Financial Statements and Independent Auditor's Report

“KAMURJ” universal credit organization closed joint stock company

31 December 2023

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GrantThornton

Independent auditor's report

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To the shareholder and the Board of "KAMURJ" universal credit organization closed joint stock company

Opinion

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

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

Basis for Opinion

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

Other Matter

The financial statements of the Company for the year ended 31 December 2022 were audited by another auditor, who expressed unmodified opinion on those financial statements at 16 June 2023.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Armen Hovhannisyan

Chief Executive Officer of
"Grant Thornton" CJSC

22 May 2024

Lilit Baghdasaryan

Engagement Manager

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2023	2022
Interest income calculated using effective interest rate	6	2,255,326	2,113,835
Interest expense	6	(568,516)	(617,609)
Net interest income		1,686,810	1,496,226
Net gain/(loss) from foreign currency transactions	7	(29,613)	6,211
Other operating income		15,070	20,443
Other operating expenses	8	(56,358)	(44,358)
Operating income		1,615,909	1,478,522
Reversal of credit loss expense	9	260,985	381,899
Personnel expenses	10	(961,740)	(882,823)
Other administrative expenses	11	(346,663)	(338,754)
Profit before tax		568,491	638,844
Income tax expense	12	(109,764)	(116,027)
Profit for the year		458,727	522,817
Total comprehensive income for the year		458,727	522,817

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2023	31 December 2022
Assets			
Cash	13	290,630	224,383
Amounts due from financial institutions	14	-	1,036,427
Loans to customers	15	15,393,372	13,710,914
Property, equipment and intangible assets	16	295,805	317,458
Deferred income tax assets	12	31,388	42,321
Other assets	17	127,145	121,080
Total assets		16,138,340	15,452,583
Liabilities and equity			
Liabilities			
Loans and borrowings	18	8,389,974	8,210,823
Current income tax liabilities		78,401	33,832
Other liabilities	19	317,210	313,900
Total liabilities		8,785,585	8,558,555
Equity			
Share capital	20	5,000,000	5,000,000
Additional paid-in capital		193,044	193,044
Statutory general reserve		253,753	201,471
Retained earnings		1,905,958	1,499,513
Total equity		7,352,755	6,894,028
Total liabilities and equity		16,138,340	15,452,583

The financial statements were approved on 22 May 2024 by:

Alexander Teryan
Chief Executive Officer

Alexander Sahakyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of changes in equity

In thousand Armenian drams	Share capital	Additional paid-in capital	Statutory general reserve	Retained earnings	Total
Balance as of 1 January 2023	5,000,000	193,044	201,471	1,499,513	6,894,028
Profit for the year	-	-	-	458,727	458,727
Total comprehensive income for the year	-	-	-	458,727	458,727
Distribution to reserve	-	-	52,282	(52,282)	-
Total transactions with owners	-	-	52,282	(52,282)	-
Balance as of 31 December 2023	5,000,000	193,044	253,753	1,905,958	7,352,755
Balance as of 1 January 2022	5,000,000	193,044	201,471	976,696	6,371,211
Profit for the year	-	-	-	522,817	522,817
Total comprehensive income for the year	-	-	-	522,817	522,817
Balance as of 31 December 2022	5,000,000	193,044	201,471	1,499,513	6,894,028

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of cash flows

In thousand Armenian drams

	2023	2022
Cash flows from operating activities		
Interest received	2,253,554	2,103,578
Interest paid	(543,961)	(576,932)
Net receipt from foreign currency transactions	2,378	6,478
Net other expenses paid	(41,288)	(23,915)
Payments on other general administrative and personnel expenses	(1,153,198)	(1,082,319)
(Increase)/decrease in operating assets		
Amounts due from financial institutions	1,025,401	(43,619)
Loans to customers	(1,419,609)	(546,721)
Other assets	(4,950)	21,087
(Increase)/decrease in operating liabilities		
Other liabilities	866	(78,013)
Net cash flow from/(used in) operating activities before income tax	119,193	(220,376)
Income tax paid	(54,300)	-
Net cash from/(used in) operating activities	64,893	(220,376)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(37,591)	(32,027)
Net cash used in investing activities	(37,591)	(32,027)
Cash flow from financing activities		
Loans and borrowings received	2,383,438	2,240,156
Repayment of loans and borrowings	(2,261,551)	(2,149,810)
Repayment of lease liabilities	(93,406)	(75,033)
Net cash from financing activities	28,481	15,313
Net increase/(decrease) in cash	55,783	(237,090)
Cash at the beginning of the year	224,383	489,816
Effect of exchange differences on cash	10,464	(28,343)
Cash at the end of the year (note 13)	290,630	224,383

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Notes to the financial statements

1 Principal activities

“KAMURJ” universal credit organization (the “Company”) is a closed joint stock company, which was incorporated by the Microenterprise Development Charitable Fund’s Board of Trustees’ decision on March 22, 2010 with the legal status of a limited liability company. The Company conducts its business under license N31, granted on April 27, 2010 by the Central Bank of Armenia (the “CBA”). On the January 30, 2012 Board of Trustees’ decision the Company was reorganized into a closed joint stock company.

The Company’s main activity is the provision of micro and medium-sized loans to individuals and sole proprietors in consumer and business objectives in the Republic of Armenia (RA).

The head office of the Company is located in Yerevan, and 15 branches are located within different regions within RA. The registered office of the Company is located at: 11 Kalents, Yerevan 0033, RA.

As of 31 December 2023 the number of employees of the Company was 205 (2022: 205).

2 Armenian business environment

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

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

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

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

3.2 Basis of measurement

Financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

3.5 Standards and interpretations not yet applied by the Company

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

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

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

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

4 Summary of material accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Other income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Other management advisory and service fees are recorded based on the applicable service contracts.

4.2 Foreign currency

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

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

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gain/(loss) from trading in foreign currencies in gain/(loss) from foreign currency transactions.

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

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

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

In making the assessment, the Company considers:

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on financial assets measured at amortised cost

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition, for which they are measured as 12-month ECL.

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

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

Measurement of ECL

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

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 26.1.2.

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

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

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

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

The PD, the EAD and the LGD are further explained in note 26.1.2.

Restructured financial assets

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- Observable data on the group of assets, such as the deterioration of the solvency of the borrowers or issuers in the group, or the economic conditions associated with the default of the borrowers or issuers in the given group.

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

Presentation of allowances for ECL in the statement of financial position

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

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

- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, The Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and The Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

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

4.5 Cash

Cash comprise cash on hand and balance in banks.

Cash are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Loans to customers

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

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

4.8 Leases

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

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

Measurement and recognition of leases

Company as a lessee

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

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

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

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

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

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

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

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

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

4.9 Property and equipment

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

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

	Useful life (years)	Rate (%)
Computers and communication	1-7	100-14.3
Vehicles	5.0	20.0
Capital investments in leased property	2-10	50.0-10.0
Other fixed assets	5	20.0

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

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

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in operating profit.

4.10 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life from 1 to10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

The Company does not have intangible assets with indefinite useful life.

Costs associated with maintaining computer software programmes and current maintenance fees of other intangible assets are recorded as an expense as incurred.

4.11 Repossessed assets

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

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

4.12 Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

4.13 Attracted resources

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

4.14 Equity

Share capital

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

Additional paid-in capital

Additional paid-in capital is the difference between the fair value and the nominal value at the time of initial recognition of a loan with a lower interest rate provided by the Company's shareholder.

Retained earnings

Retained earnings include accumulated profit/loss of current and previous periods.

Dividends

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

5 Critical accounting estimates and judgements

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

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

5.1 Judgements

Classification of financial assets

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

Establish criteria for calculating ECL

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

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date (refer to note 23).

Useful Life of property and equipment

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

Extension options for leases

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 22).

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 26.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 21.

6 Net interest income and (expense)

In thousand Armenian drams	2023	2022
Interest income calculated using effective interest rate		
Amounts due from financial institutions	27,553	58,613
Loans to customers	2,227,773	2,055,222
Total interest income	2,255,326	2,113,835
Loans and borrowings	(557,334)	(598,964)
Lease liabilities	(11,182)	(18,645)
Total interest expense	(568,516)	(617,609)
Total net interest income	1,686,810	1,496,226

7 Net gain/(loss) from foreign currency transactions

In thousand Armenian drams	2023	2022
Net gain from trading in foreign currencies	2,378	6,478
Net loss from foreign exchange translation of non-trading assets and liabilities	(31,991)	(267)
Total net gain/(loss) from foreign currency transactions	(29,613)	6,211

8 Other operating expenses

In thousand Armenian drams	2023	2022
Expenses on Payment and Settlement Systems	5,396	1,664
Credit service costs	50,262	41,710
Other operating expense	700	984
Total other operating expenses	56,358	44,358

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

In thousand Armenian drams					2023
	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from financial institutions	14	(1,563)	-	-	(1,563)
Loans to customers	15	14,001	52,040	(324,346)	(258,305)
Other assets	17	(1,117)	-	-	(1,117)
Total credit loss expense /(reversal of credit loss expense)		11,321	52,040	(324,346)	(260,985)

In thousand Armenian drams					2022
	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from financial institutions	14	(2,357)	-	-	(2,357)
Loans to customers	15	10,058	(70,953)	(317,300)	(378,195)
Other assets	17	(1,347)	-	-	(1,347)
Total credit loss expense /(reversal of credit loss expense)		6,354	(70,953)	(317,300)	(381,899)

10 Personnel expenses

In thousand Armenian drams	2023	2022
Compensations of employees, related taxes included	935,674	855,962
Other personnel expenses	26,066	26,861
Total personnel expenses	961,740	882,823

11 Other administrative expenses

In thousand Armenian drams	2023	2022
Amortisation and depreciation	130,905	123,130
Fixed assets repair and maintenance	45,200	42,283
Security	36,436	33,020
Utility and office supplies	30,949	44,501
Taxes, other than income tax, duties	24,841	24,049
Consulting and other services	20,600	15,600
Communications	12,746	13,508
Litigation costs	9,627	15,939
Financial mediator office expenses	8,857	8,861
Advertising costs	8,243	5,932
Transportation expenses	3,858	4,142
Charity	1,874	-
Lease of low-value assets	1,440	1,434
Other expenses	11,087	6,355
Total other administrative expense	346,663	338,754

12 Income tax expense

In thousand Armenian drams	2023	2022
Current tax expense	98,831	33,832
Deferred tax	10,933	82,195
Total income tax expense	109,764	116,027

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

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

In thousand Armenian drams	2023	Effective rate (%)	2022	Effective rate (%)
Profit before tax	568,491	-	638,844	-
Income tax	102,328	18	114,992	18
Non-deductible expenses	1,017	-	672	-
Foreign exchange losses	5,758	1	48	-
Privilege for disabled employees	(1,208)	-	(1,429)	-
Loan concessions	1,869	-	1,744	-
Income tax recovery	109,764	19	116,027	18

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2022	Recognized in profit or loss	31 December 2023 Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	(1,587)	1,587	-	-	-
Loans to customers	23,497	(12,702)	10,795	10,795	-
Property, equipment and intangible assets	(14,959)	(8,866)	(23,825)	-	(23,825)
Other assets	(334)	(289)	(623)	-	(623)
Loans and borrowings	(891)	(226)	(1,117)	-	(1,117)
Other liabilities	17,887	3,158	21,045	21,045	-
Lease liabilities	18,708	6,405	25,113	25,113	-
Deferred tax asset/(liability)	42,321	(10,933)	31,388	56,953	(25,565)

In thousand Armenian drams	31 December 2021	Recognized in profit or loss	31 December 2022 Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	(1,455)	(132)	(1,587)	-	(1,587)
Loans to customers	11,371	12,126	23,497	23,497	-
Property, equipment and intangible assets	(20,621)	5,662	(14,959)	-	(14,959)
Other assets	(959)	625	(334)	-	(334)
Loans and borrowings	(2,299)	1,408	(891)	-	(891)
Other liabilities	14,269	3,618	17,887	17,887	-
Lease liabilities	25,625	(6,917)	18,708	18,708	-
Tax loss carried forward	98,585	(98,585)	-	-	-
Deferred tax asset/(liability)	124,516	(82,195)	42,321	60,092	(17,771)

13 Cash

In thousand Armenian drams	31 December 2023	31 December 2022
Cash on hand	11,310	12,460
Bank accounts	279,320	211,923
Total cash	290,630	224,383

The ECLs relating to cash here a round to zero, that's why it's not disclosed here.

As of 31 December 2023 the Company did not have a bank account (2022: either) the balance of which exceeds 10% of equity.

14 Amounts due from financial institutions

In thousand Armenian drams	31 December 2023	31 December 2022
Deposits in banks	-	1,037,990
Credit loss allowance	-	(1,563)
Total amounts due from financial institutions	-	1,036,427

Deposits are placed in one bank, deposits are short-term, but the maturities are periodically reviewed and extended.

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

In thousand Armenian drams	31 December 2023	31 December 2022
	Stage 1	Stage 1
ECL allowance as of 1 January	1,563	3,920
Net remeasurement of loss allowance	(1,563)	(2,357)
Balance as of 31 December	-	1,563

15 Loans to customers

In thousand Armenian drams	31 December 2023			31 December 2022		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Agricultural loans	4,801,735	(183,745)	4,617,990	5,629,724	(185,295)	5,444,429
Business loans	1,949,710	(48,498)	1,901,212	1,656,172	(55,772)	1,600,400
Mortgage	5,033,930	(35,555)	4,998,375	4,269,948	(42,726)	4,227,222
Consumer lending	2,742,312	(171,188)	2,571,124	1,957,241	(145,468)	1,811,773
Housing improvement loans	1,347,031	(42,360)	1,304,671	665,435	(38,345)	627,090
Total loans to customers	15,874,718	(481,346)	15,393,372	14,178,520	(467,606)	13,710,914

As of 31 December 2023 the Company did not have borrowers or related groups of borrowers (2022: either) the balance of which exceeds 10% of equity.

An analysis of changes in gross carrying amounts in relation to agricultural and business loans, mortgage and consumer lending, loans to financial institutions and housing improvement loans are as follows.

In thousand Armenian drams	2023			
	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
Balance at of 1 January	5,469,609	94,164	65,951	5,629,724
New assets originated	2,087,238	10,860	900	2,098,998
Assets repaid	(2,984,663)	(37,225)	(80,997)	(3,102,885)
Transfer to Stage 1	10,707	(10,365)	(342)	-
Transfer to Stage 2	(58,131)	59,839	(1,708)	-
Transfer to Stage 3	(80,802)	(28,016)	108,818	-
Change in balance of asset from interest and foreign exchange	191,164	(16,231)	(143,323)	31,610
Net recovery during the year	-	-	144,288	144,288
Balance as of 31 December	4,635,122	73,026	93,587	4,801,735

In thousand Armenian drams	2023			
	Stage 1	Stage 2	Stage 3	Total
Business loans				
Balance at of 1 January	1,600,179	46,002	9,991	1,656,172
New assets originated	772,264	1,450	-	773,714
Assets repaid	(497,572)	(21,453)	(7,638)	(526,663)
Transfer to Stage 1	4,883	-	(4,883)	-
Transfer to Stage 2	(17,026)	17,026	-	-
Transfer to Stage 3	(1,857)	(239)	2,096	-
Change in balance of asset from interest and foreign exchange	44,840	231	(30,363)	14,708
Net recovery during the year	-	-	31,779	31,779
Balance as of 31 December	1,905,711	43,017	982	1,949,710

In thousand Armenian drams	2023			
	Stage 1	Stage 2	Stage 3	Total
Mortgage				
Balance at of 1 January	4,191,175	74,163	4,610	4,269,948
New assets originated	1,315,841	-	-	1,315,841
Assets repaid	(564,141)	(4,480)	(1,269)	(569,890)
Transfer to Stage 1	9,945	(9,945)	-	-
Transfer to Stage 2	(5,774)	5,774	-	-
Change in balance of asset from interest and foreign exchange	14,144	2,999	8,109	25,252
Net amounts written off during the year	-	-	(7,221)	(7,221)
Balance as of 31 December	4,961,190	68,511	4,229	5,033,930

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Consumer lending				
Balance as of 1 January	1,811,670	85,049	60,522	1,957,241
New assets originated	2,115,904	51,980	14,860	2,182,744
Assets repaid	(1,358,317)	(37,366)	(40,610)	(1,436,293)
Transfer to Stage 1	9,906	(6,498)	(3,408)	-
Transfer to Stage 2	(57,160)	57,160	-	-
Transfer to Stage 3	(49,135)	(21,906)	71,041	-
Change in balance of asset from interest and foreign exchange	103,165	(20,184)	(83,615)	(634)
Net recovery during the year	-	-	39,254	39,254
Balance as of 31 December	2,576,033	108,235	58,044	2,742,312

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing improvement loans				
Balance at of 1 January	630,620	23,448	11,367	665,435
New assets originated	1,010,285	4,000	-	1,014,285
Assets repaid	(360,060)	(8,651)	(17,271)	(385,982)
Transfer to Stage 1	3,136	(3,136)	-	-
Transfer to Stage 2	(4,368)	5,239	(871)	-
Transfer to Stage 3	(1,099)	(822)	1,921	-
Change in balance of asset from interest and foreign exchange	52,740	(5,665)	(57,728)	(10,653)
Net recovery during the year	-	-	63,946	63,946
Balance as of 31 December	1,331,254	14,413	1,364	1,347,031

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural loans				
Balance as of 1 January	6,697,199	206,605	159,734	7,063,538
New assets originated	2,122,779	-	-	2,122,779
Assets repaid	(3,269,055)	(71,156)	(223,173)	(3,563,384)
Transfer to Stage 1	47,755	(46,744)	(1,011)	-
Transfer to Stage 2	(60,596)	71,841	(11,245)	-
Transfer to Stage 3	(57,113)	(62,092)	119,205	-
Change in balance of asset from interest and foreign exchange	(11,360)	(4,290)	(15,372)	(31,022)
Net recovery during the year	-	-	37,813	37,813
Balance as of 31 December	5,469,609	94,164	65,951	5,629,724

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Business loans				
Balance at of 1 January	899,907	24,435	95,315	1,019,657
New assets originated	1,188,030	-	-	1,188,030
Assets repaid	(449,449)	(39,175)	(49,357)	(537,981)
Transfer to Stage 1	16,928	(13,181)	(3,747)	-
Transfer to Stage 2	(19,600)	93,314	(73,714)	-
Transfer to Stage 3	(17,029)	(11,379)	28,408	-
Change in balance of asset from interest and foreign exchange	(18,608)	(8,012)	(1,151)	(27,771)
Net recovery during the year	-	-	14,237	14,237
Balance as of 31 December	1,600,179	46,002	9,991	1,656,172

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage				
Balance at of 1 January	3,031,337	50,535	14,927	3,096,799
New assets originated	1,664,778	-	-	1,664,778
Assets repaid	(438,894)	(25,082)	(27,251)	(491,227)
Transfer to Stage 2	(56,859)	66,071	(9,212)	-
Transfer to Stage 3	(5,591)	(17,166)	22,757	-
Change in balance of asset from interest and foreign exchange	(3,596)	(195)	-	(3,791)
Net recovery during the year	-	-	3,389	3,389
Balance as of 31 December	4,191,175	74,163	4,610	4,269,948

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Consumer lending				
Balance as of 1 January	1,605,647	149,176	96,724	1,851,547
New assets originated	1,422,446	-	-	1,422,446
Assets repaid	(1,196,641)	(118,208)	(36,241)	(1,351,090)
Transfer to Stage 1	44,771	(44,771)	-	-
Transfer to Stage 2	(42,813)	107,249	(64,436)	-
Transfer to Stage 3	(21,740)	(8,397)	30,137	-
Net recovery during the year	-	-	34,338	34,338
Balance as of 31 December	1,811,670	85,049	60,522	1,957,241

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing improvement loans				
Balance at of 1 January	585,147	44,940	31,045	661,132
New assets originated	381,830	-	-	381,830
Assets repaid	(313,551)	(23,915)	(47,661)	(385,127)
Transfer to Stage 1	8,834	(8,834)	-	-
Transfer to Stage 2	(22,833)	25,112	(2,279)	-
Transfer to Stage 3	(8,807)	(13,389)	22,196	-
Change in balance of asset from interest and foreign exchange	-	(466)	(41)	(507)
Net recovery during the year	-	-	8,107	8,107
Balance as of 31 December	630,620	23,448	11,367	665,435

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing improvement loans				
Balance at of 1 January	48,070	-	-	48,070
Assets repaid	(46,692)	-	-	(46,692)
Change in balance of asset from interest and foreign exchange	(1,378)	-	-	(1,378)
Balance as of 31 December	-	-	-	-

An analysis of changes in ECL allowances in relation to agricultural and business loans, mortgage and consumer lending, housing improvement loans are as follows.

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
ECL allowance as of 1 January	92,880	40,690	51,822	185,392
Transfer to Stage 1	5,364	(5,152)	(212)	-
Transfer to Stage 2	(902)	2,162	(1,260)	-
Transfer to Stage 3	(4,111)	(23,903)	28,014	-
Net remeasurement of loss allowance	(49,174)	12,671	(141,769)	(178,272)
Net remeasurement of loss allowances on new originated financial assets	28,053	3,751	533	32,337
Net recovery during the year	-	-	144,288	144,288
Balance as of 31 December	72,110	30,219	81,416	183,745

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Business loans				
ECL allowance as of 1 January	31,797	16,599	7,376	55,772
Transfer to Stage 1	3,119	-	(3,119)	-
Transfer to Stage 2	(305)	305	-	-
Transfer to Stage 3	(33)	(239)	272	-
Net remeasurement of loss allowance	(14,088)	(2,240)	(35,604)	(51,932)
Net remeasurement of loss allowances on new originated financial assets	12,450	429	-	12,879
Net recovery during the year	-	-	31,779	31,779
Balance as of 31 December	32,940	14,854	704	48,498

In thousand Armenian drams				2023
	Stage 1	Stage 2	Stage 3	Total
Mortgage				
ECL allowance as of 1 January	8,346	30,985	3,296	42,627
Transfer to Stage 1	4,129	(4,129)	-	-
Transfer to Stage 2	(11)	11	-	-
Net remeasurement of loss allowance	(7,102)	(988)	6,745	(1,345)
Net remeasurement of loss allowances on new originated financial assets	1,494	-	-	1,494
Net amounts written off during the year	-	-	(7,221)	(7,221)
Balance as of 31 December	6,856	25,879	2,820	35,555

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
ECL allowance as of 1 January	53,840	40,515	51,115	145,470
Transfer to Stage 1	5,347	(2,949)	(2,398)	-
Transfer to Stage 2	(1,843)	1,843	-	-
Transfer to Stage 3	(12,905)	(18,850)	31,755	-
Net remeasurement of loss allowance	(17,484)	8,509	(84,967)	(93,942)
Net remeasurement of loss allowances on new originated financial assets	46,314	21,958	12,134	80,406
Net recovery during the year	-	-	39,254	39,254
Balance as of 31 December	73,269	51,026	46,893	171,188

In thousand Armenian drams				2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing improvement loans				
ECL allowance as of 1 January	18,321	10,379	9,644	38,344
Transfer to Stage 1	4,438	(4,438)	-	-
Transfer to Stage 2	(491)	2,156	(1,665)	-
Transfer to Stage 3	(844)	(9,760)	10,604	-
Net remeasurement of loss allowance	(10,048)	6,253	(81,418)	(85,213)
Net remeasurement of loss allowances on new originated financial assets	23,586	1,697	-	25,283
Net recovery during the year	-	-	63,946	63,946
Balance as of 31 December	34,962	6,287	1,111	42,360

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural loans				
ECL allowance as of 1 January	125,035	101,124	129,351	355,510
Transfer to Stage 1	37,957	(37,275)	(682)	-
Transfer to Stage 2	(3,726)	7,357	(3,631)	-
Transfer to Stage 3	(8,038)	(13,814)	21,852	-
Net remeasurement of loss allowance	(93,050)	(16,702)	(134,802)	(244,554)
Net remeasurement of loss allowances on new originated financial assets	36,526	-	-	36,526
Net recovery during the year	-	-	37,813	37,813
Balance as of 31 December	94,704	40,690	49,901	185,295

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Business loans				
ECL allowance as of 1 January	18,254	10,733	72,295	101,282
Transfer to Stage 1	8,179	(5,960)	(2,219)	-
Transfer to Stage 2	(9,568)	63,282	(53,714)	-
Transfer to Stage 3	(1,029)	(1,379)	2,408	-
Net remeasurement of loss allowance	(21,748)	(50,077)	(25,631)	(97,456)
Net remeasurement of loss allowances on new originated financial assets	37,709	-	-	37,709
Net recovery during the year	-	-	14,237	14,237
Balance as of 31 December	31,797	16,599	7,376	55,772

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage				
ECL allowance as of 1 January	7,989	23,610	13,295	44,894
Transfer to Stage 2	(13,095)	21,734	(8,639)	-
Transfer to Stage 3	(439)	(9,948)	10,387	-
Net remeasurement of loss allowance	(5,055)	(4,322)	(15,135)	(24,512)
Net remeasurement of loss allowances on new originated financial assets	18,955	-	-	18,955
Net recovery during the year	-	-	3,389	3,389
Balance as of 31 December	8,355	31,074	3,297	42,726

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	41,836	65,824	78,397	186,057
Transfer to Stage 1	6,325	(6,325)	-	-
Transfer to Stage 2	(1,506)	2,740	(1,234)	-
Transfer to Stage 3	(26,596)	(24,990)	51,586	-
Net remeasurement of loss allowance	(22,134)	3,265	(111,973)	(130,842)
Net remeasurement of loss allowances on new originated financial assets	55,915	-	-	55,915
Net recovery during the year	-	-	34,338	34,338
Balance as of 31 December	53,840	40,514	51,114	145,468

In thousand Armenian drams	2022			
	Stage 1	Stage 2	Stage 3	Total
Housing improvement loans				
ECL allowance as of 1 January	13,492	20,624	24,330	58,446
Transfer to Stage 1	4,201	(4,201)	-	-
Transfer to Stage 2	(2,019)	3,684	(1,665)	-
Transfer to Stage 3	(2,021)	(6,610)	8,631	-
Net remeasurement of loss allowance	(7,968)	(3,117)	(29,759)	(40,844)
Net remeasurement of loss allowances on new originated financial assets	12,636	-	-	12,636
Net recovery during the year	-	-	8,107	8,107
Balance as of 31 December	18,321	10,380	9,644	38,345

In thousand Armenian drams	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans to financial institutions				
ECL allowance as of 1 January	1,728	-	-	1,728
Net remeasurement of loss allowance	(1,728)	-	-	(1,728)
Balance as of 31 December	-	-	-	-

The loans are fully allocated in the territory of the Republic of Armenia. The analysis of the loan portfolio by economic sectors is presented below:

In thousand Armenian drams	2023	2022
Cattle breeding	2,887,278	3,509,560
Crop production	1,676,161	1,924,806
Other agriculture	238,296	195,358
Consumer	2,742,312	1,957,241
Housing improvement	1,347,031	665,435
Mortgage	5,033,930	4,269,948
Trading	665,454	647,463
Industry	1,073,657	806,393
Other	210,599	202,316
	15,874,718	14,178,520
Credit loss allowance	(481,346)	(467,606)
Total loans to customers	15,393,372	13,710,914

As of 31 December 2023 the right to claim 84 loans in the amount of AMD 215,184 thousand were pledged to secure the borrowings received from state non-commercial organizations (2022: 92 loans in the amount of AMD 280,474 thousand) (refer to note 18).

As of 31 December 2023 and 2022 the estimated fair value of loans to customers is disclosed in note 23.

Maturity analysis of loans to customers is disclosed in note 25.

Credit, currency and interest rate analyses of loans provided are disclosed in note 26. The information on related party balances is disclosed in note 22.

16 Property, equipment and intangible assets

In thousand Armenian drams	Leasehold improvement	Computers and communi-cation	Vehicles	Office Supplies	Intangible assets	Right-of-use assets: Land and buildings	Right-of-use assets: Equipment	Total
Cost								
Balance 1 January 2022	40,691	381,432	94,090	199,806	64,979	616,741	5,894	1,403,633
Additions	-	1,395	16,300	1,965	12,367	-	-	32,027
Remeasurement	-	-	-	-	-	37,948	-	37,948
Disposal	-	(4,042)	-	(7,700)	(10,000)	(43,576)		(65,318)
As of 31 December 2022	40,691	378,785	110,390	194,071	67,346	611,113	5,894	1,408,290
Additions	-	8,807	870	2,218	25,696	52,132	-	89,723
Remeasurement	-	-	-	-	-	19,680	-	19,680
Disposal	-	(6,755)	-	(3,798)	(1,250)	(50,364)	(5,894)	(68,061)
As of 31 December 2023	40,691	380,837	111,260	192,491	91,792	632,561	-	1,449,632
Accumulated depreciation								
Balance 1 January 2022	11,087	257,956	94,090	186,907	23,813	454,172	4,993	1,033,018
Expenses for the year	4,556	23,386	1,189	4,726	15,209	73,613	451	123,130
Disposal	-	(4,040)	-	(7,700)	(10,000)	(43,576)	-	(65,316)
As of 31 December 2022	15,643	277,302	95,279	183,933	29,022	484,209	5,444	1,090,832
Expenses for the year	4,540	24,996	2,111	3,356	13,481	82,121	300	130,905
Disposal	-	(6,755)	-	(3,798)	(1,250)	(50,363)	(5,744)	(67,910)
As of 31 December 2023	20,183	295,543	97,390	183,491	41,253	515,967	-	1,153,827
Carrying amount								
As of 31 December 2022	25,048	101,483	15,111	10,138	38,324	126,904	450	317,458
As of 31 December 2023	20,508	85,294	13,870	9,000	50,539	116,594	-	295,805

Fully depreciated items

As of 31 December 2023 property, equipment and intangible assets included fully depreciated assets in amount of AMD 497,669 thousand (2022: AMD 493,822 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As of 31 December 2023 the Company had a contractual commitment totalling AMD 28,500 thousand for acquisition of intangible assets (2022: AMD 12,500 thousand).

17 Other assets

In thousand Armenian drams	31 December 2023	31 December 2022
Receivables from the RA Government for subsidized loans	22,087	34,370
Debtors and other receivables	17,539	7,511
Receivables on cash transfers	26,127	13,782
Other financial assets	65,753	55,663
Impairment allowance on other assets	-	(29)
Total other financial assets	65,753	55,634
Prepayments	35,977	25,957
Future expenses	7,001	7,037
Other prepaid taxes	275	673
Repossessed assets	13,219	26,172
Materials	4,920	5,607
Total non-financial assets	61,392	65,446
Total other assets	127,145	121,080

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

In thousand Armenian drams	2023	2022
	Stage 1	Stage 1
ECL allowance as of 1 January	29	1,376
Net remeasurement of loss allowance	(1,117)	(1,347)
Net recovery	1,088	-
Balance as of 31 December	-	29

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

In thousand Armenian drams	2023	2022
Real estate	13,219	18,472
Land	-	7,700
Total repossessed assets	13,219	26,172

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

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

18 Loans and borrowings

In thousand Armenian drams	31 December 2023	31 December 2022
Loans from the CBA	1,921,524	2,221,698
Loans from international financial institutions	1,557,287	1,829,629
Loans and overdrafts from RA banks	183,947	-
Loans from refinancing credit organizations	3,472,005	2,795,186
Borrowings from state non-commercial organizations	1,255,211	1,364,310
Total loans and borrowings	8,389,974	8,210,823

Loans from financial institutions have fixed interest rates.

As of 31 December 2023 the Company had loans and borrowings from five borrowers (31 December 2022: five borrowers) the balance of which exceeds 10% of equity. As of 31 December 2023 these balances amounted to AMD 7,592,264 thousand (2022: AMD 7,575,335 thousand).

As of 31 December 2023 borrowings attracted from state non-commercial organizations are secured by the right to claim loans in the amount of AMD 215,184 thousand (2022: AMD 280,474 thousand) (refer to note15).

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

19 Other liabilities

In thousand Armenian drams	31 December 2023	31 December 2022
Lease liabilities	139,519	161,113
Due to personnel	107,918	83,808
Payables	12,943	7,554
Other financial liabilities	9,000	15,600
Total other financial liabilities	269,380	268,075
Tax payable, other than income tax	30,086	29,255
Prepayments received	15,449	14,950
Other	2,295	1,620
Total other non-financial liabilities	47,830	45,825
Total other liabilities	317,210	313,900

Lease liabilities

The Company has leases for the head office, branches and some equipment. With the exception of low-value underlying assets (refer to note 11), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 16).

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

In thousand Armenian drams	31 December 2023	31 December 2022
As of 1 January	161,113	198,198
Additions	52,132	-
Remeasurement	19,680	37,948
Accretion of interest	11,182	18,645
Payments	(104,588)	(93,678)
Total lease liabilities as of 31 December	139,519	161,113

In 2023 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10.5 – 13.1% (2022: 10.5-12.9%).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2023 (refer to note 26.3).

20 Equity

As at 31 December 2023 the Company's registered and paid-in share capital was AMD 5,000,000 thousand. In accordance with the Company's statues, the share capital consists of 20,000 ordinary shares, all of which have a par value of AMD 250 thousand each.

The Microenterprise Development Charitable Fund is the only shareholder of the Company.

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

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

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

21 Contingencies

Tax and legal matters

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

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

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

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

Insurance

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

22 Transactions with related parties

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

The ultimate controlling party of the Company is the Microenterprise Development Charitable Fund.

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

In thousand Armenian drams	2023		2022	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans to customers				
Loans outstanding as of 1 January gross	45,419	244,464	25,607	141,412
Loans issued during the year	-	7,000	20,700	116,177
Loan repayments during the year	(3,852)	(13,871)	(888)	(13,125)
Loans outstanding as of 31 December gross	41,567	237,593	45,419	244,464
Credit loss allowance	(57)	(1,007)	(90)	(1,147)
Loans outstanding as of 31 December	41,510	236,586	45,329	243,317
Right-of-use assets				
As of 1 January	28,979	-	37,239	-
Depreciation expenses	(8,259)	-	(8,260)	-
As of 31 December	20,720	-	28,979	-
Lease liabilities				
As of 1 January	32,968	-	39,310	-
Increase during the year	1,794	-	3,800	-
Payments during the year	(10,784)	-	(10,142)	-
As of 31 December	23,978	-	32,968	-

In thousand Armenian drams	2023		2022	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Payables on low-value leases	1,440	-	1,020	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	3,628	19,498	2,386	17,707
(Credit loss expense)/reversal of credit loss expense	33	140	(23)	(341)
Interest expense on lease liabilities	(1,794)	-	(3,800)	-
Other operating expenses	(1,179)	-	(1,179)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2023	2022
Salaries and bonuses	138,903	92,149
Total key management compensation	138,903	92,149

The loans issued to the related party of the Company are repayable from 1 to 19 years and have interest rates of 7.5-14% (2022: 7.5-14%, repayable from 5 to 20 years).

23 Fair value measurement

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

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

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

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

23.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2023		
	Level 2	Total fair values	Total carrying amount
Financial assets			
Cash	290,630	290,630	290,630
Loans to customers	12,720,068	12,720,068	15,393,372
Other assets	65,753	65,753	65,753

In thousand Armenian drams			31 December 2023
	Level 2	Total fair values	Total carrying amount
Financial liabilities			
Loans and borrowings	8,318,393	8,318,393	8,389,974
Other liabilities	269,380	269,380	269,380

In thousand Armenian drams			31 December 2022
	Level 2	Total fair values	Total carrying amount
Financial assets			
Cash	224,383	224,383	224,383
Amounts due from financial institutions	1,036,427	1,036,427	1,036,427
Loans to customers	13,114,637	13,114,637	13,710,914
Other assets	55,634	55,634	55,634
Financial liabilities			
Loans and borrowings	8,137,997	8,137,997	8,210,823
Other liabilities	268,075	268,075	268,075

Amounts due from and to financial institutions

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

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 6.5% to 24% per annum (2022: 10.6% to 25.5% per annum).

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

Loans and borrowings

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

24 Offsetting of financial assets and financial liabilities

As of 31 December 2023 and 2022 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

25 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 26.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2023						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash	290,630	-	290,630	-	-	-	290,630
Loans to customers	438,260	4,840,033	*5,278,293*	7,609,450	2,505,629	*10,115,079*	15,393,372
Other assets	65,753	-	*65,753*	-	-	-	65,753
	794,643	4,840,033	*5,634,676*	7,609,450	2,505,629	*10,115,079*	15,749,755
Liabilities							
Loans and borrowings	160,462	2,437,670	*2,598,132*	4,202,589	1,589,253	*5,791,842*	8,389,974
Other liabilities (except for lease liabilities)	21,943	107,918	*129,861*	-	-	-	129,861
Lease liabilities	8,583	55,015	*63,598*	75,921	-	*75,921*	139,519
	190,988	2,600,603	*2,791,591*	4,278,510	1,589,253	*5,867,763*	8,659,354
Net position	603,655	2,239,430	*2,843,085*	3,330,940	916,376	*4,247,316*	7,090,401
Accumulated gap	603,655	2,843,085		6,174,025	7,090,401		

In thousand Armenian drams	31 December 2022						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash	224,383	-	224,383	-	-	-	224,383
Amounts due from financial institutions	-	1,036,427	1,036,427	-	-	-	1,036,427
Loans to customers	390,737	4,436,752	*4,827,489*	6,808,317	2,075,108	*8,883,425*	13,710,914
Other assets	55,634	-	*55,634*	-	-	-	55,634
	670,754	5,473,179	*6,143,933*	6,808,317	2,075,108	*8,883,425*	15,027,358
Liabilities							
Loans and borrowings	94,829	2,049,786	*2,144,615*	4,750,080	1,316,128	*6,066,208*	8,210,823
Other liabilities (except for lease liabilities)	23,154	83,808	*106,962*	-	-	-	106,962
Lease liabilities	7,836	64,869	*72,705*	88,408	-	*88,408*	161,113
	125,819	2,198,463	*2,324,282*	4,838,488	1,316,128	*6,154,616*	8,478,898
Net position	544,935	3,274,716	*3,819,651*	1,969,829	758,980	*2,728,809*	6,548,460
Accumulated gap	544,935	3,819,651		5,789,480	6,548,460		

26 Risk management

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

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

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

Risk management structure

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

Board

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

Director

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

Credit Committee

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

Company's Accounting unit

The Company's accounting unit is responsible for the current operations of the Company's assets and liabilities, as well as for the entire financial system. The financial department is also responsible for the Company's liquidity risk and finance risk.

Controller

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

Excessive risk concentration

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

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

26.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans provision. The credit risk management and control are centralised in credit risk management team of Company's Risk Management Department and reported to the Company's Management.

26.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 26.1.2.

In thousand Armenian drams				31 December 2023
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash (excluding cash on hand)				
High	279,320	-	-	279,320
Gross carrying amount	279,320	-	-	279,320
Credit loss allowance	-	-	-	-
Net carrying amount	279,320	-	-	279,320
Agricultural loans				
High	4,627,756	-	-	4,627,756
Standard	7,366	61,381	-	68,747
Substandard	-	11,645	-	11,645
Non-performing	-	-	93,587	93,587
Gross carrying amount	4,635,122	73,026	93,587	4,801,735
Credit loss allowance	(72,110)	(30,219)	(81,416)	(183,745)
Net carrying amount	4,563,012	42,807	12,171	4,617,990
Business loans				
High grade	1,905,711	-	-	1,905,711
Standard grade	-	11,933	-	11,933
Substandard grade	-	31,084	-	31,084
Non-performing grade	-	-	982	982
Gross carrying amount	1,905,711	43,017	982	1,949,710
Credit loss allowance	(32,940)	(14,854)	(704)	(48,498)
Net carrying amount	1,872,771	28,163	278	1,901,212
Mortgage				
High grade	4,961,190	-	-	4,961,190
Standard grade	-	68,511	-	68,511
Non-performing grade	-	-	4,229	4,229
Gross carrying amount	4,961,190	68,511	4,229	5,033,930
Credit loss allowance	(6,856)	(25,879)	(2,820)	(35,555)
Net carrying amount	4,954,334	42,632	1,409	4,998,375

In thousand Armenian drams	31 December 2023			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Consumer lending				
High	2,548,619	-	-	2,548,619
Standard	27,414	83,427	-	110,841
Substandard	-	24,808	-	24,808
Non-performing	-	-	58,044	58,044
Gross carrying amount	2,576,033	108,235	58,044	2,742,312
Credit loss allowance	(73,269)	(51,026)	(46,893)	(171,188)
Net carrying amount	2,502,764	57,209	11,151	2,571,124
Housing improvement loans				
High	1,328,787	-	-	1,328,787
Standard	2,467	14,289	-	16,756
Substandard	-	124	-	124
Non-performing	-	-	1,364	1,364
Gross carrying amount	1,331,254	14,413	1,364	1,347,031
Credit loss allowance	(34,962)	(6,287)	(1,111)	(42,360)
Net carrying amount	1,296,292	8,126	253	1,304,671
Other financial assets				
Standard grade	65,753	-	-	65,753
Gross carrying amount	65,753	-	-	65,753
Credit loss allowance	-	-	-	-
Net carrying amount	65,753	-	-	65,753

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash (excluding cash on hand)				
High	211,923	-	-	211,923
Gross carrying amount	211,923	-	-	211,923
Credit loss allowance	-	-	-	-
Net carrying amount	211,923	-	-	211,923
Amounts due from financial institutions				
High	1,037,990	-	-	1,037,990
Gross carrying amount	1,037,990	-	-	1,037,990
Credit loss allowance	(1,563)	-	-	(1,563)
Net carrying amount	1,036,427	-	-	1,036,427
Agricultural loans				
High	5,465,177	-	-	5,465,177
Standard	4,432	79,832	-	84,264
Substandard	-	14,332	-	14,332
Non-performing	-	-	65,951	65,951
Gross carrying amount	5,469,609	94,164	65,951	5,629,724
Credit loss allowance	(94,704)	(40,690)	(49,901)	(185,295)
Net carrying amount	5,374,905	53,474	16,050	5,444,429

In thousand Armenian drams	31 December 2022			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Business loans				
High grade	1,600,179	-	-	1,600,179
Standard grade	-	10,550	-	10,550
Substandard grade	-	35,452	-	35,452
Non-performing grade	-	-	9,991	9,991
Gross carrying amount	1,600,179	46,002	9,991	1,656,172
Credit loss allowance	(31,797)	(16,599)	(7,376)	(55,772)
Net carrying amount	1,568,382	29,403	2,615	1,600,400
Mortgage				
High grade	4,191,175	-	-	4,191,175
Standard grade	-	74,163	-	74,163
Non-performing grade	-	-	4,610	4,610
Gross carrying amount	4,191,175	74,163	4,610	4,269,948
Credit loss allowance	(8,355)	(31,074)	(3,297)	(42,726)
Net carrying amount	4,182,820	43,089	1,313	4,227,222
Consumer lending				
High	1,796,901	-	-	1,796,901
Standard	14,769	56,881	-	71,650
Substandard	-	28,168	-	28,168
Non-performing	-	-	60,522	60,522
Gross carrying amount	1,811,670	85,049	60,522	1,957,241
Credit loss allowance	(53,840)	(40,514)	(51,114)	(145,468)
Net carrying amount	1,757,830	44,535	9,408	1,811,773
Housing improvement loans				
High	628,223	-	-	628,223
Standard	2,397	22,449	-	24,846
Substandard	-	999	-	999
Non-performing	-	-	11,367	11,367
Gross carrying amount	630,620	23,448	11,367	665,435
Credit loss allowance	(18,321)	(10,380)	(9,644)	(38,345)
Net carrying amount	612,299	13,068	1,723	627,090
Other financial assets				
Standard grade	55,663	-	-	55,663
Gross carrying amount	55,663	-	-	55,663
Credit loss allowance	(29)	-	-	(29)
Net carrying amount	55,634	-	-	55,634

26.1.2 Impairment assessment

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization’s historical experience.

For loans portfolio the Company uses backstop of 30 days past due criterion for determining whether there has been a significant increase in credit risk.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposure for term deposits and cash accounts. For not rated companies the Company adjusts ratings by the country’s rating grade where the company operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov’s model of migration matrices. Migration matrices are constructed using historical data over the past 60 months.

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due because the estimated PD increased significantly. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Exit criteria from significant deterioration stage

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

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans to customers.

		2023	2022
	Grade	12 month PD range %	12 month PD range %
Agricultural loans	High	2.66-7.97	3.78-5.74
	Standard	44.51-81.97	44.49-81.52
	Substandard	93.46-93.76	93.39-93.58
	Non-Performing	100	100
Business loans	High	3.41-4.94	3.78-5.74
	Standard	53.35-81.66	52.95-81.99
	Substandard	92.78-87.76	88.71-92.57
	Non-Performing	100	100
Mortgage	High	0.21	0.31
	Standard	17.28-56.59	21.95-62.95
	Substandard	68.22	76.08
	Non-Performing	100	100
Consumer lending and housing improvement loans	High	3.81-4.49	3.80-4.72
	Standard	46.30-80.41	46.59-80.37
	Substandard	91.30-91.85	91.83-91.85
	Non-Performing	100	100

Collective assessment

The Company calculates ECLs on a collective basis.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that includes only instrument type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative,
- quantitative; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Forborne and modified loan

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

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

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

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

- All of its facilities has to be considered performing
- The customer does not have any contract that is more than 30 days past due.

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

Probability of Default (PD)

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

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

Loss given default (LGD)

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted loans. The LGD models are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the customer and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default.

Sensitivity of estimate of loan loss allowance

Changes in ECL estimates could affect the loan impairment provision. For example, to the extent that the PD rates differ by plus minus one percent, the impairment allowance on loans to customers would be lower/higher as follows:

In thousand Armenian drams	31 December 2023		31 December 2022	
Currency	**Change in rates, %**	**Effect on profit before tax**	**Change in rates, %**	**Effect on profit before tax**
Probability of Default (PD)	+1	(88,926)	+1	(80,798)
	- 1	56,307	- 1	80,798
Loss given default (LGD)	+1	(7,381)	+1	(6,928)
	-1	7,381	-1	6,928

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

26.1.3 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For business loans, real estate and vehicles
- For commercial lending, charges over real estate movable properties and jewellery
- For mortgages over real estate

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

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

In thousand Armenian drams	31 December 2023	31 December 2022
Loans collateralized by real estate	7,884,819	6,883,994
Loans collateralized by vehicles	405,371	321,568
Loans collateralized by gold jewelry and other gold items	5,645	28,458
Other collateral	11,109	16,789
Unsecured loans	7,567,774	6,927,711
Total loans and advances (gross)	15,874,718	14,178,520

As of 31 December 2023 and 31 December 2022 unsecured loans are mainly secured by third parties guarantee.

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

26.2 Market risk

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

Average effective interest rates

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

	2023		2022	
	Average effective interest rate, %		Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest earning assets				
Deposits in banks	-	-	2.3	7.0
Loans to customers	17.7	12.0	15.6	11.7
Interest bearning liabilities				
Loans and borrowings	7.1	7.8	6.7	7.1

Interest rate risk

The interest rate risk arises from the fact that the change in interest rates will directly affect the cash flow of the Company's financial instruments and their fair value. As of 31 December 2023 and 31 December 2022, the Company has no rate financial assets and liabilities with floating interest rate.

Currency risk

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

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

In thousand Armenian drams	31 December 2023		31 December 2022	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	(10,098)	+5	(9,078)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash	26,686	260,810	3,134	290,630
Loans to customers	14,253,757	1,139,615	-	15,393,372
Other assets	65,753	-	-	65,753
Total	14,346,196	1,400,425	3,134	15,749,755
Liabilities				
Loans and borrowings	6,787,581	1,602,393	-	8,389,974
Other liabilities	269,380	-	-	269,380
Total	7,056,961	1,602,393	-	8,659,354
Net position as of 31 December 2023	7,289,235	(201,968)	3,134	7,090,401
Total financial assets	13,334,401	1,690,585	2,372	15,027,358
Total financial liabilities	6,606,745	1,872,153	-	8,478,898
Net position as of 31 December 2022	6,727,656	(181,568)	2,372	6,548,460

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

26.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company’s financial liabilities as of 31 December 2023 based on contractual undiscounted repayment obligations. Refer to note 25 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

However, the Company's management believes that many customers will not demand immediate payment, and the table does not reflect the expected cash flows, as noted in the Company's deposit history.

In thousand Armenian drams						**31 December 2023**
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Loans and borrowings	167,489	2,873,058	5,106,800	1,829,205	9,976,552	8,389,974
Other liabilities (except for lease liabilities)	21,943	107,918	-	-	129,861	129,861
Lease liabilities	8,584	57,549	97,879	-	164,012	139,519
Total undiscounted non-derivative financial liabilities	198,016	3,038,525	5,204,679	1,829,205	10,270,425	8,659,354

In thousand Armenian drams						**31 December 2022**
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Loans and borrowings	102,808	2,481,640	5,586,180	1,557,361	9,727,989	8,210,823
Other liabilities (except for lease liabilities)	14,569	92,393	-	-	106,962	106,962
Lease liabilities	7,836	69,156	102,065	-	179,057	161,113
Total undiscounted non-derivative financial liabilities	125,213	2,643,189	5,688,245	1,557,361	10,014,008	8,478,898

26.4 Operational risk

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

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

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

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

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

27 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams			31 December 2023
	Loans and borrowings	Lease liabilities	Total
As of 1 January 2023	8,210,823	161,113	8,371,936
Payments	(2,261,551)	(93,406)	(2,354,957)
Proceeds	2,383,438	-	2,383,438
Effect of foreign exchange	32,710	-	32,710
Accrued interests	24,554	-	24,554
Other	-	71,812	71,812
As of 31 December 2023	8,389,974	139,519	8,529,493

In thousand Armenian drams	31 December 2022		
	Loans and borrowings	Lease liabilities	Total
As of 1 January 2022	8,549,891	198,198	8,748,089
Proceeds	(2,149,810)	(75,033)	(2,224,843)
Payments	2,240,156	-	2,240,156
Effect of foreign exchange	(451,446)	-	(451,446)
Accrued interests	22,032	-	22,032
Other	-	37,948	37,948
As of 31 December 2022	8,210,823	161,113	8,371,936

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

28 Capital adequacy

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

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve.

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

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

	Unaudited	
In thousand Armenian drams	31 December 2023	31 December 2022
Tier 1 capital	7,339,752	6,894,028
Total regulatory capital	7,339,752	6,894,028
Risk-weighted assets	12,834,801	14,162,729
Capital adequacy ratio	57.2%	48.7%

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