are directed to the final outcome of three PD PIT transition matrices, which are weighted by 15%, 70% and 15% probabilities corresponding to the best, base and worst case scenarios.

Exposure at default

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

Loss given default

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. For the purposes of LGD rate calculation the initial bucketing used for PD PIT estimation is further sub-bucketed based on the type of collateral. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

31 Risk management (continued)

Significant increase in credit risk

The Group 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. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

The Group management also considers the following factors to determine whether there is an increase in credit risk:
- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties;
- Significant difficulties in the financial conditions of the borrower;
- Renegotiation of the loan terms resulting from deterioration of the borrower's financial position;
- The outcome of the financial monitoring of the borrower's activity.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

2022
- Industrial production annual growth;
- Consumer price inflation;
- Import annual growth;
- Service annual growth;
- Exchange rate USD/AMD, end-period
- Agricultural production annual growth;
- State budget of RA, deficit/ surplus;
- Stock of money M2 growth;

2021
- GDP annual growth;
- Industrial production annual growth;
- Consumer price inflation;
- Exports of goods volume;
- Imports of goods volume;
- Service annual growth;
- Share of total bank loans in GDP;
- Exchange rate USD/AMD, end-period.

The Group obtains the forward-looking information from third party sources (Economic Intelligence Unit and World Bank Database, as well as Government of the RA Forecasts). 15%, 70% and 15% probabilities are attributed to each of the corresponding scenarios: best case, base and worst case scenarios.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations as at 31 December 2022.

31 Risk management (continued)

Key drivers	ECL scenario	Assigned probabilities, %	2023	2024	2025
Industrial production annual growth, %	Upside	15%	9.92%	9.01%	7.81%
	Base case	70%	5.70%	5.90%	5.20%
	Downside	15%	1.48%	2.79%	2.59%
Consumer price inflation, % (cum)	Upside	15%	1.60%	1.29%	1.02%
	Base case	70%	3.90%	4.00%	4.00%
	Downside	15%	6.20%	6.71%	6.98%
Import annual growth, %	Upside	15%	5.56%	7.51%	8.40%
	Base case	70%	1.80%	3.30%	3.90%
	Downside	15%	-1.96%	-0.91%	-0.60%
Service annual growth, %	Upside	15%	7.76%	8.11%	8.50%
	Base case	70%	4.00%	3.90%	4.00%
	Downside	15%	0.24%	-0.31%	-0.50%
Exchange rate USD/AMD, end-period	Upside	15%	427.12	407.58	383.29
	Base case	70%	446.30	447.60	443.70
	Downside	15%	465.48	489.49	510.13
Agricultural production annual growth, %	Upside	15%	8.36%	8.61%	8.70%
	Base case	70%	1.40%	1.80%	2.70%
	Downside	15%	0.84%	0.19%	-0.30%
State budget of RA, deficit (-) / surplus (+), mln. AMD	Upside	15%	(116,679)	(78,440)	(17,090)
	Base case	70%	(292,200)	(273,300)	(225,567)
	Downside	15%	(467,721)	(468,160)	(434,043)
Stock of money M2 growth, %	Upside	15%	18.73%	13.28%	13.43%
	Base case	70%	14.90%	9.20%	9.20%
	Downside	15%	11.07%	5.12%	4.97%

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations 31 December 2021.

Key drivers	ECL scenario	Assigned probabilities, %	2022	2023	2024
GDP annual growth, %					
	Upside	15%	9.20%	8.13%	8.70%
	Base case	70%	5.30%	4.00%	4.40%
	Downside	15%	1.40%	-0.13%	0.10%
Industrial production annual growth, %					
	Upside	15%	9.37%	7.50%	7.67%
	Base case	70%	5.50%	3.40%	3.40%
	Downside	15%	1.63%	-0.70%	-0.87%
Consumer price inflation, % (cum)					
	Upside	15%	2.89%	1.82%	0.90%
	Base case	70%	5.50%	4.70%	4.00%
	Downside	15%	8.11%	7.58%	7.10%
Exports of goods volume, thousand USD					
	Upside	15%	3,805,178	4,422,900	4,522,087
	Base case	70%	3,548,750	3,846,845	3,648,115
	Downside	15%	3,292,322	3,310,965	2,894,623
Imports of goods, volume thousand USD					
	Upside	15%	6,496,801	7,630,110	8,253,480
	Base case	70%	5,918,000	6,326,000	6,190,000
	Downside	15%	5,339,199	5,144,016	4,502,578
Service annual growth, %					
	Upside	15%	8.51%	10.57%	11.31%
	Base case	70%	4.90%	5.20%	5.90%
	Downside	15%	1.29%	-0.17%	0.13%
Share of total bank loans in GDP, %					
	Upside	15%	61.59%	65.70%	71.76%
	Base case	70%	60.05%	62.48%	64.55%
	Downside	15%	57.52%	56.50%	54.68%
Exchange rate USD/AMD, end-period					
	Upside	15%	457.72	441.20	424.26
	Base case	70%	476.44	479.84	483.74
	Downside	15%	495.16	520.10	548.53

31 Risk management (continued)

Credit quality per class of financial assets

The following table provides information on the credit quality of net loans to legal entities and individuals and receivables from finance lease as at 31 December 2022 and 31 December 2021:

2022 *In thousands of Armenian Drams*	**Note**		**High grade**	**Standard Grade**	**Sub-standard grade**	**Impaired**	**Total**
Loans to customers at amortized cost	10						
- Corporate lending		Stage 1	-	136,903,499	-	-	**136,903,499**
		Stage 2	-	-	4,426,855	-	**4,426,855**
		Stage 3	-	-	-	3,395,604	**3,395,604**
		POCI	-	-	-	21,311	**21,311**
- Agricultural loans		Stage 1	-	104,516,713	-	-	**104,516,713**
		Stage 2	-	-	1,368,169	-	**1,368,169**
		Stage 3	-	-	-	1,880,967	**1,880,967**
- Consumer loans		Stage 1	2,114,998	93,362,575	-	-	**95,477,573**
		Stage 2	-	-	1,995,818	-	**1,995,818**
		Stage 3	-	-	-	2,307,086	**2,307,086**
- Credit cards		Stage 1	712,319	10,458,618	-	-	**11,170,937**
		Stage 2	-	-	218,235	-	**218,235**
		Stage 3	-	-	-	429,087	**429,087**
- Mortgage loans		Stage 1	-	40,897,873	-	-	**40,897,873**
		Stage 2	-	-	654,365	-	**654,365**
		Stage 3	-	-	-	622,267	**622,267**
		POCI	-	-	-	32,303	**32,303**
- Gold-secured loans		Stage 3	-	-	-	135	**135**
Receivables from finance lease	11	Stage 1	-	52,353,433	-	-	**52,353,433**
		Stage 2	-	-	762,854	-	**762,854**
		Stage 3	-	-	-	306,934	**306,934**
Total			**2,827,317**	**438,492,711**	**9,426,296**	**8,995,694**	**459,742,018**

2021 *In thousands of Armenian Drams*	**Note**		**High grade**	**Standard grade**	**Sub-standard grade**	**Impaired**	**Total**
Loans to customers at amortised cost	10						
- Corporate lending		Stage 1	446,110	103,200,193	–	–	**103,646,303**
		Stage 2	–	–	9,427,578	–	**9,427,578**
		Stage 3	–	–	–	4,680,896	**4,680,896**
		POCI	–	–	–	101,096	**101,096**
- Agricultural loans		Stage 1	1,166,512	99,438,028	–	–	**100,604,540**
		Stage 2	–	–	2,462,054	–	**2,462,054**
		Stage 3	–	–	–	2,777,936	**2,777,936**
- Consumer loans		Stage 1	104,915	67,768,522	–	–	**67,873,437**
		Stage 2	–	–	2,683,211	–	**2,683,211**
		Stage 3	–	–	–	2,943,491	**2,943,491**
- Credit cards		Stage 1	173,944	9,769,101	–	–	**9,943,045**
		Stage 2	–	–	356,165	–	**356,165**
		Stage 3	–	–	–	562,613	**562,613**
- Mortgage loans		Stage 1	7,797,703	23,114,459	–	–	**30,912,162**
		Stage 2	–	–	1,011,131	–	**1,011,131**
		Stage 3	–	–	–	498,705	**498,705**
		POCI	–	–	–	33,143	**33,143**
- Gold-secured loans		Stage 1	–	6,330	–	–	**6,330**
		Stage 2	–	–	771	–	**771**
		Stage 3	–	–	–	3,758	**3,758**
Receivables from finance lease	11	Stage 1	–	29,753,092	–	–	**29,753,092**
		Stage 2	–	–	1,100,284	–	**1,100,284**
		Stage 3	–	–	–	379,691	**379,691**
Total			**9,689,184**	**333,049,725**	**17,041,194**	**11,981,329**	**371,761,432**

31 Risk management (continued)

The tables below present average PDs per grades for loans to customers and receivables from finance lease under baseline scenario as at 31 December 2022 and 31 December 2021:

2022	Grade	Average PD
Corporate lending	Standard	1.2%
	Sub−standard	5.2%
	Impaired	100.0%
Agricultural loans	Standard	1.2%
	Sub−standard	5.5%
	Impaired	100.0%
Consumer loans	Standard	1.8%
	Sub−standard	12.9%
	Impaired	100.0%
Credit cards	Standard	1.4%
	Sub−standard	10.1%
	Impaired	100.0%
Mortgage loans	Standard	0.3%
	Sub−standard	8.4%
	Impaired	100.0%
Gold−secured loans	Standard	-
	Sub−standard	-
	Impaired	100.0%
Receivables from finance lease	Standard	1.3%
	Sub−standard	6.7%
	Impaired	100.0%

2021	Grade	Average PD
Corporate lending	Standard	0.96%
	Sub-standard	4.68%
	Impaired	100%
Agricultural loans	Standard	1.89%
	Sub-standard	6.29%
	Impaired	100%
Consumer loans	Standard	3.88%
	Sub-standard	16.77%
	Impaired	100%
Credit cards	Standard	3.34%
	Sub-standard	10.52%
	Impaired	100%
Mortgage loans	Standard	1.42%
	Sub-standard	13.36%
	Impaired	100%
Gold-secured loans	Standard	0.64%
	Sub-standard	0.64%
	Impaired	100%
Receivables from finance lease	Standard	0.76%
	Sub-standard	4.74%
	Impaired	100%

High grade instruments include cash-covered loans to customers. No impairment allowance is created for these loans because of the collateral.

Credit quality per class of financial assets

The credit quality of financial assets below is managed by the Group based on external credit ratings. Not rated exposures are classified in Standard Grade, unless they are impaired.

31 Risk management (continued)

As at 31 December 2022:

In thousands of Armenian Drams	**Note**		**High grade**	**Standard grade**	**Sub-standard grade**	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	897,726	65,820,809	-	66,718,535
Loans and advances to banks	8	Stage 1	-	50,917,404	-	50,917,404
Debt securities at amortised cost	9	Stage 2	-	-	169,536	169,536
Debt securities at FVOCI	9	Stage 1	-	21,285,791	-	21,285,791
Total			**897,726**	**138,024,004**	**169,536**	**139,091,266**

As at 31 December 2021:

In thousands of Armenian Drams	**Note**		**High grade**	**Standard grade**	**Total**
Cash and cash equivalents, except for cash on hand	5	Stage 1	1,322,505	77,534,883	**78,857,388**
Loans and advances to banks	8	Stage 1	−	19,675,099	**19,675,099**
Debt securities at amortised cost	9	Stage 1	−	180,897	**180,897**
Debt securities at FVOCI	9	Stage 1	−	21,002,202	**21,002,202**
Total			**1,322,505**	**118,393,081**	**119,715,586**

The table below shows the mapping of the Group's grading system and external ratings of the counterparties as at 31 December 2022 and 31 December 2021.

2022:

International external rating agency (Moody's) rating	**Internal rating description**	**PD**
Aaa to A3	High grade	0-0.05%
Baa1 to B3	Standard	0.2-3.2%
Caa1 to Ca	Sub-standard grade	9.6%
C	Impaired	100%

2021:

International external rating agency (Moody's) rating	**Internal rating description**	**PD**
Aaa to A3	High grade	0-0.05%
Baa1 to B3	Standard	0.2-3.2%
Caa1 to Ca	Sub-standard grade	9.7%
C	Impaired	100%

Liquidity risk and funding management

Liquidity risk is the risk that the Group 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 Group maintains a portfolio of highly marketable and diverse assets (highly liquid assets) that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the CBA, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by subsidiary of the Group ACBA Bank OJSC based on certain liquidity ratios established by the CBA.
For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or use of which is not restricted in any way. Liabilities payable on demand include currents accounts and demand deposits of customers, as well as any other liability that is payable on demand.

31 Risk management (continued)

As at 31 December, these ratios of were as follows:

	Threshold	2022, %	2021, %
N2.1 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	20.51%	24.57%
N2.2 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	72.5%	111.12%

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousands of Armenian Drams As at 31 December 2022	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities						
Deposits and balances from banks	-	9,663,807	199,387	78,254	-	**9,941,448**
Current accounts and deposits from customers	-	218,509,546	135,280,953	74,824,334	6,709,127	**435,323,960**
Debt securities issued	-	-	912,878	-	-	**912,878**
Subordinated loans	-	25,998	3,793,384	9,500,314	-	**13,319,696**
Other borrowed funds except lease liabilities	-	3,772,330	22,689,277	69,664,264	3,503,205	**99,629,076**
Other financial liabilities	-	13,358,184	1,030,440	-	-	**14,388,624**
Total undiscounted financial liabilities	**-**	**245,329,865**	**163,906,319**	**154,067,166**	**10,212,332**	**573,515,682**
Credit related commitments	**-**	**54,545,377**	**-**	**-**	**-**	**54,545,377**

In thousands of Armenian Drams As at 31 December 2021	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities						
Deposits and balances from banks	–	56,868	2,393	1,018,511	–	**1,077,772**
Current accounts and deposits from customers	–	168,731,806	117,612,301	56,267,637	9,368,764	**351,980,508**
Debt securities issued	–	–	161,462	5,149,874	–	**5,311,336**
Subordinated loans	–	69,993	160,986	4,006,225	8,936,516	**13,173,720**
Other borrowed funds except lease liabilities	–	6,858,823	18,851,464	78,085,351	8,851,432	**112,647,070**
Other financial liabilities	–	5,814,552	–	2,513,921	–	**8,328,473**
Total undiscounted financial liabilities	**–**	**181,532,042**	**136,788,606**	**147,041,519**	**27,156,712**	**492,518,879**
Credit related commitments	**–**	**43,032,229**	**–**	**–**	**–**	**43,032,229**

The analysis of lease liabilities at 31 December 2022 is as follows:

In thousands of Armenian Drams	Not later than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Lease liabilities	141,021	163,982	76,090	668,774	2,252	521,520	**1,573,639**

The analysis of lease liabilities at 31 December 2021 is as follows:

In thousands of Armenian Drams	Not later than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Lease liabilities	554,767	597,767	422,961	335,081	115,908	64,712	**2,091,196**

31 Risk management (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers in the table above are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. These deposits are classified in the table above in accordance with their stated maturity dates.

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, foreign exchanges, and equity prices.

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 following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets measured at FVOCI at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in basis points 2022	Sensitivity of net interest income 2022	Sensitivity of equity 2022
AMD	1.50%	(26,444)	(26,444)
USD	1.25%	(93,328)	(93,328)

Currency	Decrease in basis points 2022	Sensitivity of net interest income 2022	Sensitivity of equity 2022
AMD	1.50%	26,444	26,444
USD	1.25%	93,328	93,328

Currency	Increase in basis points 2021	Sensitivity of net interest income 2021	Sensitivity of equity 2021
AMD	1.50%	(282,208)	(2,704)
USD	1.25%	(217,467)	(5,617)

Currency	Decrease in basis points 2021	Sensitivity of net interest income 2021	Sensitivity of equity 2021
AMD	1.50%	282,208	2,704
USD	0.25%	43,493	1,123

Currency risk

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

31 Risk management (continued)

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against AMD, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase. The Management Board has set risk appetite limits on the currency and interest rate risk.

Currency	Change in currency rate in % 2022	Effect on profit before tax 2022	Change in currency rate in % 2021	Effect on profit before tax 2021
USD	20.00%	(681,457)	20.00%	1,243,568
USD	(20.00%)	681,457	(20.00%)	(1,243,568)
EUR	8.50%	151,054	8.50%	(139,456)
EUR	(8.50%)	(151,054)	(8.50%)	139,456

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected.

Prior to the date of the event that the LIBOR will stop operating, the Group will sign amendment agreements with all lenders to replace it with the alternative benchmark rate. And the same rate will be applied to the floating rate sub-loans provided by the Bank to the clients.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

The table below shows the Group's exposure at the year end to significant IBORs or T-Bill subject to reform. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR or T-Bill that will expire before transition is required.

In thousands of Armenian Drams **31 December 2022**	Non-derivative financial assets − carrying value	Non-derivative financial liabilities -carrying value	Derivatives Nominal amount
LIBOR USD (6 months)	17,518,191	24,984,429	14,413,000
T-Bill AMD	10,695,685	12,458,599	-

Operational risk

Operational risk is the risk of loss arising from systems failure, inadequate or failed internal processes, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. The Group has adopted the three lines of defense in the scope of the operational risk management; the first line of defense provided by the front line staff and operational management, the second line of defense provided by the risk management and compliance functions and the third line of defense provided by the internal audit function.

The operational risk management system includes the following key aspects: risk mapping, incident analysis and permanent controlling function. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes. The Management Board has also set risk appetite limit on operational risk.

32 Fair value measurements

Fair value measurement procedures

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and securities at FVPL and at FVOCI, derivatives, investment property and buildings, vehicles and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as land and buildings, vehicles. Involvement of external valuers is decided by the management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Fair value measurement using			
In thousands of Armenian Drams **At 31 December 2022**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
Derivative financial assets	-	363,284	-	**363,284**
Equity instruments	2,153,118	-	-	**2,153,118**
Financial assets at fair value through other comprehensive income				
Debt instruments	-	21,285,791	-	**21,285,791**
Equity instruments	10,638	-	-	**10,638**
Unquoted equity securities − local companies	-	-	101,640	**101,640**
Non-financial assets				**-**
Property and equipment −land and buildings, motor vehicles	-	-	12,824,138	**12,824,138**
Assets for which fair values are disclosed				
Cash and cash equivalents	21,703,944	66,665,341	-	**88,369,285**
Loans and advances to banks	-	24,453,149	26,353,081	**50,806,230**
Debt securities at amortised cost	-	-	90,340	**90,340**
Receivables from finance leases	-	-	53,423,221	**53,423,221**
Other financial assets	-	-	1,529,376	**1,529,376**
Loans to customers	-	-	406,318,797	**406,318,797**
Liabilities for which fair values are disclosed				
Current accounts and deposits from customers	-	179,310,388	244,601,936	**423,912,324**
Debt securities issued − domestic bonds issued	-	6,206,060	-	**6,206,060**
Deposits and balances from banks	-	6,444,304	3,493,330	**9,937,634**
Subordinated loans	-	-	7,805,036	**7,805,036**
Other borrowed funds	-	-	84,323,152	**84,323,152**
Other financial liabilities	-	-	14,388,624	**14,388,624**

32 Fair value measurements (continued)

In thousands of Armenian Drams **At 31 December 2021**	**Fair value measurement using** Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	**Total**
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
Trading securities	−	433,697	−	**433,697**
Derivative financial assets	−	38,625	−	**38,625**
Equity instruments	2,759,029	−	−	**2,759,029**
Financial assets at fair value through other comprehensive income				
Debt instruments	−	21,002,202	−	**21,002,202**
Unquoted equity securities − local companies	−	−	115,381	**115,381**
Non-financial assets				
Property and equipment −land and buildings, motor vehicles	−	−	11,551,067	**11,551,067**
Assets for which fair values are disclosed				
Cash and cash equivalents	17,723,893	78,724,095	−	**96,447,988**
Loans and advances to banks	−	13,157,635	6,461,448	**19,619,083**
Debt securities at amortised cost	−	−	118,217	**118,217**
Receivables from finance leases	−	−	31,233,067	**31,233,067**
Other financial assets	−	−	1,331,573	**1,331,573**
Loans to customers	−	−	341,107,411	**341,107,411**
Liabilities for which fair values are disclosed				
Current accounts and deposits from customers	−	117,974,466	222,060,032	**340,034,498**
Debt securities issued − domestic bonds issued	−	3,494,385	−	**3,494,385**
Deposits and balances from banks	−	1,042,404	28,486	**1,070,890**
Subordinated loans	−	−	9,794,000	**9,794,000**
Other borrowed funds	−	−	93,347,410	**93,347,410**
Other financial liabilities	−	−	8,328,473	**8,328,473**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of Armenian Drams	**Carrying value 2022**	**Fair value 2022**	**Unrecognised gain/(loss) 2022**	**Carrying value 2021**	**Fair value 2021**	**Unrecognised gain/(loss) 2021**
Financial assets						
Cash and cash equivalents	88,369,285	88,369,285	-	96,447,988	96,447,988	−
Loans and advances to banks	50,806,230	50,806,230	-	19,619,083	19,619,083	−
Investment securities − debt securities at amortised cost	90,340	90,340	-	118,217	118,217	−
Loans to customers	406,318,797	405,374,629	(944,168)	340,528,365	340,330,883	(197,482)
Receivables from finance leases	53,423,221	53,423,221	-	31,233,067	31,213,390	(19,677)
Other financial assets	1,529,376	1,529,376	-	1,331,573	1,331,573	−
Financial liabilities						
Current accounts and deposits from customers	423,912,324	423,912,324	-	336,550,246	340,034,498	(3,484,252)
Debt securities issued − domestic bonds issued	6,206,060	6,206,060	-	3,461,498	3,494,385	(32,887)
Deposits and balances from banks	9,937,634	9,937,634	-	1,070,890	1,070,890	−
Subordinated loans	7,805,036	7,805,036	-	9,794,000	9,794,000	−
Other borrowed funds	84,323,152	84,323,152	-	92,331,761	93,347,410	(1,015,649)
Other financial liabilities	14,388,624	14,388,624	-	8,328,473	8,328,473	−
Total unrecognised change in fair value			**(944,168)**			**(4,749,947)**

32 Fair value measurements (continued)
Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the consolidated financial statements and those items that are not measured at fair value in the consolidated statement of financial position, but whose fair value is disclosed.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fair value measurement of non-financial assets

Fair value of the properties was determined by using market comparable method. The estimated fair values of the land and buildings are categorized within Level 3 of the fair value hierarchy. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land and Buildings

The fair values of the office Land and buildings are estimated using income and market approaches. The income approach has been applied capitalizing the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields implied by recent transactions in similar properties. When actual rent differs materially from the estimated rents, adjustments have been made to the estimated rental value. The estimated rental stream takes into account current occupancy level, the terms of in-place leases and expectations for rentals from future leases over the remaining economic life of the buildings. The office buildings are at 01 December 2022.

The most significant inputs, all of which are unobservable, are the estimated rental value, assumptions about vacancy levels and the discount rate. The estimated fair value increases if the estimated rental increases, vacancy levels decline or if discount rate (market yields) decline. The overall valuations are sensitive to all three assumptions. Management considers the range of reasonably possible alternative assumptions is greatest for rental values and vacancy levels and that there is also an interrelationship between these inputs.

The market approach reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property, including size, location, constructional-engineering features of the building, technical (physical) condition, encumbrances, and purpose of use.

The significant unobservable input is the adjustment for factors specific to the property in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is subjective judgment, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through other comprehensive income

Investment securities measured at fair value through other comprehensive income are valued using a valuation technique or pricing models primarily consist of Armenian Government debt securities. These securities are valued using yield curves which incorporate data observable in the market and published by CBA.

33 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

See Note 31 Risk management for the Group's contractual undiscounted repayment obligations.

In thousands of Armenian Drams	2022 Within one year	2022 More than one year	2022 Total	2021 Within one year	2021 More than one year	2021 Total
Cash and cash equivalents	88,369,285	-	**88,369,285**	96,447,988	−	**96,447,988**
Trading securities	-	-	**-**	433,697	−	**433,697**
Derivative financial assets	36,273	327,011	**363,284**	2,404	36,221	**38,625**
Loans and advances to banks	25,255,153	25,551,077	**50,806,230**	4,941,291	14,677,792	**19,619,083**
Investment securities	6,472,071	17,169,456	**23,641,527**	3,936,354	20,058,475	**23,994,829**
Loans to customers	125,673,430	280,645,367	**406,318,797**	38,365,956	302,162,409	**340,528,365**
Receivables from finance leases	13,192,596	40,230,625	**53,423,221**	13,587,107	17,645,960	**31,233,067**
Investments in associates	-	1,362,224	**1,362,224**	−	1,218,677	**1,218,677**
Property, equipment and intangible assets	-	28,948,668	**28,948,668**	−	23,729,559	**23,729,559**
Other assets	13,199,506	2,915,374	**16,114,880**	8,954,008	1,773,090	**10,727,098**
Deferred tax assets	-	-	**-**	-	91,722	**91,722**
Total	**272,198,314**	**397,149,802**	**669,348,116**	**166,668,805**	**381,393,905**	**548,062,710**

In thousands of Armenian Drams	2022 Within one year	2022 More than one year	2022 Total	2021 Within one year	2021 More than one year	2021 Total
Deposits and balances from banks	9,863,194	74,440	**9,937,634**	199,906	870,984	**1,070,890**
Current accounts and deposits from customers	347,520,218	76,392,106	**423,912,324**	278,131,179	58,419,067	336,550,246
Debt securities issued	4,023,967	2,182,093	**6,206,060**	−	5,068,908	**5,068,908**
Other borrowed funds	23,311,073	61,012,079	**84,323,152**	17,834,751	74,497,010	**92,331,761**
Subordinated loans	89,389	7,715,647	**7,805,036**	−	9,794,000	**9,794,000**
Current income tax liabilities	4,698,987	-	**4,698,987**	1,187,740	−	**1,187,740**
Deferred tax liabilities	-	1,016,530	**1,016,530**	−	1,296,678	**1,296,678**
Other liabilities	18,427,939	-	**18,427,939**	11,018,754	1,997,745	**13,016,499**
Total	**407,934,767**	**148,392,895**	**556,327,662**	**308,372,330**	**151,944,392**	**460,316,722**
Net	**(135,736,453)**	**248,756,907**	**113,020,454**	**(141,703,525)**	**229,449,513**	**87,745,988**

The maturity analysis does not reflect the historical stability of current accounts and deposits from customers. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts within one year in the tables above.

In accordance with the Armenian legislation, Group is obliged to repay deposits upon demand of a depositor. Refer to Note 17.

34 Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

In thousands of Armenian Drams	2022 Key management personnel and their close family members	2021 Key management personnel and their close family members
Loans outstanding at 1 January, gross	**346,064**	**400,678**
Loans issued during the year	1,283,469	231,933
Loan repayments during the year	(658,991)	(284,431)
Other movements	1,043	(2,116)
Loans outstanding at 31 December, gross	**971,585**	**346,064**
Less: allowance for impairment at 31 December	(2,657)	(2,205)
Loans outstanding at 31 December, net	**968,928**	**343,859**
Weighted average effective interest rate for loans	5.1%	5.4%
Current accounts and deposits at 1 January	**894,529**	**1,545,556**
Current accounts and deposits received during the year	4,389,706	1,351,459
Current accounts and deposits repaid during the year	(3,750,199)	(2,002,486)
Other movements	13,469	–
Current accounts and deposits at 31 December	**1,547,505**	**894,529**

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December	
In thousands of Armenian Drams	2022 Key management personnel and their close family members	2021 Key management personnel and their close family members
Interest income on loans	46,223	12,467
Interest expense on deposits	117,999	99,945

Compensation of key management personnel was comprised of the following:

In thousands of Armenian Drams	2022	2021
Salaries and other short-term benefits	2,612,963	1,623,490
Share-based payments	1,140,099	1,576,855
Total key management personnel compensation	**3,753,062**	**3,200,345**

35 Investments in associates

The Group has an interest in Amundi-Acba Asset management CJSC where the Group owns 49% of shares (31 December 2021: 49%). The associate of the Group was incorporated in 2013 and is regulated by the legislation of the Republic of Armenia. The principal activity of the associate is the management of mandatory pension funds. The associate's activities are supervised by the Central Bank of Armenia. As at 31 December 2022 the carrying value of the investment comprised AMD1,362,224 thousand (2021: AMD 1,218,677 thousand).

The summarised financial information of material associates is presented below

In thousands of Armenian Drams	**2022**	**2021**
Assets		
Cash and cash equivalents	24,649	282,054
Amounts due from financial institutions	1,624,416	872,939
Investments measured at FVOCI	1,321,606	1,430,007
Property, plant and equipment and right-of-use assets	135,141	35,506
Deferred tax asset	9,086	7,042
Other assets	301,408	245,761
Total assets	**3,416,306**	**2,873,309**
Liabilities		
Current income tax liability	296,100	221,910
Other liabilities	340,157	162,008
Total liabilities	**636,257**	**383,918**
Net assets	**2,780,049**	**2,489,391**
Group's share in net assets	**1,362,224**	**1,218,677**

In thousands of Armenian Drams	**2022**	**2021**
Fee and commission income	2,906,850	2,378,922
Interest and similar income	92,664	56,040
Income from financial advisory	20,246	13,023
Other income	1,707	1,515
Net loss from foreign currency transactions	(12,990)	(800)
Finance cost	(16,068)	-
Staff costs	(187,793)	(126,119)
Administrative and other expenses	(950,410)	(872,181)
Profit before income tax	**1,854,206**	**1,450,400**
Income tax expense	(353,503)	(268,718)
Profit for the year	**1,500,703**	**1,181,682**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Unrealised gains on investments measured at FVOCI	(108,401)	42,216
Other comprehensive income for the year, net of tax	**(108,401)**	**42,216**
Total comprehensive income for the year	**1,392,302**	**1,223,898**

The Group's share of profit or loss and other comprehensive income of the associate is as follows:

In thousands of Armenian Drams	**2022**	**2021**
Profit for the year	736,475	579,024
Other comprehensive income	(53,122)	20,686
Total comprehensive income for the year	**683,353**	**599,710**

As at 31 December 2022 and 31 December 2021, there were no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends. The Group received dividends in amount of AMD 539,806 thousand for the year ended 31 December 2022 (2021: AMD 365,475 thousand).

36 Changes in liabilities arising from financing activities

In thousands of Armenian Drams	Note	Debt securities issued	Other borrowed funds	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2020	**18, 19, 20**	**8,500,960**	**101,043,374**	**11,130,839**	**120,675,173**
Proceeds from issue		3,461,498	33,778,000	–	**37,239,498**
Redemption		(6,095,477)	(43,034,045)	–	**(49,129,522)**
Non-cash transactions					
Foreign currency translation		(780,329)	(2,095,668)	(1,227,040)	**(4,103,037)**
Lease liabilities (IFRS 16)		–	1,531,839	–	**1,531,839**
Other		(17,744)	1,108,261	(109,799)	**980,718**
Carrying amount at 31 December 2021	**18, 19, 20**	**5,068,908**	**92,331,761**	**9,794,000**	**107,194,669**
Proceeds from issue		2,191,500	34,288,004	-	**36,479,504**
Redemption		(789,212)	(37,932,197)	-	**(38,721,409)**
Non-cash transactions					
Foreign currency translation		(265,302)	(5,052,890)	(1,968,650)	**(7,286,842)**
Lease liabilities (IFRS 16)		-	503,590	-	**503,590**
Other		166	184,884	(20,314)	**164,736**
Carrying amount at 31 December 2022	**18, 19, 20**	**6,206,060**	**84,323,152**	**7,805,036**	**98,334,248**

The “Other” line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

37 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2022:

Types of financial assets/liabilities	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
In thousands of Armenian Drams				***Financial instruments***	***Cash collateral received***	
ASSETS						
Derivative financial assets						
Interest rate swap	333,748	(6,737)	327,011	327,011	-	-
Currency swap	36,273	-	36,273	36,273	-	-
Investment securities						
Pledged under sale and repurchase agreements	6,019,389	-	6,019,389	6,019,389	-	-
Loans and advances to banks						
Reverse sale and repurchase agreements with other banks	559,459	-	559,459	559,459	-	-
Loans to customers						
Reverse sale and repurchase agreements	1,956,613	-	1,956,613	1,956,613	-	-
Total assets subject to offsetting, master netting and similar arrangement	**8,905,482**	**(6,737)**	**8,898,745**	**8,898,745**	**-**	**-**
LIABILITIES						
Deposits and balances from banks						
Sale and repurchase agreements with other banks	(6,026,642)	-	(6,026,642)	(6,026,642)	-	-
Total liabilities subject to offsetting, master netting and similar arrangement	**(6,026,642)**	**-**	**(6,026,642)**	**(6,026,642)**	**-**	**-**

37 Offsetting Financial Assets and Financial Liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2021:

Types of financial assets/liabilities *In thousands of Armenian Drams*	**Gross amounts before offsetting in the statement of financial position**	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position** *Financial instruments*	*Cash collateral received*	**Net amount of exposure**
ASSETS						
Derivative financial assets						
Interest rate swap	36,221	-	36,221	36,221	-	-
Currency swap	3,837	(1,433)	2,404	2,404	-	-
Loans to customers						
Reverse sale and repurchase agreements	3,054,526	-	3,054,526	3,054,526	-	-
Total assets subject to offsetting, master netting and similar arrangement	**3,094,584**	**(1,433)**	**3,093,151**	**3,093,151**	**-**	**-**

38 Capital adequacy

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

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.
The Central Bank of Armenia sets and monitors capital requirements for the Bank.

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

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December:

In thousands of Armenian Drams	**2022 (unaudited)**	**2021 (unaudited)**
Tier 1 Capital	91,866,748	74,007,160
Tier 2 Capital	11,744,252	15,934,557
Total capital	**103,611,000**	**89,941,717**
Total risk weighted assets	**610,690,247**	**507,923,050**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**16.97%**	**17.71%**

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

39 Events after reporting date

There are no significant events after the reporting period to be disclosed in this report.