Financial Statements and Independent Auditor's Report

"ARMECONOMBANK" OPEN JOINT STOCK COMPANY

31 December 2021

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք.Երևան 0015
Երևան Պլազա
Բիզնես Կենտրոն
Գրիգոր Լուսավորիչ 9
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich street
0015 Yerevan, Armenia
T + 374 10 50 09 64/61

To the shareholders of "ARMECONOMBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "ARMECONOMBANK" OPEN JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2021 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 Bank 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.

Key Audit Matters

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

- *Allowance for expected credit loss*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 36.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2021. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Armen Hovhannisyan

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

27 April 2022

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2021	2020
Interest income calculated using effective interest rate	6	27,099,448	25,846,673
Interest expense	6	(15,368,668)	(13,045,872)
Net interest income		11,730,780	12,800,801
Fee and commission income	7	3,274,558	2,565,617
Fee and commission expense	7	(1,123,565)	(831,404)
Net fee and commission income		2,150,993	1,734,213
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss		484,429	(709,484)
Net foreign currency income	8	1,205,009	2,337,878
Net gain from derecognition of financial assets measured at FVOCI		129,895	2,220,878
Other income	9	528,640	359,619
Impairment losses	10	(1,840,266)	(2,277,136)
Personnel expenses	11	(5,112,281)	(5,017,239)
Depreciation of property and equipment	21	(1,517,019)	(1,425,465)
Amortization of intangible assets	22	(138,825)	(94,055)
Other expenses	12	(3,884,768)	(3,865,458)
Profit before income tax		3,736,587	6,064,552
Income tax expense	13	(780,148)	(1,268,010)
Profit for the year		2,956,439	4,796,542

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2021	2020
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Income tax relating to items not reclassified		-	7,724
Net gain from items that will not be reclassified subsequently to profit or loss		-	7,724
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net unearned losses from fair value changes		(152,942)	(2,697,936)
Changes in allowance for expected credit losses		(209,518)	384,328
Income tax relating to items that will be reclassified		65,243	417,522
Net losses on financial instruments at fair value through other comprehensive income		(297,217)	(1,896,086)
Other comprehensive income for the year, net of tax		(297,217)	(1,888,362)
Total comprehensive income for the year		2,659,222	2,908,180
Earnings per share	14	1.09	2.07

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 15 to 78.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	15	63,399,890	42,572,757
Derivative financial assets	16	5,053	16,538
Amounts due from financial institutions	17	9,497,133	13,755,753
Reverse repurchase agreements	18	7,826,751	10,175,600
Loans and advances to customers	19	220,889,139	193,337,215
Investment securities	20	5,139,770	4,832,423
Securities pledged under sale and repurchase agreements	20	37,667,527	39,384,619
Property and equipment	21	12,694,277	12,804,374
Intangible assets	22	693,383	581,733
Other assets	23	2,051,188	3,328,915
Total assets		359,864,111	320,789,927
Liabilities and equity			
Liabilities			
Derivative financial liabilities	16	21,883	11,549
Debt securities issued	24	6,107,897	6,185,733
Repurchase agreements	18	34,576,952	38,125,044
Amounts due to financial institutions	25	131,081,522	115,700,441
Amounts due to customers	26	135,948,859	112,495,410
Current income tax liabilities		247,266	790,950
Deferred income tax liabilities	13	175,877	467,873
Subordinated debt	27	3,605,469	1,311,068
Other liabilities	28	4,853,363	4,106,240
Total liabilities		316,619,088	279,194,308

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2021	31 December 2020
Equity			
Share capital	29	26,107,555	25,955,663
Share premium		289,718	180,180
Statutory general reserve		3,481,000	3,275,000
Fair value reserve		(361,148)	(63,931)
Other reserves		3,214,025	3,319,815
Retained earnings		10,513,873	8,928,892
Total equity		43,245,023	41,595,619
Total liabilities and equity		359,864,111	320,789,927

The financial statements were approved on 27 April 2022 by:

Aram Khachatryan
Chief Executive Officer

Michael Poghosyan
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 15 to 78.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve for investment securities	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 01 January 2021	25,955,663	180,180	3,275,000	(63,931)	3,319,815	8,928,892	41,595,619
Profit for the year	-	-	-	-	-	2,956,439	2,956,439
Other comprehensive income:							
Adjustment to reserve on depreciation of property and equipment	-	-	-	-	(105,790)	105,790	-
Net change in fair value of instrument securities at FVOCI	-	-	-	(44,475)	-	-	(44,475)
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI	-	-	-	(108,467)	-	-	(108,467)
Net changes in allowance for expected credit losses of instrument securities at FVOCI	-	-	-	(209,518)	-	-	(209,518)
Income tax relating to components of other comprehensive income	-	-	-	65,243	-	-	65,243
Total comprehensive income for the year	-	-	-	(297,217)	(105,790)	3,062,229	2,659,222
Increase in shares capital	151,892	109,538	-	-	-	-	261,430
Dividends to shareholders	-	-	-	-	-	(1,271,248)	(1,271,248)
Distribution to reserve	-	-	206,000	-	-	(206,000)	-
Total transactions with owners	151,892	109,538	206,000	-	-	(1,477,248)	(1,009,818)
Balance as of 31 December 2021	26,107,555	289,718	3,481,000	(361,148)	3,214,025	10,513,873	43,245,023

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve for investment securities	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2020	25,635,343	-	3,105,000	1,832,155	3,409,549	5,475,662	39,457,709
Profit for the year	-	-	-	-	-	4,796,542	4,796,542
Other comprehensive income:							
Adjustment to reserve on amortization of property and equipment	-	-	-	-	(97,458)	97,458	-
Net change in fair value of instrument securities at FVOCI	-	-	-	(488,852)	-	-	(488,852)
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI	-	-	-	(2,209,084)	-	-	(2,209,084)
Net changes in allowance for expected credit losses of instrument securities at FVOCI	-	-	-	384,328	-	-	384,328
Income tax relating to components of other comprehensive income	-	-	-	417,522	7,724	-	425,246
Total comprehensive income for the year	-	-	-	(1,896,086)	(89,734)	4,894,000	2,908,180
Increase in shares capital	320,320	180,180	-	-	-	-	500,500
Dividends to shareholders	-	-	-	-	-	(1,270,770)	(1,270,770)
Distribution to reserve	-	-	170,000	-	-	(170,000)	-
Total transactions with owners	320,320	180,180	170,000	-	-	(1,440,770)	(770,270)
Balance as of 31 December 2020	25,955,663	180,180	3,275,000	(63,931)	3,319,815	8,928,892	41,595,619

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 15 to 78.

Statement of cash flows

In thousand Armenian drams

	2021	2020
Cash flows from operating activities		
Profit before tax	3,736,587	6,064,552
Adjustments for		
Depreciation allowances	1,517,019	1,425,465
Amortization allowances	138,825	94,055
Impairment of property and equipment	29,537	-
Gain from sale of property and equipment	(99,963)	(4,655)
Impairment losses of financial assets	1,840,266	2,277,136
Recoveries on loans previously written off	(2,024,416)	(834,017)
Foreign currency translation net (gain)/loss	605,876	(824,500)
Net (gain)/loss from financial assets and liabilities measured at FVTPL	(484,429)	709,484
Net gain from derecognition of financial assets measured at FVOCI	(129,895)	(2,220,878)
Interest receivable	(198,353)	(75,274)
Interest payable	103,652	496,244
Cash flows from operating activities before changes in operating assets and liabilities	5,034,706	7,107,612
(Increase)/decrease in operating assets		
Derivative financial assets	506,248	(716,264)
Amounts due from financial institutions	3,264,372	1,449,591
Reverse repurchase agreements	2,346,944	(4,048,770)
Loans and advances to customers	(34,669,421)	(7,858,758)
Other assets	1,068,449	(3,556,642)
Increase/(decrease) in operating liabilities		
Repurchase agreements	(3,548,092)	12,483,844
Amounts due to customers	27,954,487	(5,063,351)
Other liabilities	141,546	(290,478)
Net cash flow from/(used in) operating activities before income tax	2,099,239	(493,216)
Income tax paid	(1,550,585)	(896,630)
Net cash from/(used in) operating activities	548,654	(1,389,846)

Statement of cash flows (continued)

In thousand Armenian drams

	2021	2020
Cash flows from investing activities		
Purchase of investment securities	(33,396,978)	(71,594,255)
Proceeds from sale of investment securities	34,556,275	52,563,591
Purchase of property and equipment	(1,153,541)	(1,238,234)
Proceeds from sale of property and equipment	236,081	47,447
Purchase of intangible assets	(250,475)	(149,960)
Net cash used in investing activities	(8,638)	(20,371,411)
Cash flow from financing activities		
Increase in share capital	261,430	500,500
Prepayment for the issuance of shares	1,000,019	261,430
Amounts due to financial institutions	21,432,029	17,449,791
Proceeds from debt securities issued	1,353,296	3,212,956
Repayment of debt securities issued	(1,220,351)	(1,737,517)
Payment of lease liabilities	(758,074)	(520,837)
Proceeds from subordinated debt	2,489,655	560,522
Repayment of subordinated debt	(89,886)	(41,830)
Dividends paid	(1,261,961)	(1,210,144)
Net cash from financing activities	23,206,157	18,474,871
Net increase/(decrease) in cash and cash equivalents	23,746,173	(3,286,386)
Cash and cash equivalents at the beginning of the year	42,572,757	44,050,205
Effect of changes in impairment allowance on cash and cash equivalents	(2,080)	(2,692)
Exchange differences on cash and cash equivalents	(2,916,960)	1,811,630
Cash and cash equivalents at the end of the year (note 15)	63,399,890	42,572,757
Supplementary information:		
Interest received	26,901,095	25,771,399
Interest paid	(15,265,016)	(12,354,633)

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 15 to 78.

Notes to the financial statements

1 Principal activities

“ARMECONOMBANK” OJSC (the “Bank”) was incorporated in the Republic of Armenia in 1991, on the basis of USSR Armenian Republican Bank “State Social Bank” (1991-1993 “Armstatecombank” CJSC) and in 1995 restructured to an open joint stock company. The Bank is regulated by the legislation of RA and conducts its business under license number 1, granted by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits and extends credit (transfers and exchange transactions in the Republic of Armenia and abroad) as well as provides other banking services to its corporate and retail customers.

On 03 September 2019 "Moody's Investors Service" International rating agency confirmed the Bank's long-term counterpaty risk rating: Ba3, and long-term /short-term deposit rating: B1/NP. The forecast for all ratings is stable.

Ratings approved by "Moody's Investors Service" International rating agency on 03 September 2019 operate in 2020 and 2021.

The Bank has 53 branches through which it carries out its activities. The registered office of the Bank is located at Amiryan str. 23/1, Yerevan.

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.

2020 after the recession, the Armenian economy entered a phase of stable recovery. It is expected that the gradual improvement of the COVID-19 epidemic situation, the ceasefire agreement over disputed territories of Nagorno Karabakh, as well as the expansion of public-private investment will stimulate the growth of 2022. The government's efforts to improve the business environment, increase access to finance for SMEs and create opportunities for priority social spending, as well as an expanded action plan for capital market development, should contribute to the stability and development of the Armenian economy.

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost with the exception of land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2021, did not have a material impact on the annual financial statements of the Bank.

- *COVID-19-related rent concessions beyond 30 June 2021 (Amendments to IFRS 16)*
- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7),

3.5 Standards and interpretations not yet applied by the Bank

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 Bank has not early adopted any of these pronouncements.

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

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

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)*
- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank 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 Bank 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 Bank 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 interest income

In calculating other interest income, the nominal interest rate is applied to the gross asset value on a straight-line basis.

Fee and commission income

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

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

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

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

Net gain/(loss) from derecognition of financial assets and financial liabilities measured at fair value

Net gain/(loss) from derecognition of financial assets and financial liabilities measured at fair value comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes.

Net foreign currency income

Net foreign currency income includes net gain from trading in foreign currencies and also foreign exchange translation gain or loss and is recognized in profit or loss when the corresponding service is provided.

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

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

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

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

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

	31 December 2021	31 December 2020
AMD/1 US Dollar	480.14	522.59
AMD/1 EUR	542.61	641.11
AMD/1 RUB	6.42	7.02

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 Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities 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 Bank 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 debt instrument 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 Bank 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 Bank 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 Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

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 Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

The Bank 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 Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

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

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

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

Financial liabilities

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

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Bank 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 Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

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 Bank's trading activity.

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 36.1.2.

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

- Stage 1: When loans are first recognised, The Bank recognises an allowance based on 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 Bank 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 Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 36.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, The Bank 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 Bank on terms that The Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

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 Bank 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Bank'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. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

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

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans and advances

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

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

4.9 Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as of FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as of FVOCI.

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

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

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

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Leases

For any new contracts entered into, the Bank 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 Bank 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 Bank,
- the Bank 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 Bank has the right to direct the use of the identified asset throughout the period of use. The Bank 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

Bank as a lessee

At lease commencement date, the Bank 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 Bank, 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

4.12 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.13 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated at fair value 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. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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 (%)
Buildings	50	2
Computers	3-5	33.3-20
Vehicles	8	12.5
Other fixed assets	8	12.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.14 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 lives, during 1-11 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 Repossessed assets

The Bank'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 Bank'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.

4.16 Impairment of non-financial asstes

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

4.17 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt 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.

4.18 Financial guarantees and loan commitments

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

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

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

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note 4.18.

4.20 Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

In terms of IFRS 8 the Bank’s operations are not separated to operating segments and are a complete business unit. The Bank’s chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Bank’s assets are mainly distributed in the territory of the Republic of Armenia. The Bank’s income is derived from the Armenian sources.

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 Bank 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 Bank 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 33).

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 Bank 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 Bank 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.

Impairment of financial instruments

The Bank 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 36.1.2), 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 31.

6 Net interest income

In thousand Armenian drams	2021	2020
Interest income calculated using effective interest rate		
Loans and advances to customers	22,335,758	21,807,134
Amounts due from financial institutions	731,109	661,459
Reverse repurchase agreements	590,228	416,611
Investment securities at FVOCI	1,569,948	2,880,645
Investment securities at amortised cost	1,781,708	47,824
Other interest income	90,697	33,000
Total interest income	27,099,448	25,846,673
Current accounts and deposits from customers	4,726,760	4,762,578
Deposits and balances in banks	5,877,711	4,835,222
Repurchase agreements	2,117,079	1,230,438
Subordinated debt	90,628	45,898
Loans from CBA and Government of the Republic of Armenia	965,853	736,294
Loans from international financial institutions	975,202	913,101
Debt securities issued	433,600	327,346
Lease liabilities	166,311	194,995
Other interest expenses	15,524	-
Total interest expenses	15,368,668	13,045,872
Total net interest income	11,730,780	12,800,801

7 Fee and commission income and expense

In thousand Armenian drams	2021	2020
Wire transfer fees	1,406,268	1,287,908
Cash collection	298,019	210,601
Plastic cards operations	1,434,583	922,019
Guarantees and letters of credit	132,490	143,194
Foreign currency transactions and operations with securities	2,641	1,579
Other commission income	557	316
Total fee and commission income	3,274,558	2,565,617

In thousand Armenian drams	2021	2020
Plastic cards operations	768,545	443,951
Expenses for the future period	61,408	63,645
Wire transfer fees	127,107	104,670
Guarantees and letters of credit	68,291	62,074
Foreign currency transactions and operations with securities	70,659	137,029
Service fees for correspondent accounts	12,947	10,181
Other commission expenses	14,608	9,854
Total fee and commission expense	1,123,565	831,404

8 Net foreign currency income

In thousand Armenian drams	2021	2020
Net gain from trading in foreign currencies	1,810,885	1,513,378
Foreign exchange translation gain/(loss)	(605,876)	824,500
Total net foreign currency income	1,205,009	2,337,878

9 Other income

In thousand Armenian drams	2021	2020
Fines and penalties received	355,087	261,264
Net gain from operations of precious metals	-	10,339
Other income	173,553	88,016
Total other income	528,640	359,619

10 Impairment losses/(reversal)

In thousand Armenian drams					2021
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	15	2,080	-	-	2,080
Amounts due from financial institutions	17	(193,642)	-	-	(193,642)
Reverse repurchase agreements	18	(24,762)	-	-	(24,762)
Loans and advances to customers	19	(612,383)	110,437	2,552,272	2,050,326
Investment securities	20	15,657	-	-	15,657
Other assets	23	(32,077)	-	-	(32,077)
Financial guarantees and loan commitments	30	22,684	-	-	22,684
Total impairment losses/(reversal)		(822,443)	110,437	2,552,272	1,840,266

In thousand Armenian drams					2020
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	15	2,692	-	-	2,692
Amounts due from financial institutions	17	192,878	-	-	192,878
Reverse repurchase agreements	18	133,607	-	-	133,607
Loans and advances to customers	19	794,828	408,462	306,299	1,509,589
Investment securities	20	435,276	-	-	435,276
Other assets	23	(25,735)	-	-	(25,735)
Financial guarantees and loan commitments	30	28,829	-	-	28,829
Total impairment losses		1,562,375	408,462	306,299	2,277,136

11 Personnel expenses

In thousand Armenian drams	2021	2020
Compensations of employees, related taxes included	5,067,672	4,961,114
Personnel training and other expenses	44,609	56,125
Total personnel expenses	5,112,281	5,017,239

12 Other expenses

In thousand Armenian drams	2021	2020
Repair and maintenance of property and equipment	1,014,877	785,766
Charity expenses	35,000	790,223
Advertising and representative costs	517,582	341,674
Expenses for cash collection services	345,000	345,000
Security	368,156	355,349
Taxes, other than income tax, duties	355,936	268,679
VISA membership and card issuance costs	272,052	152,343
Guarantee payments to deposit guarantee fund	211,428	216,388
Insurance costs	142,078	143,632
Office supplies	143,994	140,721
Communications	111,942	107,529
Business trip expenses	21,818	17,929
Consulting and professional services	46,560	31,883
Impairment losses of property and equipment	29,537	-
Expenses of short term and low value assets leases	7,905	10,606
Other operating expenses	260,903	157,736
Total other expense	3,884,768	3,865,458

13 Income tax expense

In thousand Armenian drams	2021	2020
Current tax expense	1,006,901	1,318,748
Adjustments of current income tax of previous years	-	(21,412)
Deferred tax expense recovery	(226,753)	(29,326)
Total income tax expense	780,148	1,268,010

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2020: 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 income tax expenses and accounting profit is provided below:

In thousand Armenian drams	2021	Effective rate (%)	2020	Effective rate (%)
Profit before tax	3,736,587		6,064,552	
Income tax	672,586	18	1,091,619	18
Non-taxable expense/(income) from financial assets measured at fair value through profit and loss	(68,395)	(2)	150,992	2
Non-deductible expenses	66,921	2	197,284	3
Foreign exchange (gains)/losses	109,058	3	(148,410)	(2)
Other non-taxable income and privileges	(22)	-	(2,063)	-
Adjustments of the current tax of prior years	-	-	(21,412)	-
Income tax expense	780,148	21	1,268,010	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	01 January 2021	Recognized in profit or loss	Recognized in other comprehensive income	2021 Net	2021 Deferred tax asset	2021 Deferred tax liability
Accrued expenses and other liabilities	94,518	122,823	-	217,341	217,341	-
Right-of-use assets	-	47,482	-	47,482	47,482	-
Loans and advances to customers	40,957	37,174	-	78,131	78,131	-
Cash and cash equivalents	(1,392)	5,264	-	3,872	3,872	-
Investment securities	100,544	2,540	65,243	168,327	168,327	-
Contingent liabilities	(12,086)	1,322	-	(10,764)	-	(10,764)
Amounts due from financial institutions	26,805	(12,845)	-	13,960	13,960	-
Property and equipment	(717,219)	22,993	-	(694,226)	-	(694,226)
Deferred tax asset/(liability)	(467,873)	226,753	65,243	(175,877)	529,113	(704,990)

In thousand Armenian drams	01 January 2020	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	Deferred tax asset	Deferred tax liability
Accrued expenses and other liabilities	174,881	(80,363)	-	94,518	94,518	-
Loans and advances to customers	53,964	(13,007)	-	40,957	40,957	-
Cash and cash equivalents	(1,876)	484	-	(1,392)	-	(1,392)
Investments in securities	(390,339)	73,361	417,522	100,544	100,544	-
Contingent liabilities	(17,085)	4,999	-	(12,086)	-	(12,086)
Amounts due from financial institutions	(35,288)	62,093	-	26,805	26,805	-
Property and equipment	(706,702)	(18,241)	7,724	(717,219)	-	(717,219)
Deferred tax asset/(liability)	(922,445)	29,326	425,246	(467,873)	262,824	(730,697)

14 Earnings per share

In thousand Armenian drams	2021	2020
Profit for the year	2,956,439	4,796,542
Accrued dividends on preferred shares	(891,660)	(894,103)
Net profit attributable to ordinary shareholders	2,064,779	3,902,439
Weighted average number of ordinary shares	1,897,938	1,883,333
Earnings per share – basic	1.09	2.07

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2021	31 December 2020
Correspondent accounts with banks	1,266,129	3,845,366
Correspondent account with the CBA	47,685,081	24,354,638
Short-term deposits in the CBA	-	1,400,287
Cash on hand	14,481,483	13,003,189
	63,432,693	42,603,480
Less loss allowance	(32,803)	(30,723)
Total cash and cash equivalents	63,399,890	42,572,757

As of 31 December 2021 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 4% (2020: 2%) of the Bank obligations denominated in Armenian drams and 18% of the Bank obligations, denominated in foreign currency. The banks are required to maintain10% of amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 8% - in the foreign currency. As of 31 December 2021 these funds amounted to AMD 18,640,831 thousand (as of 31 December 2020: AMD 13,592,859 thousand).

There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day.

As of 31 December 2021 the amounts of correspondent accounts with financial institutions in amounts of AMD 777,682 thousand (61%) (2020: AMD 2,900,749 thousand (75%)) were due from three commercial banks, which represent significant concentration.

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

In thousand Armenian drams	2021		2020	
	Stage 1	**Total**	**Stage 1**	**Total**
ECL allowance as of 1 January	30,723	30,723	28,031	28,031
Net remeasurement of loss allowance	2,080	2,080	2,692	2,692
Balance as of 31 December	32,803	32,803	30,723	30,723

Non-cash transactions performed by the Bank during 2021 are represented by:

- repayment of loan by collaterals valued at AMD 328,006 thousand (2020: AMD 2,035,103 thousand) (refer to note 19).

16 Derivative financial instruments

The Bank enters into derivative financial instruments principally for trading and hedging purposes. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below.

In thousand Armenian drams	31 December 2021			31 December 2020		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	**Notional amount**	**Fair value of assets**	**Fair value of liabilities**
Foreign exchange contracts						
Foreign exchange swap contracts	7,860,375	5,053	21,815	7,870,674	16,538	11,404
Other derivative instruments	54,329	-	68	302,747	-	145
Total derivative financial instruments		5,053	21,883		16,538	11,549

17 Amounts due from financial institutions

In thousand Armenian drams	31 December 2021	31 December 2020
Loans to banks and financial institutions	7,115,409	11,259,724
Deposited funds on card clearing transactions	1,122,137	1,379,178
Payment system receivables	1,310,323	1,293,650
Deposited other funds in banks	-	72,614
Other amounts receivable from financial institutions	7,385	2,350
	9,555,254	14,007,516
Less loss allowance on amounts due from financial institutions	(58,121)	(251,763)
Total amounts due from financial institutions	9,497,133	13,755,753

Deposited funds on card clearing transactions include a guaranteed deposit for settlements via ArCa, Visa and Mastercard payment system.

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

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	251,763	251,763	48,815	48,815
Net remeasurement of loss allowance	(193,642)	(193,642)	192,878	192,878
Recovery	-	-	10,070	10,070
Balance as of 31 December	58,121	58,121	251,763	251,763

18 Reverse repurchase/repurchase agreements

The Bank has transactions under repurchase and reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Reverse repurchase agreements

As of 31 December 2021 the Bank had reverse repurchase agreements:

In thousand Armenian drams	31 December 2021	31 December 2020
Repurchase agreements with financial institutions	7,935,596	10,309,207
Total reverse repurchase agreements	7,935,596	10,309,207
Less loss allowance	(108,845)	(133,607)
Total amounts due from financial institutions	7,826,751	10,175,600

Fair value of securities purchased under reverse repurchase agreements and carrying value of loans provided are presented as follows:

In thousand Armenian drams	2021		2020	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state securities	8,287,821	7,604,388	10,691,798	10,005,146
Corporate bonds	349,793	331,208	321,658	304,061
Total	8,637,614	7,935,596	11,013,456	10,309,207

An analysis of changes in the ECLs on loans under repurchase agreements as follow:

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	133,607	133,607	-	-
Net remeasurement of loss allowance	(24,762)	(24,762)	133,607	133,607
Balance as of 31 December	108,845	108,845	133,607	133,607

Repurchase agreements

In thousand Armenian drams	31 December 2021	31 December 2020
Repurchase agreements with the CBA	34,522,743	38,011,493
Repurchase agreements with the financial institutions	54,209	113,551
Total repurchase agreements	34,576,952	38,125,044

The loans attracted under repurchase agreements are secured by investment securities at amortised cost in the amount of AMD 22,867,966 thousand (2020: AMD 4,027,737 thousand) and investment securities at FVOCI in the amount of AMD 14,799,561 thousand (2020: AMD 35,356,882 thousand) pledged by the Bank. Refer to note 20.

19 Loans and advances to customers

In thousand Armenian drams	31 December 2021			31 December 2020		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	29,270,243	(82,620)	29,187,623	20,342,364	(730,916)	19,611,448
Consumer lending	55,159,634	(2,025,455)	53,134,179	68,059,743	(2,133,351)	65,926,392
	84,429,877	(2,108,075)	82,321,802	88,402,107	(2,864,267)	85,537,840
Commercial lending						
Trading	39,670,657	(184,643)	39,486,014	28,388,141	(112,967)	28,275,174
Manufacture	34,554,198	(319,585)	34,234,613	29,885,750	(315,343)	29,570,407
Construction	18,100,972	(291,441)	17,809,531	12,137,153	(24,324)	12,112,829
Agriculture	23,371,532	(263,246)	23,108,286	9,941,518	(5,853)	9,935,665
Other	24,137,511	(208,618)	23,928,893	27,960,041	(54,741)	27,905,300
	139,834,870	(1,267,533)	138,567,337	108,312,603	(513,228)	107,799,375
Total	224,264,747	(3,375,608)	220,889,139	196,714,710	(3,377,495)	193,337,215

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

During the year ended 31 December 2021 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2021 the carrying amount of such assets was AMD 328,006 thousand (2020: AMD 2,035,103 thousand). The Bank is intended to sell these assets in a short period. Refer to note 15.

As of 31 December 2021, the Bank had a concentration of loans represented by AMD 50,482,607 thousand due from the ten largest third party entities and parties related with them (22.5% of gross loan portfolio) (2020: AMD 37,836,151 thousand or 19.2% due from the ten largest third party entities and parties related with them). An allowance on these loans amounts to AMD 363,493 thousand (2020: AMD 94,548 thousand).

As of 31 December 2021, the loans to customers with a carrying amount of AMD 15,353,198 thousand (2020: AMD 12,064,630 thousand) were the transfer of rights to borrowed funds, and AMD 12,382,337 thousand (2020: AMD 7,653,987 thousand) were the transfer of rights to loans from the Central Bank (refer to note 25).

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

In thousand Armenian drams	2021	2020
Mortgage and consumer lending		
ECL allowance as of 1 January	2,864,267	802,371
Net remeasurement of loss allowance	241,342	2,561,286
Recoveries	137,119	75,208
Amounts written off during the year	(1,134,653)	(574,598)
Balance as of 31 December	2,108,075	2,864,267

In thousand Armenian drams	2021	2020
Commercial lending		
ECL allowance as of 1 January	513,228	1,284,556
Net remeasurement of loss allowance	1,808,984	(1,051,697)
Recoveries	49,933	710,268
Amounts written off during the year	(1,104,612)	(429,899)
Balance as of 31 December	1,267,533	513,228

Movements among stages on gross loans as of 31 December 2021 and 31 December 2020 are as follows:

Gross amount	Balance as of 1 January 2021	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2021	Balance as of 31 December 2021
Stage 1	193,972,027	147,206	(144,524)	(2,682)	(93,701,924)	121,993,930	222,264,033
Stage 1	1,389,394	(3,444,882)	3,446,195	(1,313)	(1,703,432)	410,662	96,624
Stage 1	1,353,289	(1,230,789)	(413,159)	1,643,948	(1,269,588)	1,820,389	1,904,090
Total	196,714,710	(4,528,465)	2,888,512	1,639,953	(96,674,944)	124,224,981	224,264,747

Gross amount	Balance as of 1 January 2020	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2020	Balance as of 31 December 2020
Stage 1	176,241,915	-	(814,000)	(1,172,796)	(73,086,020)	92,802,928	193,972,027
Stage 1	143,237	814,000	-	(23,642)	(119,240)	575,039	1,389,394
Stage 1	1,808,388	1,172,796	23,642	-	(1,805,343)	153,806	1,353,289
Total	178,193,540	1,986,796	(790,358)	(1,196,438)	(75,010,603)	93,531,773	196,714,710

As of 31 December 2021 and 31 December 2020 movements among stages on ECL are as follows:

Gross amount	Balance as of 1 January 2021	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2021	Balance as of 31 December 2021
Stage 1	2,070,775	40,324	(38,921)	(1,403)	(1,643,870)	905,761	1,332,666
Stage 1	420,858	(18,337)	19,336	(999)	(67,785)	44,322	397,395
Stage 1	885,862	(25,025)	(237,005)	262,030	(216,176)	975,861	1,645,547
Total	3,377,495	(3,038)	(256,590)	259,628	(1,927,831)	1,925,944	3,375,608

Gross amount	Balance as of 1 January 2020	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2020	Balance as of 31 December 2020
Stage 1	1,294,038	-	(7,059)	(11,966)	(844,944)	1,640,706	2,070,775
Stage 1	31,113	7,059	-	(4,131)	(26,878)	413,695	420,858
Stage 1	761,776	11,966	4,131	-	(759,848)	867,837	885,862
Total	2,086,927	19,025	(2,928)	(16,097)	(1,631,670)	2,922,238	3,377,495

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and deterioration in economic conditions. Further analysis of economic factors is outlined in note 36.1.2.

As of 31 December 2021 and 2020 the estimated fair value of loans and advances to customers approximates it carrying amount. Refer to note 33.

Maturity analysis of loans and advances to customers are disclosed in note 35.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 36. The information on related party balances is disclosed in note 32.

20 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2021	31 December 2020
Investment securities measured at amortised cost		
RA state bonds	210,849	-
RA corporate bonds	603,448	524,792
Less loss allowance	(12,938)	(9,224)
Total investment securities at amortised cost	801,359	515,568
Investment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	23,133,346	4,071,656
Less loss allowance	(265,380)	(43,919)
Total investment securities at amortised cost pledged under repurchase agreements	22,867,966	4,027,737
Total investment securities at amortised cost	23,669,325	4,543,305

An analysis of changes in the ECLs on investment securities measured at amortised cost pledged under repurchase agreements as follows:

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	53,143	53,143	2,195	2,195
Net remeasurement of loss allowance	225,175	225,175	50,948	50,948
Balance as of 31 December	278,318	278,318	53,143	53,143

Investment securities measured at amortised cost by effective interest rates and maturity terms:

In thousand Armenian drams	31 December 2021		31 December 2020	
	%	Maturity	%	Maturity
RA state bonds	5.7-10.4	2022-2047	9-9.3	2036-2047
RA corporate bonds	9.3	2023	8.8	2021

Investment securities measured at FVOCI

In thousand Armenian drams	31 December 2021	31 December 2020
Investment securities measured at FVOCI		
RA state bonds	4,225,515	3,557,090
RA corporate bonds	-	647,844
Equity instruments	112,896	111,921
Total investment securities at FVOCI	4,338,411	4,316,855
Debt securities measured at FVOCI pledged under repurchase agreements		
RA corporate bonds	14,799,561	35,356,882
Total investment securities measured at FVOCI pledged under repurchase agreements	14,799,561	35,356,882
Total investment securities measured at FVOCI	19,137,972	39,673,737

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

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	437,927	437,927	53,599	53,599
Net remeasurement of loss allowance	(209,518)	(209,518)	384,328	384,328
Balance as of 31 December	228,409	228,409	437,927	437,927

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

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2020: either).

Investment securities measured at FVOCI upon profitability and maturity comprise:

In thousand Armenian drams	31 December 2021		31 December 2020	
	%	Maturity	%	Maturity
RA state bonds	2.9-12.5	2022-2050	4.5-13	2021-2050
RA corporate bonds	-	-	4-8.4	2021

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

Name	Country of incorporation	% controlled		In thousand Armenian drams	
		2021	2020	2021	2020
ArCa	Republic of Armenia	1.25	1.25	82,500	82,500
AQRA Credit Reporting	Republic of Armenia	3.68	3.68	23,255	23,255
SWIFT		-	-	7,141	6,166
				112,896	111,921

The Bank's management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2021 and 2020.

21 Property and equipment

In thousand Armenian drams	Land and buildings	Vehicles	Computers	Leasehold improve-ments	Other	Right-of-use assets Land and buildings	Total
Cost or revalued amount							
Balance 1 January 2020	8,073,225	754,974	3,592,885	446,416	2,108,298	1,944,243	16,920,041
Additions	344,823	214,183	245,157	242,524	191,547	373,329	1,611,563
Disposals	(2,166)	(66,095)	(3,276)	(15,308)	-	(179,761)	(266,606)
Remeasurement	-	-	-	-	-	398,822	398,822
Reclassifications	-	-	623	-	(623)	-	-
As of 31 December 2020	8,415,882	903,062	3,835,389	673,632	2,299,222	2,536,633	18,663,820
Additions	309,883	283,641	200,947	131,458	227,612	122,660	1,276,201
Disposals	(44,103)	(178,770)	(559)	(114,560)	(6,424)	(9,733)	(354,149)
Remeasurement	-	-	-	-	-	377,497	377,497
As of 31 December 2021	8,681,662	1,007,933	4,035,777	690,530	2,520,410	3,027,057	19,963,369
Accumulated depreciation							
As of 1 January 2020	208,842	337,256	2,149,756	113,588	1,264,039	584,314	4,657,795
Expenses for the year	227,198	89,959	328,056	13,078	177,294	589,880	1,425,465
Disposals	-	(41,014)	-	(3,039)	-	(179,761)	(223,814)
As of 31 December 2020	436,040	386,201	2,477,812	123,627	1,441,333	994,433	5,859,446
Expenses for the year	235,926	107,309	346,819	52,305	185,827	588,833	1,517,019
Impairment	-	29,537	-	-	-	-	29,537
Disposals	-	(126,086)	(79)	(10,178)	(567)	-	(136,910)
As of 31 December 2021	671,966	396,961	2,824,552	165,754	1,626,593	1,583,266	7,269,092
Carrying amount							
As of 31 December 2020	7,979,842	516,861	1,357,577	550,005	857,889	1,542,200	12,804,374
As of 31 December 2021	8,009,696	610,972	1,211,225	524,776	893,817	1,443,791	12,694,277

Revaluation of assets

The land and buildings owned by the Bank are represented by a revalued amount. Land and buildings were evaluated by an independent appraiser in January 2019 using the comparative sales methods resulting in a revaluation of AMD 485,717 thousand. Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented with the difference between the initial cost and the accumulated depreciation, as of 31 December 2021 the carrying amount would amount to AMD 3,776,008 thousand (2020: AMD 3,964,419 thousand).

Right-of-use assets

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right of use assets in accordance with the classification of its property and equipment.

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

Fully depreciated items

As of 31 December 2021 property and equipment included fully depreciated assets in amount of AMD 662,175 thousand (2020: 773,010 thousand).

Restrictions on title of fixed assets

As of 31 December 2021, the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2020: either).

Contractual commitments

As of 31 December 2021 the Bank had no contractual commitments in respect of acquisition of property and equipment (2020: either).

22 Intangible assets

In thousand Armenian drams	Licenses	Software	Other	Intangible assets arising from development	Total
Cost					
As of 1 January 2020	417,215	301,286	30,550	60,000	809,051
Additions	34,352	1,608	-	114,000	149,960
Reclassifications	-	174,000	-	(174,000)	-
As of 31 December 2020	451,567	476,894	30,550	-	959,011
Additions	165,891	84,584	-	-	250,475
As of 31 December 2021	617,458	561,478	30,550	-	1,209,486

In thousand Armenian drams	Licenses	Software	Other	Intangible assets arising from development	Total
Accumulated amortisation					
As of 1 January 2020	185,193	79,822	18,208	-	283,223
Amortisation charge	55,431	35,579	3,045	-	94,055
As of 31 December 2020	240,624	115,401	21,253	-	377,278
Amortisation charge	88,185	48,566	2,074	-	138,825
As of 31 December 2021	328,809	163,967	23,327	-	516,103
Carrying amount					
As of 31 December 2020	210,943	361,493	9,297	-	581,733
As of 31 December 2021	288,649	397,511	7,223	-	693,383

Contractual commitments

As of 31 December 2021 the Bank did not have a contractual commitment to invest in property and equipment. (2020: either).

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

As of 31 December 2021, the cost of fully depreciated assets included in intangible assets amounted to AMD 190,010 thousand (2020: AMD 142,670 thousand).

23 Other assets

In thousand Armenian drams	31 December 2021	31 December 2020
Settlements with employees	58,046	64,208
Amounts receivable	81,526	69,579
Less loss allowance on other financial assets	(8,648)	(12,927)
Total other financial assets	130,924	120,860
Repossessed assets	1,020,543	2,315,795
Prepayments and other debtors	500,858	507,416
Materials	175,493	223,332
Precious metals	443	443
Tax prepayments	160,291	90,065
Other assets	62,636	71,004
Total non-financial assets	1,920,264	3,208,055
Total other assets	2,051,188	3,328,915

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

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	12,927	12,927	12,860	12,860
Net remeasurement of loss allowance	(32,077)	(32,077)	(25,735)	(25,735)
Net amounts written-off	-	-	(717)	(717)
Recovery	27,798	27,798	26,519	26,519
Balance as of 31 December	8,648	8,648	12,927	12,927

Details of non-financial assets obtained by the Bank 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	31 December 2021	31 December 2020
Real estate	122,239	181,239
Buildings	898,304	2,134,556
Total repossessed assets	1,020,543	2,315,795

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 Bank’s policy is to pursue timely realisation of the collateral in an orderly manner. The Bank 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.

24 Debt securities issued

As of 31 December 2021, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
29.01.2019	USD	100	21,000	5.25	29.01.2022	2,100,000
03.05.2019	USD	100	30,000	5.50	03.05.2022	3,000,000
03.05.2019	AMD	10,000	100,000	10.25	03.05.2022	1,000,000,000
03.09.2020	AMD	10,000	150,000	9.75	03.09.2023	1,500,000,000
03.09.2020	USD	100	22,000	5.00	03.09.2023	2,200,000

The Bank's bonds are quoted and listed on Armenia Stock Exchange.

The Bank has not repurchased any of its own bonds during the year (2020: either).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2020: nil).

25 Amounts due to financial institutions

In thousand Armenian drams	31 December 2021	31 December 2020
Loans from the CBA	21,563,144	9,443,156
Advances from Government of Republic of Armenia	256,633	708,569
Total loans from CBA and Government of Republic of Armenia	21,819,777	10,151,725
Loans from financial institutions	22,036,428	20,515,644
Deposits from financial institutions	27,017,157	20,894,882
Current accounts of financial institutions	4,457,357	1,456,318
Correspondent accounts of other banks	25,050	21,419
Other	141,628	106,082
Total amounts due to financial institutions	53,677,620	42,994,345
Loans from international financial institutions	55,584,125	62,554,371
Total amounts due to financial institutions	131,081,522	115,700,441

Obligations of CBA include loans received within the scope of “Small and medium business loan project” and "Small, Medium Business Energy Efficiency Support" borrowings within the scope of "Renewable energy", "Agricultural support" and "Women's SME Support" loan programs of German-Armenian fund.

As of 31 December 2021 and 31 December 2020 loans and deposits from financial institutions represent loans and deposits from financial institutions.

All deposits from financial institutions have fixed interest rates. Loans from financial institutions have variable and fixed interest rates.

As of 31 December 2021 attracted borrowings from financial institutions are secured with the transfer of rights of loans from customers in gross amount of AMD 15,353,198 thousand (2020: AMD 12,064,630 thousand) (refer to note 19).

As of 31 December 2021 loans from the CBA are secured with the transfer of rights of loans from customers in gross amount of AMD 12,382,337 thousand (2020: AMD 7,653,987 thousand) (refer to note 19).

The Bank has not had any defaults of principal, interest or other breaches with respect to amounts due to international financial institutions for the year ended 31 December 2021 (2020: either).

As of 31 December 2021 and 2020 loans from international financial institutions, including accrued interest, with stipulated compliance with certain capital and financial covenants as per respective loan agreements are presented below:

In thousand Armenian drams	Currency	31 December 2021			31 December 2020		
		Maturity	Nominal interest rate, %	Carrying amount	Maturity	Nominal interest rate, %	Carrying amount
EBRD	AMD	Less than 1 year	9.12-9.68	3,341,144	1-2 years	6.39-7.46	5,564,684
Symbiotics SA	AMD	1-2 years	8.32-11.75	2,414,985	1-3 years	7.79-11.67	4,963,491
EBRD	EUR	-	-	-	Less than 1 year	2.40	1,207,988
FMO	USD	2-3 years	3.5-5.43	12,216,957	3-4 years	3.5-5.43	15,646,118
DEG	USD	3 years	5.15	3,422,980	4 years	5.34	4,819,351
INCOFIN CVBA	USD	Less than 1 year	7.22	990,897	1-2 years	5.56-7.2	3,362,055
BSTDB	USD	2-3 years	3.16	4,810,692	4 years	3.31	5,275,296
GII	USD	-	-	-	Less than 1 year	5.55	1,592,434
EFA	USD	-	-	-	Less than 1 year	6.67	1,306,046
FMO	EUR	3 years	3.16	2,713,422	4 years	3.16	3,200,290
Blue Orchard MicrofinanceFund LLC	USD	2 years	5.89	4,824,801	3 years	5.89	5,232,330
Asian development Bank	USD	1-4 years	4.28-4.36	7,296,747	4 years	4.3	3,942,013
Asian development Bank	USD	Less than 1 year	2.4-2.54	240,605	Less than 1 year	2-2.5	1,139,790
MSME BSA	USD	2-3 years	11.77	7,601,260	4 years	8.49	5,302,485
Microfinance Enhancement Facility S.A., SICAV-SIF	USD	3 years	5.55	2,427,128	-	-	-
Symbiotics SA	USD	3 years	5.55	2,430,746	-	-	-
Symbiotics SICAV II	USD	3 years	5.55	851,761	-	-	-
Total				55,584,125			62,554,371

The Bank is obligated to comply with financial covenants in relation to the above borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. At December 31, 2021 the Bank had not breached these covenants (2020: either).

26 Amounts due to customers

In thousand Armenian drams	31 December 2021	31 December 2020
Corporate customers		
Current/Settlement accounts	34,763,505	24,452,754
Time deposits	13,423,840	8,456,313
	48,187,345	32,909,067
Individual customers		
Current/Settlement accounts	23,288,301	22,002,903
Time deposits	64,473,213	57,583,440
	87,761,514	79,586,343
Total amounts due to customers	135,948,859	112,495,410

Deposits of corporate and individual customers carry fixed interest rates.

As of 31 December 2021 included in amounts due to corporate/individual customers are deposits amounting to AMD 9,886,988 thousand (2020: AMD 5,989,650 thousand) held as security against loans, guarantees and other related instruments. The fair value of those deposits approximates their carrying amount.

As of 31 December 2021 the aggregate balance of top ten customers of the Bank (including relating parties, refer to note 32) amounts to AMD 16,035,467 thousand (2020: AMD 19,766,771 thousand) or 11.8% of total customer accounts (2020: 17.6%).

As of 31 December 2021 the Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities to customers during the period (2020: either).

27 Subordinated debt

In thousand Armenian drams	31 December 2021	31 December 2020
Subordinated debt provided by international financial institutions	2,399,802	-
Subordinate debt from the related party	722,878	786,808
Subordinate debt from the related party	482,789	524,260
Total subordinated debt	3,605,469	1,311,068

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

Maturity for subordinated debt attracted by international financial institutions is set up in 2028.

Maturity for subordinated debt attracted by individuals is set up in 2026.

Maturity for subordinated debt attracted by related parties is set up in 2027.

The Bank has not had any defaults of principal, interest or other breaches during the period (2020: nil).

28 Other liabilities

In thousand Armenian drams	31 December 2021	31 December 2020
Remuneration payable to employees	1,093,951	998,449
Amounts due to individuals	293,851	369,197
Advances received from the issuance of shares (note 29)	1,000,019	261,430
Dividends payable	470,126	446,320
Amounts payable	62,070	54,273
Lease liabilities	1,572,752	1,674,091
Total other financial liabilities	4,492,769	3,803,760
Tax payable, other than income tax	283,273	247,843
Provisions*	77,321	54,637
Total other non-financial liabilities	360,594	302,480
Total other liabilities	4,853,363	4,106,240

*Provisions have been made in respect of costs arising from financial guarantees and undrawn credit line limits. An analysis of changes in the ECLs on undrawn credit line limits and financial guarantees refer to note 30.

Lease liabilities

The Bank has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets (refer to note 12), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 21).

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

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

In thousand Armenian drams	31 December 2021	31 December 2020
As of 1 January – effect of adoption of IFRS 16	1,674,091	1,422,777
Additions	122,660	373,329
Remeasurement	377,497	398,822
Disposal	(9,733)	-
Accretion of interest	166,311	194,995
Payments	(758,074)	(715,832)
Total lease liabilities as of 31 December	1,572,752	1,674,091

In 2021 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10.25% (2020: 10.25%).

The undiscounted maturity analysis of lease liabilities as of 31 December 2021 is disclosed in the note 36.3.

29 Equity

As of 31 December 2021 the Bank's announced and paid-in share capital was AMD 27,107,574 thousand and registered capital was AMD 26,107,555 thousand. Advance payments on the issue of shares are presented in note 28. In accordance with the Bank's statues, the share capital consists of 1,897,938 ordinary shares, all of which have a par value of AMD 10,400 each and 424,600 preference shares, all of which have a par value of AMD 15,000.

The respective shareholders were as follows:

In thousand Armenian drams	31 December 2021		31 December 2020	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Saribek Sukiasyan	7,526,270	28.83	7,467,198	28.77
Khachatur Sukiasyan	4,638,533	17.77	4,638,533	17.87
Robert Sukiasyan	4,604,781	17.64	4,515,165	17.40
Eduard Sukiasyan	3,290,608	12.60	3,289,558	12.67
Other shareholders	6,047,363	23.16	6,045,209	23.29
	26,107,555	100	25,955,663	100

As of 31 December 2021, the Bank did not repurchased 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 Bank.

In 2021 the shareholders of the Bank increased its share capital by issuing preference shares in amount of AMD 151,892 thousand (2020: preference shares amounted to AMD 320,320 thousand).

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams. Preference shares are non-voting and guarantee annual dividends of not less than 14% of their nominal amount.

The amount of declared and paid dividends on preference and ordinary shares recognized in the financial statements as of 31 December 2021 amounted to AMD 891,660 thousand and AMD 379,588 thousand respectively (2020: AMD 894,103 thousand and AMD 376,667 thousand).

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 Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

30 Loan commitments and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2021	31 December 2020
Undrawn loan commitments	4,969,004	4,861,322
Guarantees provided	9,700,755	7,316,766
Letters of credit	209,146	-
Total commitments and contingent liabilities	14,878,905	12,178,088

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 19).

The changes in the ECLs on financial guarantees and letters of credit are presented in other liabilities. An analysis of these changes as follow:

In thousand Armenian drams	2021		2020	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	54,637	54,637	25,808	25,808
Net remeasurement of loss allowance	22,684	22,684	28,829	28,829
Balance as of 31 December	77,321	77,321	54,637	54,637

ECLs on guarantees are included in "Other liabilities" (refer to note 28).

31 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank 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 Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

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 Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

However as of 31 December 2021 the Bank had insurance for its head office building and transportation means. The Bank also had insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 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 Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

As of 31 December 2021 and 31 December 2020 the ultimate controlling party of the Bank are the Sukiasyans, who controls 76.84% (2020: 76.71%) of the share capital of the Bank.

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

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

In thousand Armenian drams	2021		2020	
	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 and advances to customers				
Loans outstanding as of 1 January gross	4,743,737	289,095	2,971,445	127,519
Loans issued during the year	2,140,407	474,134	2,529,959	430,447
Loan repayments during the year	(2,279,739)	(353,466)	(757,667)	(268,871)
Loans outstanding as of 31 December gross	4,604,405	409,763	4,743,737	289,095
Less: allowance for loan impairment	(32,780)	(1,140)	(13,406)	(7,818)
Loans outstanding as of 31 December	4,571,625	408,623	4,730,331	281,277
Amounts due from financial institutions				
As of 1 January	352,062	-	50,152	-
Increase	110,000	-	671,910	-
Decrease	(462,062)	-	(370,000)	-
As of 31 December	-	-	352,062	-
Less: allowance for loan impairment	-	-	(4,505)	-
Balance as of 31 December	-	-	347,557	-
Amounts due to financial institutions				
As of 1 January	180,976	-	190,941	-
Increase	13,504,912	-	13,009,224	-
Decrease	(13,476,591)	-	(13,019,189)	-
Balance as of 31 December	209,297	-	180,976	-
Amounts due to customers				
Deposits as of 1 January	791,688	664,407	810,839	811,491
Deposits received during the year	21,136,405	2,941,696	16,121,399	2,478,728
Deposits repaid during the year	(19,505,584)	(2,920,181)	(16,140,550)	(2,625,812)
Deposits as of 31 December	2,422,509	685,922	791,688	664,407
Subordinated debt				
As of 01 January	524,260	-	-	-
Received during the year	85,040	-	527,190	-
Repaid during the year	(126,512)	-	(2,930)	-
As of 31 December	482,788	-	524,260	-
Issuance of debt securities	-	3,343	-	3,636
Guarantees issued	124,725	-	84,389	-

In thousand Armenian drams	2021		2020	
	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 profit or loss and other comprehensive income				
Interest and similar income	399,403	38,777	254,445	17,452
Interest and similar expenses	67,024	23,438	1,601	3,067
Impairment (losses)/reversal on credit losses	(19,374)	6,678	18,815	(5,795)
Advertising expenses	53,400	-	53,400	-
Insurance expenses	146,133	-	151,183	-
Finance lease expenses	375,701	-	397,173	-
Business trip expenses	5,612	6,518	5,980	-
Other expenses	44,085	3,950	100,499	-

The loans issued to the Bank's related party are repayable over 1-20 years and have interest rates of 5-16%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2021	2020
Salaries and bonuses	760,697	701,703
Total key management compensation	760,697	701,703

33 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).

33.1 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 2021
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	63,399,890	-	63,399,890	63,399,890
Amounts due from financial institutions	-	9,497,133	-	9,497,133	9,497,133
Reverse repurchase agreements	-	7,826,751	-	7,826,751	7,826,751
Loans and advances to customers	-	220,134,417	-	220,134,417	220,889,139
Investments securities measured at amortised cost		21,940,527	-	21,940,527	23,669,325
Other financial assets	-	130,924	-	130,924	130,924
Financial liabilities					
Debt securities issued	-	6,150,215	-	6,150,215	6,107,897
Repurchase agreements	-	34,576,952	-	34,576,952	34,576,952
Amounts due to financial institutions	-	131,081,522	-	131,081,522	131,081,522
Amounts due to customers	-	136,087,295	-	136,087,295	135,948,859
Subordinated debt	-	3,715,745	-	3,715,745	3,605,469
Lease liabilities	-	1,572,752	-	1,572,752	1,572,752
Other financial liabilities	-	2,920,017	-	2,920,017	2,920,017

In thousand Armenian drams					31 December 2020
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	42,572,757	-	42,572,757	42,572,757
Amounts due from financial institutions	-	13,755,753	-	13,755,753	13,755,753
Reverse repurchase agreements	-	10,175,600	-	10,175,600	10,175,600
Loans and advances to customers	-	191,186,057	-	191,186,057	193,337,215
Investments securities measured at amortised cost	523,548	4,030,499	-	4,554,047	4,543,305
Other financial assets	-	120,860	-	120,860	120,860

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial liabilities					
Debt securities issued	-	6,393,214	-	6,393,214	6,185,733
Repurchase agreements	-	38,125,044	-	38,125,044	38,125,044
Amounts due to financial institutions	-	112,472,584	-	112,472,584	115,700,441
Amounts due to customers	-	111,316,767	-	111,316,767	112,495,410
Subordinated debt	-	1,203,110	-	1,203,110	1,311,068
Lease liabilities	-	1,674,091	-	1,674,091	1,674,091
Other financial liabilities	-	2,129,669	-	2,129,669	2,129,669

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 and advances to customers

The fair value of floating rate instruments is normally their carrying amount. 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 5% to 24% per annum (2020: 5% to 24% 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.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Due to customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Due to financial institutions

The estimated fair value of borrowing with fixed and unquoted interest rates is determined by calculating expected future cash flows which are discounted by interest rates on new debt instruments with a similar maturity.

Debt securities issued

The estimated fair value of the debt securities issued is determined on the basis of the expected future cash flows, which are discounted by the corresponding interest rates at the end of the year, which mainly coincide with the current interest rates.

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI including securities pledged under repurchase agreements		19,137,972	-	19,137,972
Derivative financial assets	-	5,053	-	5,053
Total		19,143,025	-	19,143,025
Financial liabilities				
Derivative financial liabilities	-	21,883	-	21,883
Total	-	21,883	-	21,883
Net fair value		19,121,142	-	19,121,142

In thousand Armenian drams	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI including securities pledged under repurchase agreements	647,844	39,025,893	-	39,673,737
Derivative financial assets	-	16,538	-	16,538
Total	647,844	39,042,431	-	39,690,275
Financial liabilities				
Derivative financial liabilities	-	11,549	-	11,549
Total	-	11,549	-	11,549
Net fair value	647,844	39,030,882	-	39,678,726

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

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquoted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

33.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2021
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land and buildings	-	-	8,681,662	8,681,662
Total	-	-	8,681,662	8,681,662
Net fair value	-	-	8,681,662	8,681,662

In thousand Armenian drams				31 December 2020
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land and buildings	-	-	8,415,882	8,415,882
Total	-	-	8,415,882	8,415,882
Net fair value	-	-	8,415,882	8,415,882

Fair value measurements in Level 3

The Bank's non-financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. An analysis of financial assets within this level is represented as follows:

In thousand Armenian drams	2021	2020
Non-financial assets		
As of 1 January	8,415,882	8,073,225
Additions	309,883	344,823
Disposal	(44,103)	(2,166)
As of 31 December	8,681,662	8,415,882
Net fair value	8,681,662	8,415,882

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams						31 December 2021
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 18)	7,826,751	-	7,826,751	7,826,751	-	-
Total	7,826,751	-	7,826,751	7,826,751	-	-
Financial liabilities						
Repurchase agreements (note 18)	(34,576,952)	-	(34,576,952)	37,667,527	-	3,090,575
Total	(34,576,952)	-	(34,576,952)	37,667,527	-	3,090,575

In thousand Armenian drams						31 December 2020
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 18)	10,175,600	-	10,175,600	-	10,175,600	-
Total	10,175,600	-	10,175,600	-	10,175,600	-
Financial liabilities						
Repurchase agreements (note 18)	38,125,044	-	38,125,044	(39,384,619)	-	(1,259,575)
Total	38,125,044	-	38,125,044	(39,384,619)	-	(1,259,575)

As of 31 December 2021 the loans of AMD 113,546 thousand provided by the Bank were offset against the liabilities of the Government of the Republic of Armenia, as the Bank is the servicing agent of these loans and these loans were provided by the Government of the Republic of Armenia within the framework of measures to neutralize the economic effects of the coronavirus.

35 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 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 2021
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	63,399,890	-	63,399,890	-	-	-	63,399,890
Derivative financial assets	5,053	-	5,053	-	-	-	5,053
Amounts due from financial institutions	1,565,632	6,013,715	7,579,347	793,694	1,124,092	1,917,786	9,497,133
Reverse repurchase agreements	7,778,250	48,501	7,826,751	-	-	-	7,826,751
Loans and advances to customers	6,257,682	50,388,925	56,646,607	94,672,629	69,569,903	164,242,532	220,889,139
Investment securities							
- Investment securities at fair value through other comprehensive income	14,799,561	543,145	15,342,706	1,778,257	2,017,009	3,795,266	19,137,972
- Investments securities at amortised cost	22,867,966	10,460	22,878,426	667,512	123,387	790,899	23,669,325
Other financial assets	130,924	-	130,924	-	-	-	130,924
	116,804,958	57,004,746	173,809,704	97,912,092	72,834,391	170,746,483	344,556,187
Liabilities							
Derivative financial liabilities	21,883	-	21,883	-	-	-	21,883
Debt securities issued	1,016,045	5,091,852	6,107,897	-	-	-	6,107,897
Repurchase agreements	34,576,952	-	34,576,952	-	-	-	34,576,952
Amounts due to financial institutions	6,680,927	34,186,837	40,867,764	78,559,369	11,654,389	90,213,758	131,081,522
Amounts due to customers	62,421,860	53,186,912	115,608,772	19,613,110	726,977	20,340,087	135,948,859
Subordinated debt	-	28,358	28,358	720,273	2,856,838	3,577,111	3,605,469
Lease liabilities	-	102,626	102,626	929,964	540,162	1,470,126	1,572,752
Other financial liabilities	355,921	2,564,096	2,920,017	-	-	-	2,920,017
	105,073,588	95,160,681	200,234,269	99,822,716	15,778,366	115,601,082	315,835,351
Net position	11,731,370	(38,155,935)	(26,424,565)	(1,910,624)	57,056,025	55,145,401	28,720,836
Accumulated gap	11,731,370	(26,424,565)		(28,335,189)	28,720,836		

In thousand Armenian drams	31 December 2020						
	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 and cash equivalents	42,572,757	-	42,572,757	-	-	-	42,572,757
Derivative financial assets	16,538	-	16,538	-	-	-	16,538
Amounts due from financial institutions	4,752,016	7,563,308	12,315,324	14,731	1,425,698	1,440,429	13,755,753
Reverse repurchase agreements	10,101,695	73,905	10,175,600	-	-	-	10,175,600
Loans and advances to customers	9,755,057	51,090,755	60,845,812	90,232,697	42,258,706	132,491,403	193,337,215
Investment securities							
- Investment securities at fair value through other comprehensive income	35,356,882	654,891	36,011,773	581,142	3,080,822	3,661,964	39,673,737
- Investment securities at amortised cost	4,027,737	515,568	4,543,305	-	-	-	4,543,305
Other financial assets	62,856	58,004	120,860	-	-	-	120,860
	106,645,538	59,956,431	166,601,969	90,828,570	46,765,226	137,593,796	304,195,765
Liabilities							
Derivative financial assets	11,549	-	11,549	-	-	-	11,549
Debt securities issued	101,191	-	101,191	6,084,542	-	6,084,542	6,185,733
Repurchase agreements	38,125,044	-	38,125,044	-	-	-	38,125,044
Amounts due to financial institutions	3,202,596	38,448,294	41,650,890	66,187,876	7,861,675	74,049,551	115,700,441
Amounts due to customers	50,632,448	46,138,416	96,770,864	15,003,113	721,433	15,724,546	112,495,410
Subordinated debt	4,433	-	4,433	-	1,306,635	1,306,635	1,311,068
Lease liabilities	55,946	445,258	501,204	1,034,535	138,352	1,172,887	1,674,091
Other financial liabilities	423,470	1,706,199	2,129,669	-	-	-	2,129,669
	92,556,677	86,738,167	179,294,844	88,310,066	10,028,095	98,338,161	277,633,005
Net position	14,088,861	(26,781,736)	(12,692,875)	2,518,504	36,737,131	39,255,635	26,562,760
Accumulated gap	14,088,861	(12,692,875)		(10,174,371)	26,562,760		

The gap of 1 to 12 months is due to the terms of customer deposits, which are periodically extended and the Bank has the opportunity to repay them in full upon request.

36 Risk management

The Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank'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 monitoring the overall risk management, approval of strategy and risk management principles. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Executive Board

The Executive Board has the responsibility to monitor the uninterrupted risk management process within the Bank. It is responsible for elaboration and application of the risk management strategy, principles, policies and limits. The Executive Board is responsible for solving problems related with risk management and monitors the application of respective decisions made with respect to them.

Risk Management Subdivision

Risk management is carried out by Strategy Risk Management Administration under policies approved by the Board of Directors. Strategy and Risk Management Department diagnoses, identifies, analyses, evaluates and hedges financial risks in close co-operation with the Bank's operating departments. The Risk Management Subdivision is responsible for monitoring risk management principles, policy and the Bank's risk limits, as well as implementing and realizing procedures connected with risk management.

Internal audit

Internal audit is responsible for the independent assessment of risk management and monitoring for the overall environment. Risk management processes throughout the Bank are audited annually by the internal audit, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the respective management body.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. The Executive Body receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank. A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

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

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

36.1 Credit risk

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

36.1.1 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 Bank's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of internal rating grades is included in note 36.1.2.

In thousand Armenian drams				**31 December 2021**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	14,481,483	-	-	14,481,483
Standard	48,951,210	-	-	48,951,210
Gross carrying amount	63,432,693	-	-	63,432,693
Loss allowance	(32,803)	-	-	(32,803)
Net carrying amount	63,399,890	-	-	63,399,890
Amounts due from financial institutions				
Standard	9,555,254	-	-	9,555,254
Gross carrying amount	9,555,254	-	-	9,555,254
Loss allowance	(58,121)	-	-	(58,121)
Net carrying amount	9,497,133	-	-	9,497,133
Reverse repurchase agreements				
Standard grade	7,935,596	-	-	7,935,596
Gross carrying amount	7,935,596	-	-	7,935,596
Loss allowance	(108,845)	-	-	(108,845)
Net carrying amount	7,826,751	-	-	7,826,751

In thousand Armenian drams				31 December 2021
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to mortgage and consumer customers				
High grade	79,549,913	-	-	79,549,913
Standard grade	107,566	1,402,238	-	1,509,804
Low grade	-	150,406	-	150,406
Non-performing grade	-	-	3,219,754	3,219,754
Gross carrying amount	79,657,479	1,552,644	3,219,754	84,429,877
Loss allowance	(522,894)	(91,980)	(1,493,201)	(2,108,075)
Net carrying amount	79,134,585	1,460,664	1,726,553	82,321,802
Loans to commercial customers				
High grade	137,929,415	-	-	137,929,415
Standard grade	1,468	1,539,360	-	1,540,828
Low grade	-	36,343	-	36,343
Non-performing grade	-	-	328,284	328,284
Gross carrying amount	137,930,883	1,575,703	328,284	139,834,870
Loss allowance	(932,462)	(182,723)	(152,348)	(1,267,533)
Net carrying amount	136,998,421	1,392,980	175,936	138,567,337
Debt investment securities at amortised cost including pledged securities				
Standard	23,947,643	-	-	23,947,643
Gross carrying amount	23,947,643	-	-	23,947,643
Loss allowance	(278,318)	-	-	(278,318)
Net carrying amount	23,669,325	-	-	23,669,325
Debt investment securities at FVOCI including pledged securities				
Standard	19,137,972	-	-	19,137,972
Carrying amount-fair value	19,137,972	-	-	19,137,972
Loss allowance	(228,409)	-	-	(228,409)
Other financial assets				
Standard grade	139,572	-	-	139,572
Gross carrying amount	139,572	-	-	139,572
Loss allowance	(8,648)	-	-	(8,648)
Net carrying amount	130,924	-	-	130,924
Loan commitments and financial guarantee				
Standard grade	14,878,905	-	-	14,878,905
		-	-	
Loss allowance*	(77,321)	-	-	(77,321)

In thousand Armenian drams				31 December 2020
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	13,003,189	-	-	13,003,189
Standard	29,600,291	-	-	29,600,291
Gross carrying amount	42,603,480	-	-	42,603,480
Loss allowance	(30,723)	-	-	(30,723)
Net carrying amount	42,572,757	-	-	42,572,757
Amounts due from financial institutions				
Standard	14,007,516	-	-	14,007,516
Gross carrying amount	14,007,516	-	-	14,007,516
Loss allowance	(251,763)	-	-	(251,763)
Net carrying amount	13,755,753	-	-	13,755,753
Reverse repurchase agreements				
Standard	10,309,207	-	-	10,309,207
Gross carrying amount	10,309,207	-	-	10,309,207
Loss allowance	(133,607)	-	-	(133,607)
Net carrying amount	10,175,600	-	-	10,175,600
Loans to mortgage and consumer customers				
High grade	85,771,181	-	-	85,771,181
Standard grade	358,277	323,407	-	681,684
Low grade	-	894,967	-	894,967
Non-performing grade	-	-	1,054,275	1,054,275
Gross carrying amount	86,129,458	1,218,374	1,054,275	88,402,107
Loss allowance	(1,844,610)	(352,876)	(666,781)	(2,864,267)
Net carrying amount	84,284,848	865,498	387,494	85,537,840
Loans to commercial customers				
High grade	107,828,642	-	-	107,828,642
Standard grade	13,927	46,575	-	60,502
Low grade	-	124,445	-	124,445
Non-performing grade	-	-	299,014	299,014
Gross carrying amount	107,842,569	171,020	299,014	108,312,603
Loss allowance	(226,167)	(67,980)	(219,081)	(513,228)
Net carrying amount	107,616,402	103,040	79,933	107,799,375
Debt investment securities at amortised cost including pledged securities				
Standard	4,596,448	-	-	4,596,448
Gross carrying amount	4,596,448	-	-	4,596,448
Loss allowance	(53,143)	-	-	(53,143)
Net carrying amount	4,543,305	-	-	4,543,305

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI including pledged securities				
Standard	39,673,737	-	-	39,673,737
Carrying amount-fair value	39,673,737	-	-	39,673,737
Loss allowance	(437,927)	-	-	(437,927)
Other financial assets				
Standard grade	133,787	-	-	133,787
Gross carrying amount	133,787	-	-	133,787
Loss allowance	(12,927)	-	-	(12,927)
Net carrying amount	120,860	-	-	120,860
Loan commitments and financial guarantee				
Standard grade	12,178,088	-	-	12,178,088
		-	-	
Loss allowance*	(54,637)	-	-	(54,637)

* Standard grade includes allowance on financial guarantees.

36.1.2 Impairment assessment

The references below show where the Bank'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).

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Bank uses a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are creditimpaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 100%.

Due from financial institutions, interbank deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies (Moody’s, Fitch, S&P).

Allowance for expected credit losses on other receivables is estimated individually using the loan loss allowance rate of the client. If the client does not have loan exposure in the bank, than the credit rating of the client and the corresponding probability of default and loss given default are used. In addition, expected period of exposure for receivable is estimated. Finally, PDs, LGDs and expected period of exposure are multiplied to calculate expected credit allowance for receivables.

Loans to customers

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS 9.

Bank measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 0.3% of regulatory capital. Besides, they should have the signs of significant increase in credit risk, such as increase in overdue days or significant financial difficulties.

Due to the deteriorating financial condition of the borrower, the Bank can subjectively classify loans in a more severe stage, as well as, in the absence of deterioration of the borrowers' financial condition, loans can be reclassified to the previous stage.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers’ liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analyzed by Risk Management department.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

Measurement of ECL on an individual basis

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the bank expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the repayments and realization of any assets held as collateral against the loan are taking into account.

The Bank generally assesses liquidation value of the collaterals considering based on the actual sale dates of previous similar collateral. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

Measurement of ECL on a collective basis

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Collective assessment is performed on a borrower level rather than contract level.

Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

- Segment
- Days past due
- Restructuring
- Collateralization

Portfolio subject to collective assessment of ECL is divided into 5 segments: Consumer, Mortgage, Manufacturing, Agriculture, Other.

Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank for collective assessed loans;
- The borrower's loan was restructured more than once;

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The information assessed depends on the materiality of exposure too. Qualitative indicators, such as external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower's exposure is above materially significant threshold.

Significant increase in credit risk

The Bank monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Bank considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower, material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.

When an asset becomes more than 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The carrying amount of renegotiated loans to customers as of 31 December 2021 and 2020 were AMD 353,576 thousand and AMD 1,691,913 thousand, respectively.

Probability of default (PD)

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as six years from January 2016 to December 2021. During the observation period, the one month migration matrices were generated.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue. The borrower that has defaulted at least once during observation period is considered defaulted during the remaining observation period.

To estimate Point in Time PDs the Bank incorporates of forward looking information under different macro scenarios.

Loss given default (LGD)

Another component of impairment model is LGD (loss given default), that’s is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using the actual sale dates of previous similar collaterals. LGD models for unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on a borrower level.

Exposure at default (EAD)

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization.

Forward-looking information

The Bank uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Four macroeconomic variables were sued for determining the probability of default: Consumer Price Index (CPI), inflows from money transfers, exchange rate of USD/AMD and RUB/AMD. They will lead to a different probability of default. Weighting of these different variables forms the basis of a weighted average probability of default that is used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with twelve month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses with different scenarios and their weights are published by Armenian Statistical Agency Armstat.

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 9 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2020 and the last one was done in December 2021 based on last available information.

36.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	62,221,711	427,525	750,654	63,399,890
Derivative financial assets	-	5,053	-	5,053
Amounts due from financial institutions	9,247,970	1,569	247,594	9,497,133
Reverse repurchase agreements	7,826,751	-	-	7,826,751
Loans and advances to customers	220,865,617	-	23,522	220,889,139
Investment securities				
- Investment securities at fair value through other comprehensive income	19,130,831	-	7,141	19,137,972
- Investment securities at amortised cost	23,669,325	-	-	23,669,325
Other financial assets	130,924	-	-	130,924
As of 31 December 2021	343,093,129	434,147	1,028,911	344,556,187
As of 31 December 2020	299,659,102	859,328	3,677,335	304,195,765

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

As of 31 December 2021, the Bank's main credit exposure, classified by economic sectors, are concentrated in the financial sector, except for loans. For distribution of industry sectors for loans, refer to note 19.

36.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties.
- For mortgages over residential properties

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

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

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

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

In thousand Armenian drams	31 December 2021	31 December 2020
Loans collateralized by real estate	88,570,830	77,029,278
Loans collateralized by guarantees	74,698,535	66,354,388
Loans collateralized by gold	16,825,161	14,974,520
Loans collateralized by vehicles (cars)	2,272,367	2,230,587
Loans collateralized by cash	1,719,915	1,964,820
Loans collateralized by materials	7,465,058	8,248,250
Loans collateralized by equipment	2,038,432	1,964,838
Loans collateralized by other securities	10,310	244,143
Loans collateralized by state bonds	9,520	9,949
Other collateral	17,590,714	12,303,862
Unsecured loans	13,063,905	11,390,075
Total loans and advances to customers (gross)	224,264,747	196,714,710

As of 31 December 2021, the net carrying amount of credit-impaired loans and advances to customers amounted to 3,548,038 thousand (2020: 1,353,289 thousand) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to 4,441,299 thousand (2020: 3,752,181 thousand).

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.

36.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

36.2.1 Market risk – Non-trading

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2021.

The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI as of 31 December 2021 based on the expected changes in the yield curve.

In thousand Armenian drams		31 December 2021	
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(639,229)
AMD	-1	-	707,112
Basic	+/-0.13	-/+17,852	-
Average	+/-0.38	-/+52,257	-
High	+/-0.63	-/+86,661	-

In thousand Armenian drams		31 December 2020	
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(1,591,263)
AMD	-1	-	1,738,417
6 months and 1-year LIBOR	+/-0.3	-/+87,629	-
EURO LIBOR	+/-0.2	-/+54,813	-
EUROIBOR	+/-0.1	-/+21,998	-

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2021 and 31 December 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021			2020		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest earning assets						
Amounts due from financial institutions	13.2	6.5	-	11.6	5.6	-
Reverse repurchase agreements	9.1	2.8	-	6.0	3.5	-
Loans and advances to customers	13.3	8.8	16.0	13.6	8.7	16.0
Investment securities at fair value through other comprehensive income	8.2	-	-	7.8	5.2	-
Investments securities at amortised cost	7.9	9.3	-	9.1	8.8	-
Interest earning liabilities						
Amounts due to the CBA	6.8	-	-	7.5	-	-
Amounts due to financial institutions	6.8	5.2	-	7.1	4.8	-
Deposits from financial institutions	10.3	3.8	-	9.5	2.5	-
Amounts due to customers	9.4	4.2	5.2	9.5	4.2	5.5
Repurchase agreements	8.3	-	-	5.7	-	-
Debt securities issued	10.2	5.4	-	10.3	5.4	-
Subordinated debt	8.1	-	-	7.4	-	-

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 Bank had significant exposure as of 31 December 2021 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2021			31 December 2020		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	10%	(2,160,428)	(2,160,428)	10%	(548,592)	(548,592)
EUR	10%	602,306	602,306	10%	687,880	687,880

The Bank'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 and cash equivalents	33,553,520	28,994,421	851,949	63,399,890
Amounts due from financial institutions	2,963,342	6,344,176	189,615	9,497,133
Reverse repurchase agreements	7,562,014	264,737	-	7,826,751
Loans and advances to customers	135,480,414	85,349,321	59,404	220,889,139
Investment securities				
- Investment securities at fair value through other comprehensive income	18,594,827	543,145	-	19,137,972
- Investments securities at amortised cost	23,077,881	591,444	-	23,669,325
Other financial assets	86,143	44,624	157	130,924
	221,318,141	122,131,868	1,101,125	344,551,134
Liabilities				
Debt securities issued	2,564,398	3,543,499	-	6,107,897
Repurchase agreements	34,576,952	-	-	34,576,952
Amounts due to financial institutions	73,590,093	55,165,931	2,325,498	131,081,522
Amounts due to customers	75,951,766	57,921,173	2,075,920	135,948,859
Subordinated debt	-	3,605,469	-	3,605,469
Lease liabilities	1,572,752	-	-	1,572,752
Other financial liabilities	2,562,837	356,786	394	2,920,017
Total	190,818,798	120,592,858	4,401,812	315,813,468
Total effect of derivative financial instruments	-	(3,259,967)	3,243,137	(16,830)
Net position as of 31 December 2021	30,499,343	(1,720,957)	(57,550)	28,720,836
Commitments and contingent liabilities as of 31 December 2021	7,522,573	7,205,412	150,920	14,878,905

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Total financial assets	192,590,137	110,327,508	1,261,582	304,179,227
Total financial liabilities	166,861,019	108,474,339	2,286,098	277,621,456
Total effect of derivative financial instruments	-	787,298	(782,309)	4,989
Net position as of 31 December 2020	25,729,118	2,640,467	(1,806,825)	26,562,760
Commitments and contingent liabilities As of 31 December 2020	5,740,927	6,422,743	14,418	12,178,088

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.

36.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. 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 Bank.

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

The indicators as of 31 December are as follows:

	Unaudited	
As of 31 December, these ratios were as follows:	2021, %	2020, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	23.17	21.15
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	116.23	119.82

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as of 31 December 2021 based on contractual undiscounted repayment obligations. Refer to note 35 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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams

	31 December 2021					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Debt securities issued	1,053,018	2,763,175	2,690,378	-	6,506,571	6,107,897
Repurchase agreements	34,615,209	758	-	-	34,615,967	34,576,952
Amounts due to financial institutions	7,291,132	41,337,262	93,394,167	16,085,567	158,108,128	131,081,522
Amounts due to customers	61,312,028	56,204,193	20,590,188	926,370	139,032,779	135,948,859
Subordinated debt	22,670	281,501	1,823,529	3,390,597	5,518,297	3,605,469
Lease liabilities	72,634	798,979	909,697	307,322	2,088,632	1,572,752
Other financial liabilities	355,921	2,564,096	-	-	2,920,017	2,920,017
Total undiscounted non-derivative financial liabilities	104,722,612	103,949,964	119,407,959	20,709,856	348,790,393	315,813,468
Derivative financial liabilities						
Derivative instruments						
Inflow	54,397	-	-	-	54,397	68
Outflow	(54,329)	-	-	-	(54,329)	-
Foreign exchange swap contracts						
Inflow	7,860,375	-	-	-	7,860,375	21,815
Outflow	(7,877,137)	-	-	-	(7,877,137)	-
Total derivative financial liabilities	21,883	-	-	-	21,883	21,883
Commitments and contingent liabilities	69,343	9,911,464	2,623,159	2,274,939	14,878,905	14,878,905

In thousand Armenian drams

	31 December 2020					
	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						
Debt securities issued	138,379	-	6,084,542	-	6,222,921	6,185,733
Repurchase agreements	38,125,044	-	-	-	38,125,044	38,125,044
Amounts due to financial institutions	3,608,544	42,662,818	74,860,691	10,246,476	131,378,529	115,700,441
Amounts due to customers	50,735,135	46,605,910	15,361,357	877,435	113,579,837	112,495,410
Subordinated debt	12,331	88,193	384,365	1,353,167	1,838,056	1,311,068
Lease liabilities	61,128	633,207	1,165,805	142,163	2,002,303	1,674,091
Other financial liabilities	423,470	1,706,199	-	-	2,129,669	2,129,669
Total undiscounted non-derivative financial liabilities	93,104,031	91,696,327	97,856,760	12,619,241	295,276,359	277,621,456

In thousand Armenian drams

	31 December 2020					
	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**
Derivative financial liabilities						
Derivative instruments						
Inflow	302,602	-	-	-	302,602	145
Outflow	(302,747)	-	-	-	(302,747)	-
Foreign exchange swap contracts						
Inflow	1,591,371	-	-	-	1,591,371	11,404
Outflow	(1,602,775)	-	-	-	(1,602,775)	-
Total derivative financial liabilities	11,549	-	-	-	11,549	11,549
Commitments and contingent liabilities	598,943	7,041,181	3,413,143	1,124,821	12,178,088	12,178,088

36.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

37 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams						2021
	Debt securities issued	Subordinated debt	Amounts due to financial institutions	Lease liabilities	Dividends	Total
Carrying amount at 31 December 2019	4,452,356	719,787	91,923,477	1,422,777	385,694	98,904,091
Proceeds	3,212,956	560,522	6,389,548,038	194,995	-	6,393,516,511
Redemption	(1,737,517)	(41,830)	(6,372,098,247)	(715,832)	(1,210,144)	(6,375,803,570)
Foreign currency translation	211,452	68,393	5,744,460	-	-	6,024,305
Other	46,486	4,196	582,713	772,151	1,270,770	2,676,316
Carrying amount at 31 December 2020	6,185,733	1,311,068	115,700,441	1,674,091	446,320	125,317,653
Proceeds	1,353,296	2,489,655	1,098,245,277	-	-	1,102,088,228
Redemption	(1,220,351)	(89,886)	(1,076,813,248)	(758,074)	(1,247,442)	(1,080,129,001)
Foreign currency translation	(313,656)	(106,145)	(6,050,948)	-	-	(6,470,749)
Other	102,875	777	-	656,735	1,271,248	2,031,635
Carrying amount at 31 December 2020	6,107,897	3,605,469	131,081,522	1,572,752	470,126	142,837,766

The ''Other'' line includes new leased liabilities and non-cash lease remeasurements. It also includes the effect of accrued but not yet paid interest on debt securities issued, subordinated debt, amounts due to financial liabilities and lease liabilities. The Bank classifies interest paid as cash flows from operating activities.

38 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank'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 Bank.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, 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 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

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

As of 31 December 2021 and 2020 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 2021	31 December 2020
Tier 1 capital	39,309,165	36,191,459
Tier 2 capital	6,316,046	4,997,271
Total regulatory capital	45,625,211	41,188,730
Risk-weighted assets	309,760,930	295,844,651
Capital adequacy ratio	14.73%	13.92%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks.

39 Segment reporting

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 “Operating Segments”.

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.

40 Events after the reporting period

- The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact on the world economy. United States and European countries have imposed severe sanctions against Russia. Western powers are discussing widening existing sanctions. Russia is the main trading partner of Armenia, hence sanctions imposed as of now as well as escalation of those sanctions could have a drastical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold.

  The specific effect is hard to predict with certainty, however, management assesses that the above will not have a significant impact on the Bank's operations and its financial statements.

- In 2022 maturity for subordinated debt attracted by individuals and by related parties were prolonged until 2029.