Financial Statements and Independent Auditor's Report

ARARATBANK open joint stock company

31 December 2021

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Independent auditor's report

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To the shareholders of ARARATBANK Open Joint Stock Company

Opinion

We have audited the financial statements of ARARATBANK 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 the 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 4.5 of the financial statements for a description of the accounting policies and to note 38.1 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 Emil Vassilyan.

Armen Hovhannisyan

Chief Executive Officer

Emil Vassilyan

Engagement Partner

25 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	7	19,001,496	17,542,113
Other interest income	7	6,274	11,988
Interest expense	7	(10,647,526)	(9,162,703)
Net interest income		8,360,244	8,391,398
Fee and commission income	8	2,213,656	1,786,012
Fee and commission expense	8	(1,090,930)	(795,693)
Net fee and commission income		1,122,726	990,319
Gains less losses from foreign currency transactions	9	1,549,551	1,109,106
Net gain/(losses) on financial assets at fair value through profit or loss		(28,399)	8,880
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		68,322	151,014
Net other operating income/(expenses)	10	(1,016,827)	277,922
Impairment losses	11	(2,685,987)	(2,264,031)
Personnel expenses	12	(4,214,671)	(4,105,386)
Goodwill impairment	6	-	(300,000)
Depreciation of property and equipment and amortization of intangible assets	21	(1,478,499)	(1,208,838)
Other expenses	13	(1,694,256)	(1,433,715)
Profit/(loss) before income tax		(17,796)	1,616,669
Income tax (expense)/recovery	14	63,539	(275,975)
Profit for the year		45,743	1,340,694

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

In thousand Armenian drams

	Notes	2021	2020
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve of investment securities		(600,205)	(651,231)
Changes in allowance for expected credit losses		(1,847)	63,925
Income tax related to the above		108,369	68,840
Net losses on investment securities at fair value through other comprehensive income		(493,683)	(518,466)
Other comprehensive income for the year, net of tax		(493,683)	(518,466)
Total comprehensive income for the year		(447,940)	822,228
Earnings per share	15	0.03	0.76

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 14 to 79.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2021	31 December 2020
Assets			
Cash	16	43,415,731	31,458,022
Derivative financial assets	17	2,733	857
Amounts due from financial institutions	18	15,975,673	14,341,535
Investment securities	19	34,041,186	30,525,726
Securities pledged under sale and repurchase agreements	19	12,791,552	11,041,154
Loans and advances to customers	20	147,786,661	148,222,057
Property, equipment and intangible assets	21	8,197,695	9,161,779
Goodwill	6	362,602	362,602
Current income tax assets		-	288,852
Deferred income tax assets	14	816,184	226,276
Repossessed assets	22	1,884,816	1,965,096
Other assets	23	2,789,915	1,287,481
Total assets		268,064,748	248,881,437
Liabilities and equity			
Liabilities			
Amounts due to banks	24	16,649,618	11,948,313
Derivative financial liabilities	17	397	1,202
Amounts due to customers	25	124,766,775	97,936,482
Other borrowings	26	67,748,523	78,269,244
Debt securities issued	27	12,998,487	15,165,242
Subordinated debt	28	1,979,440	2,154,443
Current income tax liabilities		234,752	-
Lease liabilities	29	3,531,085	3,261,337
Other liabilities	30	2,377,047	1,918,610
Total liabilities		230,286,124	210,654,873

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2021	31 December 2020
Equity			
Share capital	31	8,803,655	8,803,655
Share premium		8,031,745	8,031,745
Fair value reserve		(124,605)	369,078
Retained earnings		21,067,829	21,022,086
Total equity		37,778,624	38,226,564
Total liabilities and equity		268,064,748	248,881,437

The financial statements were approved on 25 April 2022 by:

Mher Ananyan
Chairman of the Executive Board

Tigran Galstyan
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 14 to 79.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Revaluation reserve for investment securities	Retained earnings	Total
Balance as of 1 January 2021	8,803,655	8,031,745	369,078	21,022,086	38,226,564
Profit for the year	-	-	-	45,743	45,743
Other comprehensive income:					
Net change in fair value of investment securities at FVOCI	-	-	(546,368)	-	(546,368)
Net amount reclassified to profit or loss on sale of insvestment securities at FVOCI	-	-	(53,837)	-	(53,837)
Net changes in allowance for expected credit losses of insvestment securities at FVOCI	-	-	(1,847)	-	(1,847)
Income tax relating to components of other comprehensive income	-	-	108,369	-	108,369
Total comprehensive income for the year	-	-	(493,683)	45,743	(447,940)
Balance As of 31 December 2021	8,803,655	8,031,745	(124,605)	21,067,829	37,778,624
Balance at 1 January 2020	8,803,655	8,031,745	887,544	19,681,392	37,404,336
Profit for the year	-	-	-	1,340,694	1,340,694
Other comprehensive income:					
Net change in fair value of investment securities at FVOCI	-	-	(530,201)	-	(530,201)
Net amount reclassified to profit or loss on sale of investment securities at FVOCI	-	-	(121,030)	-	(121,030)
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	63,925	-	63,925
Income tax relating to components of other comprehensive income	-	-	68,840	-	68,840
Total comprehensive income for the year	-	-	(518,466)	1,340,694	822,228
Balance as of 31 December 2020	8,803,655	8,031,745	369,078	21,022,086	38,226,564

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 14 to 79.

Statement of cash flows

In thousand Armenian drams

	2021	2020
Cash flows from operating activities		
Profit/(loss) before tax	(17,796)	1,616,669
Adjustments for		
Amortization and depreciation	1,478,499	1,208,838
Goodwill impairment	-	300,000
Impairment losses	2,685,987	2,264,031
Net changes in interest receivable and interest payable	(403,672)	(917,669)
Net (gain)/ loss from disposal of property and equipment	(355,585)	22,687
Net (gain)/ loss from disposal of other assets	54,373	(21,969)
Net gain/(loss) from revaluation of non-trading financial assets and liabilities	10,068	(23,612)
Fair value (gain)/loss on financial assets recognised in profit and loss	27,937	(6,420)
Cash flows from operating activities before changes in operating assets and liabilities	3,479,811	4,442,555
(Increase)/decrease in operating assets		
Derivative financial instruments	(30,618)	(266)
Amounts due from financial institutions	(1,981,971)	(3,429,080)
Loans and advances to customers	(10,804,087)	(4,478,733)
Repossessed assets	25,907	(243,401)
Other assets	(1,263,741)	592,462
Increase/(decrease) in operating liabilities		
Amounts due to banks	1,990,556	10,012,137
Amounts due to customers	32,350,117	10,948,323
Other liabilities	716,668	(67,909)
Net cash from operating activities before income tax	24,482,642	17,776,088
Income tax paid	(282,591)	(585,673)
Net cash from operating activities	24,200,051	17,190,415
Cash flows from investing activities		
Investment securities	(6,645,884)	(3,123,834)
Purchase of property, equipment and intangible assets	(515,661)	(784,374)
Proceeds from sale of property and equipment	1,089,946	1,191
Net cash used in investing activities	(6,071,599)	(3,907,017)

Statement of cash flows (continued)

In thousand Armenian drams

	2021	2020
Cash flow from financing activities		
Subordinated debt	-	(494)
Debt securities issued	(2,139,983)	1,146,566
Borrowings repaid from banks and financial institutions	442,784	(8,085,122)
Repayment of lease liabilities	(424,731)	(393,757)
Net cash used in financing activities	(2,121,930)	(7,332,807)
Net increase in cash	16,006,522	5,950,591
Cash at the beginning of the year	31,458,022	24,390,409
Effect of changes in impairment allowance on cash	(9,546)	(4,523)
Exchange differences on cash and cash equivalents	(4,039,267)	1,121,545
Cash at the end of the year (note 16)	43,415,731	31,458,022
Supplementary information:		
Interest received	18,973,677	16,949,672
Interest paid	(11,017,105)	(9,475,943)

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 14 to 79.

Notes to the financial statements

1 Principal activities

ARARATBANK OJSC (the “Bank”) is an opened joint-stock company, which is regulated by the legislation of RA and is the legal successor of “Haykap Bank” CJSC founded in 1991. The Bank conducts its business under license number 4, granted on 20 September 1991, by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits from the public and extends credit, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International, Diners Club payment systems.

Its main office is in Yerevan, 23 branches are located in Yerevan, 29 in different regions of Armenia and 1 in the Republic of Artsakh. The registered office of the Bank is located at: Buzand St., bldg. 87, prem. 85, Yerevan.

In 2017 according to the contract of merger the Bank acquired control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia.

The average number of persons employed by the Bank during the year was 1,014.

2 Armenian business environment

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

The 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.

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 consolidated financial statements of the Bank *(this section has to be customized to each client's financial statements).*

- *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 Amendments, they are presented below.

- *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 Business combinations

The Bank applies the acquisition method in accounting for business combinations. The consideration transferred by The Bank to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Bank, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

4.2 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 4.5.6.

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.

Dividend income

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

Net income from financial instruments measured at fair value through profit or loss

Net income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest.

4.3 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets and liabilities and gains and losses resulting from translation of non-trading assets are recognised in the statement of profit or loss and other comprehensive income in gains less losses from trading in foreign currencies. 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 gains less losses from foreign currency translation.

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

4.4 Taxation

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

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

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

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

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

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

4.5 Financial instruments

4.5.1 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.

4.5.2 Classification

Financial assets

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the 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 at 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.

4.5.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.5.4), 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 at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the 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.

4.5.4 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 4.5.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The 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 4.5.6), 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.

4.5.5 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.

4.5.6 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
- 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 38.1.2.

Based on the above process, The Bank groups its financial instruments into Stage 1, Stage 2 and Stage 3, 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.

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 38.1.2.

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 4.5.3) and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, The 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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, The 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 Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The 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 securities 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.

4.6 Cash

Cash 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 obligation reserves in foreign currency starting from 2021), and amounts due from other banks.

Cash are carried at amortised cost.

4.7 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 other financial institutions are carried net of any allowance for impairment losses.

4.8 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.

4.9 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.

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

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

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

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

The 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.

4.11 Repurchase and reverse repurchase agreements

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

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

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

4.12 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 anted 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 equipment and lease liabilities have been included in the other liabilities.

Bank as a lessor

As a lessor the Bank classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Upon commencement of a finance lease, the Bank recognise the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

Finance lease income is recognised based on pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of finance lease assets under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

4.13 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.

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. 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	20-30	5-3.33
Computers and communication equipment	3-8	33.33-12.5
Vehicles	5-8	20-12.5
Other fixed assets	5-8	20-12.5

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

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

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

4.15 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in The Bank from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 *"Operating Segments"*.

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.16 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 3-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Computer software development costs are recognised as an expense as incurred.

4.17 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.

4.18 Impairment of non-financial assets

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

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

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

4.19 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.

4.20 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.

4.21 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 as provided in note 4.20.

4.22 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.

Fair value reserve for investments securities at FVOCI

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

4.23 Fiduciary activities

The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Commissions received from fiduciary activities are shown in fee and commission income.

4.24 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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 4.5.2).

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 35).

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. 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 38), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.5.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 33.

Goodwill impairment

The Bank assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units.

6 Goodwill

Goodwill from acquisition

In 2017 according to the contract of merger the Bank acquired 100% of shares and control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia. As a result of the acquisition, AMD 4,404,337 thousand of goodwill was recognized.

In thousand Armenian drams

Goodwill balance after impairment as at 31 December 2019	662,602
Goodwill impairment	(300,000)
Goodwill balance after impairment as at 31 December 2020	362,602
Goodwill impairment	-
Goodwill balance after impairment as at 31 December 2021	362,602

7 Net interest income

In thousand Armenian drams	2021	2020
Interest income calculated using effective interest rate		
Amounts due from financial institutions	160,614	120,573
Investment securities at FVOCI	2,260,208	2,461,267
Investment securities at amortised cost	997,113	651,367
Loans and advances to customers	15,072,281	14,038,299
Reverse repurchase transactions	511,280	270,607
	19,001,496	17,542,113
Other interest income		
Receivables from finance leases	6,274	11,988
	6,274	11,988
Total interest income	19,007,770	17,554,101
Amounts due to banks	64,944	71,264
Amounts due to customers	4,050,875	3,081,205
Other borrowings	4,223,580	4,645,578
Debt securities issued	790,271	808,345
Subordinated debt	134,244	130,688
Repurchase transactions	1,085,059	145,442
Lease liabilities	298,553	280,181
Total interest expense	10,647,526	9,162,703
Total net interest income	8,360,244	8,391,398

8 Fee and commission income and expense

In thousand Armenian drams	2021	2020
Payment settlement operations	1,279,818	1,094,411
Plastic cards operations	907,415	661,498
Guarantees and letters of credit	26,423	30,103
Total fee and commission income	2,213,656	1,786,012
Plastic cards operations	847,935	578,183
Payment settlement operations	136,555	178,172
Guarantees	70,411	13,372
Stock exchange services	36,029	25,966
Total fee and commission expense	1,090,930	795,693

9 Gains less losses from foreign currency transactions

In thousand Armenian drams	2021	2020
Gains less losses from trading in foreign currencies	1,559,619	1,085,494
Net gain/(loss) from revaluation of non-trading assets and liabilities in foreign currency	(10,068)	23,612
Total gains less losses from foreign currency transactions	1,549,551	1,109,106

10 Other operating income and expenses

In thousand Armenian drams	2021	2020
Fines and penalties received	333,394	480,856
Gains from sale of other assets	54,373	21,969
Gains from operations of precious metals	46,443	7,921
Securities registration services	63,966	54,906
Net gain from disposal of property and equipment	355,585	-
Other income	61,003	129,712
Total other operating income	914,764	695,364
Operating expenses on cash collection	119,997	87,917
Payments to the Deposit Guarantee Fund	160,012	165,952
Depositary services	13,898	39,785
Operating expenses on payment cards	21,056	43,842
Payments to the Financial System Mediator	25,245	22,471
Net loss from disposal of property and equipment	-	22,687
Other operating losses	1,559,651	-
Other expenses	31,732	34,788
Total other operating expenses	1,931,591	417,442
Total other net operating income	(1,016,827)	277,922

Other operating losses include cash losses due to cash fraud at ATMs.

11 Impairment losses/(reversal)

In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
					2021
Cash	16	9,546	-	-	9,546
Amounts due from financial institutions	18	4,970	-	-	4,970
Investment securities measured at FVOCI	19	(1,847)	-	-	(1,847)
Investment securities measured at amortised cost	19	(30,754)	-	-	(30,754)
Loans and advances to customers	20	(182,575)	(53,399)	2,960,682	2,724,708
Other assets	23	2,904	-	-	2,904
Financial guarantees and letters of credit	32	(23,540)	-	-	(23,540)
Total impairment losses/(reversal)		(221,296)	(53,399)	2,960,682	2,685,987

In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
					2020
Cash	16	4,523	-	-	4,523
Amounts due from financial institutions	18	74,865	-	-	74,865
Investment securities measured at FVOCI	19	63,925	-	-	63,925
Investment securities measured at amortised cost	19	123,328	-	-	123,328
Loans and advances to customers	20	(1,524,911)	384,120	3,119,878	1,979,087
Other assets	23	7,077	-	-	7,077
Financial guarantees and letter of credit	32	11,226	-	-	11,226
Total impairment losses/(reversal)		(1,239,967)	384,120	3,119,878	2,264,031

12 Personnel expenses

In thousand Armenian drams	2021	2020
Compensations of employees, related taxes included	4,152,632	4,055,415
Other	62,039	49,971
Total personal expenses	4,214,671	4,105,386

13 Other expenses

In thousand Armenian drams	2021	2020
Property and equipment and intangible assets maintenance	290,604	254,405
Security	289,809	307,978
Advertising and marketing costs	138,374	135,081
Taxes, other than income tax	226,627	212,759
Communications	116,706	122,302
Business trip expenses	11,046	7,293
Office supplies	74,758	72,565
Utilities and office maintenance expenses	107,289	94,754
Consulting and other services	45,422	27,758
Representative expenses	4,375	8,815
Insurance	92,452	24,288
Membership fees	10,801	10,875
Expenses of short term and low value assets leases	68,086	53,910
Other expenses	217,907	100,932
Total other expenses	1,694,256	1,433,715

14 Income tax expense/(recovery)

In thousand Armenian drams	2021	2020
Current tax expense	418,000	249,324
Deferred tax	(481,539)	26,651
Total income tax expense/(recovery)	(63,539)	275,975

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 tax expense/(recovery) and accounting profit/(loss) is provided below:

In thousand Armenian drams	2021	Effective rate (%)	2020	Effective rate (%)
Profit/(loss) before tax	(17,796)		1,616,669	
Income tax	(3,203)	18	291,000	18
Non-taxable income	(62,148)	349	(10,775)	(1)
Foreign exchange differences	1,812	(10)	(4,250)	-
Total income tax expense/(recovery)	(63,539)	357	275,975	17

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2020	Recognized in profit or loss	Recognized in other comprehen-sive income	31 December 2021		
				Net	Deferred tax asset	Deferred tax liability
Cash	1,027	1,719	-	2,746	2,746	-
Amounts due from financial institutions	5,247	2,538	-	7,785	7,785	-
Investment securities measured at FVOCI	(32,635)	(332)	108,369	75,402	75,402	-
Investment securities measured at amortised cost	6,528	(1,965)	-	4,563	4,563	-
Loans and advances to customers	71,280	56,961	-	128,241	128,241	-
Property and equipment	151,091	(656,617)	-	(505,526)	-	(505,526)
Other assets	(26,837)	21,449	-	(5,388)	-	(5,388)
Amounts due to customers	11,390	-	-	11,390	11,390	-
Lease liabilities	(102,840)	738,435	-	635,595	635,595	-
Other liabilities	142,025	319,351	-	461,376	461,376	-
Net deferred tax asset/(liability)	226,276	481,539	108,369	816,184	1,327,098	(510,914)

In thousand Armenian drams	31 December 2019	Recognized in profit or loss	Recognized in other comprehend-sive income	31 December 2020		
				Net	Deferred tax asset	Deferred tax liability
Cash	(3,115)	4,142	-	1,027	1,027	-
Amounts due from financial institutions	(15,059)	20,306	-	5,247	5,247	-
Investment securities measured at FVOCI	(112,981)	11,506	68,840	(32,635)	-	(32,635)
Investment securities measured at amortised cost	-	6,528	-	6,528	6,528	-
Loans and advances to customers	140,097	(68,817)	-	71,280	71,280	-
Property and equipment	71,821	79,270	-	151,091	151,091	-
Other assets	(2,889)	(23,948)	-	(26,837)	-	(26,837)
Amounts due to customers	11,390	-	-	11,390	11,390	-
Lease liabilities	(47,046)	(55,794)	-	(102,840)	-	(102,840)
Other liabilities	141,869	156	-	142,025	142,025	-
Net deferred tax asset/(liability)	184,087	(26,651)	68,840	226,276	388,588	(162,312)

15 Earnings per share

In thousand Armenian drams	2021	2020
Profit for the year	45,743	1,340,694
Weighted average number of ordinary shares	1,760,731	1,760,731
Earnings per share – basic	0.03	0.76

16 Cash

In thousand Armenian drams	31 December 2021	31 December 2020
Cash on hand	9,811,558	9,184,263
Correspondent account with the CBA	29,310,042	16,282,018
Correspondent accounts with banks	4,309,385	5,997,449
	43,430,985	31,463,730
Less loss allowance	(15,254)	(5,708)
Total cash	43,415,731	31,458,022

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 10% of the Bank obligations, denominated in foreign currency.

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. Cash on hand, correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2021 obligatory reserves maintained in AMD in amount of AMD 15,239,276 thousand are classified as cash as these funds are readily available for withdrawal. For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. These reserves in amount of AMD 5,390,350 thousand are not considered cash and are included in the amounts due from other financial institutions (note 18). As of 31 December 2020 obligatory reserves in amount of AMD 11,415,036 thousand are fully included in cash.

The Bank does not receive interests for obligatory reserves.

As of 31 December 2021 the Bank does not have a nostro account (31 December 2020: either) the balance of which exceeds 10% of equity.

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

In thousand Armenian drams	31 December 2021	31 December 2020
	Stage 1	Stage 1
ECL allowance as at 1 January	5,708	1,185
Net remeasurement of loss allowance	9,546	4,523
Balance at 31 December	15,254	5,708

17 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

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		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange forward contracts	1,010,054	2,733	397
Total derivative financial instruments		2,733	397

In thousand Armenian drams	31 December 2020		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	522,590	-	152
Foreign exchange forward contracts	2,623,264	857	1,050
Total derivative financial instruments		857	1,202

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2021	31 December 2020
Amounts due from banks		
Loans and overdrafts	556,074	317,345
Funds in the CBA	6,217,350	745,500
Reverse repurchase agreements	-	3,319,049
Other accounts	216,790	205,629
Total amounts due from banks	6,990,214	4,587,523
Amounts due from other financial institutions		
Loans	2,224,841	1,193,050
Reverse repurchase agreements	6,592,620	8,582,621
Blocked funds with other financial institutions	281,305	86,678
Total gross amounts due from other financial institutions	9,098,766	9,862,349
Total amounts due from financial institutions	16,088,980	14,449,872
Less allowance of impairment on amounts due from financial institutions	(113,307)	(108,337)
Total amounts due from financial institutions	15,975,673	14,341,535

Funds in the CBA include the guaranteed deposit of ArCa payment system in amount of AMD 827,000 thousand and obligatory reserves of AMD 5,390,350 thousand with the CBA in the amount of 8% of the funds attracted in foreign currency (see note 16), the withdrawal of which is limited.

As of 31 December 2021 blocked funds with financial institutions in the amount of AMD 79,637 thousand represents a blocked fund for membership in Master Card payment system, as well as a AMD 201,668 thousand for membership in Visa payment system (2020: AMD 86,678 thousand blocked fund for membership in Master Card payment system).

As of 31 December 2021 the Bank has no contract party financial institution (31 December 2020: either) the balance of which exceeds 10% of equity.

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

In thousand Armenian drams	2021	2020
	12-month ECL	12-month ECL
ECL allowance as at 1 January	108,337	32,154
Net remeasurement of loss allowance	4,970	74,865
Recovery	-	1,318
Balance at 31 December	113,307	108,337

Fair value of assets pledged and gross carrying value of loans under reverse repurchase agreements as of 31 December 2021 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	5,752,841	5,439,952	11,766,962	11,752,881
Corporate bonds	1,287,870	1,152,668	165,512	148,789
Total assets pledged and loans under reverse repurchase agreements	7,040,711	6,592,620	11,932,474	11,901,670

19 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	3,723,290	4,404,287
Corporate bonds	3,384,619	4,361,367
	7,107,909	8,765,654
Impairment allowance	(65,088)	(98,015)
Total investment securities measured at amortised cost	7,042,821	8,667,639
Iinvestment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	6,844,911	5,218,707
Impairment allowance	(27,486)	(25,313)
Total investment securities measured at amortised cost pledged under repurchase agreements	6,817,425	5,193,394

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

In thousand Armenian drams	2021	2020
	Stage 1	Stage 1
ECL allowance as at 1 January	123,328	-
Net remeasurement of loss allowance	(30,754)	123,328
Balance at 31 December	92,574	123,328

Investment securities measured at amortised cost upon profitability and maturity terms:

In thousand Armenian drams	31 December 2021		31 December 2020	
	%	Maturity	%	Maturity
RA state bonds	6.50-13.00	2022-2036	6.19-10.12	2021-2036
RA corporate bonds	1.00-10.51	2022-2026	4.04-10.79	2021-2024

Investment securities measured at FVOCI

In thousand Armenian drams	31 December 2021	31 December 2020
Investment securities measured at FVOCI		
RA state bonds	12,641,396	10,374,818
Corporate bonds	14,246,002	11,374,362
Equity investments	110,967	108,907
Total investment securities measured at FVOCI	26,998,365	21,858,087
Debt investment securities measured at FVOCI pledged under repurchase agreements		
RA state bonds	5,974,127	5,847,760
Total investment securities measured at FVOCI pledged under repurchase agreements	5,974,127	5,847,760

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

In thousand Armenian drams	2021	2020
	Stage 1	Stage 1
ECL allowance as at 1 January	268,789	204,864
Net remeasurement of loss allowance	(1,847)	63,925
Balance at 31 December	266,942	268,789

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

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

In thousand Armenian drams	31 December 2021		31 December 2020	
	%	Maturity	%	Maturity
RA state bonds	6.15-15.35	2022-2050	5.60-15.36	2021-2050
Corporate bonds	1.14-10.70	2022-2031	2.77-13.15	2021-2025

The pledged securities are those financial assets pledged under repurchase agreements with other banks and other institutions, with the right to sell or re-pledge by the 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 all of the main risks and rewards of such securities and therefore does not derecognize them. The carrying amount of financial assets that have been pledged as collateral for liabilities, as of 31 December 2021 was AMD 12,791,552 thousand (2020: AMD 11,041,154 thousand). Refer to notes 24, 26 about borrowing with repurchase agreements.

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).

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

Name	Country of incorporation	% controlled		In thousand Armenian drams	
		2021	2020	2021	2020
ArCa	Republic of Armenia	6.25	6.25	82,500	82,500
ACRA Credit Reporting CJSC	Republic of Armenia	4.69	4.69	25,065	25,065
SWIFT	Belgium	0.00	0.00	3,402	1,342
				110,967	108,907

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

20 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	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	23,006,449	(150,912)	22,855,537	21,413,834	(174,386)	21,239,448
Consumer lending	44,985,149	(955,235)	44,029,914	42,764,296	(1,090,789)	41,673,507
	67,991,598	(1,106,147)	66,885,451	64,178,130	(1,265,175)	62,912,955
Commercial lending						
Financial lease receivables	26,498	(237)	26,261	103,123	(1,382)	101,741
Trading	26,421,014	(148,787)	26,272,227	28,738,549	(339,888)	28,398,661
Industry	9,223,231	(46,421)	9,176,810	10,591,557	(49,619)	10,541,938
Agriculture	4,832,220	(51,541)	4,780,679	4,813,746	(59,238)	4,754,508
Construction	13,189,790	(180,488)	13,009,302	12,600,160	(86,682)	12,513,478
Other	29,269,208	(1,633,277)	27,635,931	32,429,960	(3,431,184)	28,998,776
	82,961,961	(2,060,751)	80,901,210	89,277,095	(3,967,993)	85,309,102
Total	150,953,559	(3,166,898)	147,786,661	153,455,225	(5,233,168)	148,222,057

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 481,412 thousand (2020: AMD 643,449 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2021 the Bank has three borrowers or groups of related borrowers (2020: four), whose loan balances exceed 10% of equity. The total amount of such loans as of 31 December 2021 is AMD 11,702,047 thousand (2020: AMD 18,226,858 thousand).

As of 31 December 2021 loans to customers amounted to AMD 1,352,092 thousand (2020: AMD 394,219 thousand) were pledged as collateral under other borrowings (refer to note 24).

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

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
Balance as of 1 January	62,020,600	802,631	1,354,899	64,178,130
New assets originated or purchased	46,587,400	284,049	80,243	46,951,692
Assets repaid	(38,556,384)	(292,627)	(583,105)	(39,432,116)
Transfer to Stage 1	46,670	(44,915)	(1,755)	-
Transfer to Stage 2	(1,171,795)	1,773,838	(602,043)	-
Transfer to Stage 3	(1,318,171)	(217,625)	1,535,796	-
Change in balance of asset from interest and foreign exchange	(2,458,206)	(94,745)	(21,366)	(2,574,317)
Recoveries	-	-	328,205	328,205
Amounts written off during the year	-	-	(1,459,996)	(1,459,996)
Balance at 31 December	65,150,114	2,210,606	630,878	67,991,598

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance as of 1 January	81,895,628	1,605,630	5,775,837	89,277,095
New assets originated or purchased	50,191,424	10,159	15,871	50,217,454
Assets repaid	(44,916,139)	(1,321,717)	(636,661)	(46,874,517)
Transfer to Stage 1	26,648	(7,455)	(19,193)	-
Transfer to Stage 2	(5,244,300)	5,253,071	(8,771)	-
Transfer to Stage 3	(461,800)	(12,729)	474,529	-
Change in balance of asset from interest and foreign exchange	(5,401,669)	(443,527)	(153,688)	(5,998,884)
Recoveries	-	-	135,046	135,046
Amounts written off during the year	-	-	(3,794,233)	(3,794,233)
Balance at 31 December	76,089,792	5,083,432	1,788,737	82,961,961

In thousand Armenian drams				2020
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance as of 1 January	51,818,327	387,899	313,103	52,519,329
New assets originated or purchased	30,244,139	127,627	533,771	30,905,537
Assets repaid	(21,171,725)	(131,374)	(490,323)	(21,793,422)
Transfer to Stage 1	19,286	(19,286)	-	-
Transfer to Stage 2	(435,307)	440,843	(5,536)	-
Transfer to Stage 3	(1,041,391)	(63,677)	1,105,068	-
Change in balance of asset from interest and foreign exchange	2,587,271	60,599	37,546	2,685,416
Recoveries	-	-	610,838	610,838
Amounts written off during the year	-	-	(749,568)	(749,568)
Balance at 31 December	62,020,600	802,631	1,354,899	64,178,130

In thousand Armenian drams				2020
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
Balance as of 1 January	77,866,131	8,877,622	35,743	86,779,496
New assets originated or purchased	43,927,810	46,199	49,248	44,023,257
Assets repaid	(47,161,191)	(480,616)	(416,120)	(48,057,927)
Transfer to Stage 1	2,720,320	(2,720,320)	-	-
Transfer to Stage 2	(1,185,658)	1,185,658	-	-
Transfer to Stage 3	(156,636)	(5,434,812)	5,591,448	-
Change in balance of asset from interest and foreign exchange	5,884,852	131,899	500,140	6,516,891
Recoveries	-	-	164,941	164,941
Amounts written off during the year	-	-	(149,563)	(149,563)
Balance at 31 December	81,895,628	1,605,630	5,775,837	89,277,095

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
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	474,597	171,752	618,826	1,265,175
Transfer to Stage 1	7,218	(6,846)	(372)	-
Transfer to Stage 2	(10,345)	306,605	(296,260)	-
Transfer to Stage 3	(17,310)	(57,351)	74,661	-
Net remeasurement of loss allowance	(274,675)	(70,632)	1,012,856	667,549
Net remeasurement of loss allowances on new originated financial assets	229,260	49,679	26,275	305,214
Recoveries	-	-	328,205	328,205
Amounts written off during the year	-	-	(1,459,996)	(1,459,996)
Balance as of 31 December	408,745	393,207	304,195	1,106,147

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	353,527	391,068	3,223,398	3,967,993
Transfer to Stage 1	4,112	(53)	(4,059)	-
Transfer to Stage 2	(18,766)	20,015	(1,249)	-
Transfer to Stage 3	(1,497)	-	1,497	-
Net remeasurement of loss allowance	(263,615)	(32,881)	1,920,950	1,624,454
Net remeasurement of loss allowances on new originated financial assets	126,455	435	601	127,491
Recoveries	-	-	135,046	135,046
Amounts written off during the year	-	-	(3,794,233)	(3,794,233)
Balance as of 31 December	200,216	378,584	1,481,951	2,060,751

In thousand Armenian drams				2020
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	337,837	46,247	162,937	547,021
Transfer to Stage 1	2,076	(2,076)	-	-
Transfer to Stage 2	(4,566)	6,449	(1,883)	-
Transfer to Stage 3	(12,261)	(2,683)	14,944	-
Net remeasurement of loss allowance	(119,933)	89,710	356,421	326,198
Net remeasurement of loss allowances on new originated financial assets	271,444	34,105	225,137	530,686
Recoveries	-	-	610,838	610,838
Amounts written off during the year	-	-	(749,568)	(749,568)
Balance as of 31 December	474,597	171,752	618,826	1,265,175

In thousand Armenian drams				2020
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as of 1 January	448,823	2,377,037	4,552	2,830,412
Transfer to Stage 1	1,585,764	(1,585,764)	-	-
Transfer to Stage 2	(4,360)	4,360	-	-
Transfer to Stage 3	(278)	(664,870)	665,148	-
Net remeasurement of loss allowance	(1,812,724)	231,969	2,524,812	944,057
Net remeasurement of loss allowances on new originated financial assets	136,302	28,336	13,508	178,146
Recoveries	-	-	164,941	164,941
Amounts written off during the year	-	-	(149,563)	(149,563)
Balance as of 31 December	353,527	391,068	3,223,398	3,967,993

Further analysis of economic factors is outlined in note 38.1.2

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	31 December 2021	31 December 2020
Gross investment in finance leases, receivable:		
Not later than 1 year	9,307	5,670
Later than 1 year and not later than 5 years	19,064	108,232
	28,371	113,902
Unearned future finance income on finance leases		
Not later than 1 year	(398)	(537)
Later than 1 year and not later than 5 years	(1,475)	(10,242)
	(1,873)	(10,779)
Net investment in finance leases	26,498	103,123

The allowance for finance lease receivables included in the loss allowance for loans and advances amounted to AMD 237 thousand at 31 December 2021 (2020: AMD 1,382 thousand).

Implied interest rate of the finance lease amounts to 8-11% (2020: 8%-11%).

At 31 December 2021 and 2020 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to note 35.

Maturity analysis of loans and advances to customers are disclosed in note 36.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 38. The information on related party balances is disclosed in note 34.

21 Property, equipment and intangible assets

In thousand Armenian drams	Land and buildings	Leasehold improve-ment	Computers and communi-cation	Vehicles	Office Supplies	Intangible assets	Right-of-use assets Land and buildings	Total
Cost								
As of 1 January 2020	4,318,972	436,517	3,255,755	240,907	1,981,131	1,419,930	2,850,149	14,503,361
Additions	40,430	75,387	121,738	-	92,851	453,968	230,852	1,015,226
Disposals	-	(57,180)	(33,187)	-	(125,980)	-	(128,473)	(344,820)
Remeasurement	-	-	-	-	-	-	880,148	880,148
As of 31 December 2020	4,359,402	454,724	3,344,306	240,907	1,948,002	1,873,898	3,832,676	16,053,915
Additions	45,134	80,381	115,744	10,117	123,375	140,910	165,992	681,653
Disposals	(517,464)	(43,646)	(45,905)	(26,953)	(116,873)	(1,532)	(155,787)	(908,160)
Remeasurement	-	-	-	-	-	-	269,973	269,973
As of 31 December 2021	3,887,072	491,459	3,414,145	224,071	1,954,504	2,013,276	4,112,854	16,097,381

In thousand Armenian drams	Land and buildings	Leasehold improve-	Computers and	Vehicles	Office Supplies	Intangible assets	Right-of-use assets	Total
Accumulated depreciation								
As of 1 January 2020	925,170	177,408	2,448,864	130,588	1,339,014	648,153	290,144	5,959,341
Expenses for the year	121,194	14,202	294,005	13,656	116,569	125,247	523,965	1,208,838
Disposals	-	(39,113)	(33,135)	-	(120,221)	-	(83,574)	(276,043)
As of 31 December 2020	1,046,364	152,497	2,709,734	144,244	1,335,362	773,400	730,535	6,892,136
Expenses for the year	104,606	18,677	226,028	14,636	143,779	447,668	523,105	1,478,499
Disposals	(196,809)	(34,992)	(43,828)	(26,954)	(108,860)	(1,383)	(58,123)	(470,949)
As of 31 December 2021	954,161	136,182	2,891,934	131,926	1,370,281	1,219,685	1,195,517	7,899,686
Carrying amount								
As of 31 December 2021	3,313,038	302,227	634,572	96,663	612,640	1,100,498	3,102,141	9,161,779
As of 31 December 2020	2,932,911	355,277	522,211	92,145	584,223	793,591	2,917,337	8,197,695

As of 31 December 2021 intangible assets included software licenses for Microsoft software at the amount of AMD 423,005 thousand (AMD 830,841 thousand in 2020).

Right-of-use assets

The Bank has leases for the head office and 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. Lease liabilities are presented in the statement of financial position in the line of other liabilities (refer to note 29):

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 and amortized items

As of 31 December 2021 fixed assets and intangible assets included fully depreciated and amortized assets in amount of AMD 830,873 thousand (2020: AMD 902,331 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.

Fixed assets in the phase of installation

As of 31 December 2021 fixed assets included assets in the phase of installation in the amount of AMD 23,906 thousand (2020: AMD 17,524 thousand) which are not amortized and are classified by their types.

Contractual commitments

As of 31 December 2021 the contractual commitments in respect of acquisition of property and equipment amounts to AMD 91,997 thousand (2020: AMD 93,475 thousand).

22 Repossessed assets

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

In thousand Armenian drams	31 December 2021	31 December 2020
Real estate	1,884,753	1,965,033
Other assets	63	63
Total repossessed assets	1,884,816	1,965,096

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

The 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.

23 Other assets

In thousand Armenian drams	31 December 2021	31 December 2020
Receivables under money transfer systems	990,314	650,630
Other financial assets	260,530	199,603
	1,250,844	850,233
Less loss allowance on other assets	(26,052)	(25,127)
Total other financial assets	1,224,792	825,106
Prepayments	863,672	408,298
Precious metals	523,069	5,354
Materials	34,392	40,031
Other	143,990	8,692
Total non-financial assets	1,565,123	462,375
Total other assets	2,789,915	1,287,481

An analysis of changes in the ECLs on other assets is as follows:

In thousand Armenian drams	2021	2020
	Stage 1	Stage 1
ECL allowance as at 1 January	25,127	21,599
Net remeasurement of loss allowance	2,904	7,077
Net amounts written off	(1,979)	(3,549)
Balance at 31 December	26,052	25,127

24 Amounts due to banks

In thousand Armenian drams	31 December 2021	31 December 2020
Loans from the CBA	5,278	10,555
Loans from the CBA through international programs	1,496,935	431,927
Repurchase agreements with the CBA	12,008,019	1,500,455
Loans from commercial banks	3,138,294	1,493,507
Loro accounts	187	196
Repurchase agreements with other banks	-	8,510,185
Other amounts due to banks	905	1,488
Total amounts due to banks	16,649,618	11,948,313

As of 31 December 2021 the Bank has one counterparty (2020: one), whose account and deposit balances exceed 10% of the Bank's equity. The gross amount of these balances amounts to AMD 13,510,231 thousand (2020: AMD 8,510,185 thousand).

As of 31 December 2021 the loans received from the CBA through international programs include the funds attracted within the scope of the projects of the German-Armenian Fund and the Asian Development Bank. The funds within the scope of the projects of the German-Armenian Fund are secured by the guarantee of the right to demand loans in the amount of AMD 1,352,092 thousand (2020: AMD 394,219 thousand) (Refer to note 20).

Loans attracted under repurchase agreements are secured by investment securities measured at amortised cost in the amount of AMD 6,817,425 thousand and investment securities measured at FVOCI in the amount of AMD 5,974,127 thousand pledged by the Bank (2020:AMD 5,193,394 thousand of investment securities at amortised cost and AMD 5,126,926 of investment securities measured FVOCI). Refer to note 19.

During 2021 and 2020 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

25 Amounts due to customers

In thousand Armenian drams	31 December 2021	31 December 2020
Current accounts and demand deposits		
Individuals	21,442,054	22,357,135
Legal entities	31,001,706	25,534,317
Government of the Republic of Armenia and state institutions	903,073	1,131,747
Time deposits		
Individuals	59,224,381	41,994,357
Legal entities	12,195,561	6,918,926
Total amounts due to customers	124,766,775	97,936,482

Time deposits have fixed interest rates.

As of 31 December 2021, the Bank has customer deposit balances of AMD 1,833,918 thousand (2020: AMD 1,728,215 thousand) that serve as collateral for loans from the Bank.

As of 31 December 2021 the Bank has two customers or groups of related customers, whose account and deposit balances exceed 10% of the Bank's equity (2020: two). As of 31 December 2021 the balances amount to AMD 13,848,372 thousand (2020: AMD 11,009,082 thousand).

26 Other borrowings

In thousand Armenian drams	31 December 2021	31 December 2020
Borrowings from international and other financial institutions	58,156,053	67,643,773
Borrowings from RA Government	-	57,292
Borrowings from resident financial institutions	9,592,470	9,862,842
Repurchase agreements	-	705,337
Total other borrowings	67,748,523	78,269,244

As of 31 December 2021 the Bank has six counterparties (2020: six), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2021 is AMD 50,458,897 thousand (2020: AMD 58,936,836 thousand).

Borrowings from resident financial institutions are secured by collateral from the Bank's collateral for the right to claim loans provided to customers.

As of 31 December 2021 the loans under repurchase agreements are secured by investment securities measured at FVOCI in the amount of AMD 720,834 thousand pledged by the Bank. Refer to note 19.

These borrowings have fixed interest rates.

During 2021 and 2020 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

27 Debt securities issued

In thousand Armenian drams	31 December 2021	31 December 2020
Bonds	12,998,487	15,165,242
Total debt securities issued	12,998,487	15,165,242

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
02.10.2017	USD	25	200,000	5.75	02.01.2022	5,000,000
04.12.2017	USD	25	200,000	5.5	04.03.2022	5,000,000
22.01.2018	USD	25	320,000	5.25	22.04.2022	8,000,000
11.06.2018	USD	25	120,000	5.25	11.09.2022	3,000,000
19.06.2019	USD	25	120,000	5.5	19.09.2023	3,000,000
29.10.2019	USD	25	120,000	5.5	29.01.2024	3,000,000

The Bank has not repurchased any of its own debt 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).

28 Subordinated debt

In thousand Armenian drams	31 December 2021	31 December 2020
Subordinated debt provided by related party	1,979,440	2,154,443
Total subordinated debt	1,979,440	2,154,443

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.

During 2018 The Bank has received a subordinated debt in amount of US dollar 4,100 thousand maturing in 2025. The interest rate is 6.5%.

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

29 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, 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).

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.

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

In thousand Armenian drams	31 December 2021	31 December 2020
Lease liabilities as of 1 January	3,261,337	2,588,778
Additions	560,806	230,852
Termination	(136,300)	(44,684)
Remeasurement	269,973	880,148
Accretion of interest	298,553	280,181
Payments	(723,284)	(673,938)
Total lease liabilities as of 31 December	3,531,085	3,261,337

In 2021 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9.5% (2020: 9%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of undiscounted lease liabilities as of 31 December 2021 (refer to note 38.3).

30 Other liabilities

In thousand Armenian drams	31 December 2021	31 December 2020
Due to personnel	974,388	916,600
Accounts payables	349,093	454,067
Other financial liabilities	887,204	348,314
Total other financial liabilities	2,210,685	1,718,981
Tax liabilities	162,015	171,742
ECL for guarantees and letters of credit*	4,347	27,887
Total other non-financial liabilities	166,362	199,629
Total other liabilities	2,377,047	1,918,610

*Provisions have been made in respect of costs arising from financial guarantees and letters of credit. An analysis of changes in the ECLs on financial guarantees and letter of credit refer to note 32.

31 Equity

As of 31 December 2021 the Bank's registered and paid-in share capital was AMD 8,803,655 thousand. In accordance with the Bank's statues, the share capital consists of 1,760,731 shares. All shares have a nominal value of AMD 5,000.

The respective shareholdings/participants as of 31 December 2021 and 2020 may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Flash LLC	6,402,640	72.73	6,402,640	72.73
Barsegh Beglaryan	1,991,940	22.63	1,991,940	22.63
Sanasar Beglaryan	377,660	4.28	377,660	4.28
Other shareholders	31,415	0.36	31,415	0.36
	8,803,655	100	8,803,655	100

As of 31 December 2021, the Bank did not possess any of its own shares.

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

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.

32 Loan commitment 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
Liabilities in respect of loans and credit lines	8,631,036	8,366,487
Liabilities in respect of credit cards	6,040,963	5,704,378
Undrawn overdrafts	499,527	739,913
Guarantees and letters of credit	2,321,757	3,499,234
Total commitments and contingent liabilities	17,493,283	18,310,012

An analysis of changes in the ECLs on credit lines, credit cards and undrawn overdrafts included in allowances of loans to customers (refer to note 20).

An analysis of changes in the ECLs on financial guarantees and letters of credit included in other liabilities is as follows:

In thousand Armenian drams	2021	2020
	Stage 1	Stage 1
Financial guarantees and letters of credit		
ECL allowance as at 1 January	27,887	16,661
Net remeasurement of loss allowance	(23,540)	11,226
Balance at 31 December	4,347	27,887

33 Contingencies

Tax and legal matters

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

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

Management believes that the 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.

34 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.

The ultimate controlling party of the Bank is businessman Barsegh Beglaryan, who is the shareholder of the Bank and simultaneously the owner of "Flash" LLC.

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 withthem	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 at 1 January gross	430,342	204,359	62,711	118,735
Issued during the year	200,878	494,289	586,597	399,531
Repayments during the year	(325,446)	(335,829)	(218,966)	(313,907)
Outstanding at 31 December gross	305,774	362,819	430,342	204,359
Less: allowance for loan impairment	(1,262)	(3,320)	(1,474)	(2,769)
Loans outstanding at 31 December	304,512	359,499	428,868	201,590
Right-of-use assets				
Leased office premises				
At 1 January	2,244,227	-	1,637,732	-
Leased during the year	165,992	-	42,084	-
Remeasured during the year	244,481	-	805,735	-
Amortized during the year	(282,127)	-	(241,324)	-
At 31 December	2,372,573	-	2,244,227	-
Amounts due to customers				
At 1 January	9,753,236	2,260,955	8,466,252	668,377
Received during the year	202,108,253	5,068,207	120,493,517	8,629,544
Repaid during the year	(204,684,933)	(6,294,206)	(119,206,533)	(7,036,966)
At 31 December	7,176,556	1,034,956	9,753,236	2,260,955

In thousand Armenian drams	2021		2020	
	Shareholders and parties related with them	Key management personnel and parties related withthem	Shareholders and parties related with them	Key management personnel and parties related with them
Lease liabilities				
At 1 January	2,341,863	-	1,658,597	-
Assumed during the year	560,806	-	42,084	-
Remeasured during the year	244,481	-	805,735	-
Discount depreciation during the year	210,622	-	191,818	-
Repayment during the year	(533,680)	-	(356,371)	-
At 31 December	2,824,092	-	2,341,863	-
Subordinated debt	1,979,440	-	2,154,443	-
Guarantees issued	100,777	-	1,851,860	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	41,068	27,302	19,933	16,233
Impairment charge/(reversal)	(212)	551	(178)	(998)
Gains less losses from trading in foreign currencies	69,854	3,399	36,708	(11,766)
Loss from foreign currency revaluation	(467,027)	(145,849)	(362,515)	(2,122)
Interest expenses on amounts due to customers	(236,964)	(90,851)	(219,399)	(61,068)
Interest expense on subordinated debt	(134,244)	-	(130,688)	-
Gains on disposal of property and equipment	367,864	-	-	-
Interest expense on lease	(210,622)	-	(191,818)	-
Amortisation of right-of-use assets	(282,127)	-	(241,324)	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate of 6%-20% (2020: 6%-20%)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2021	2020
Salaries and bonuses	399,585	413,124
Total key management compensation	399,585	413,124

35 Fair value measurement

The Board of the Bank determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

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).

35.1 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	-	43,415,731	-	43,415,731	43,415,731
Amounts due from financial institutions	-	15,975,673	-	15,975,673	15,975,673
Securities measured at amortised cost pledged under repurchase agreements	3,430,558	10,275,741	-	13,706,299	13,860,246
Loans and advances to customers	-	147,785,406	-	147,785,406	147,786,661
Other assets	-	1,224,792	-	1,224,792	1,224,792
Financial liabilities					
Amounts due to banks	-	16,649,618	-	16,649,618	16,649,618
Amounts due to customers	-	124,766,775	-	124,766,775	124,766,775
Other borrowings	-	67,748,523	-	67,748,523	67,748,523
Issued debt securities	-	12,998,487	-	12,998,487	12,998,487
Subordinated debt	-	1,979,440	-	1,979,440	1,979,440
Lease liabilities	-	3,531,085	-	3,531,085	3,531,085
Other liabilities	-	2,210,685	-	2,210,685	2,210,685

In thousand Armenian drams					31 December 2020
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	31,458,022	-	31,458,022	31,458,022
Amounts due from financial institutions	-	14,341,535	-	14,341,535	14,341,535
Securities measured at amortised cost pledged under repurchase agreements	4,285,910	9,413,563	-	13,699,473	13,861,033
Loans and advances to customers	-	148,222,057	-	148,222,057	148,222,057
Other assets	-	825,106	-	825,106	825,106

In thousand Armenian drams					31 December 2020
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial liabilities					
Amounts due to banks	-	11,948,313	-	11,948,313	11,948,313
Amounts due to customers	-	97,936,482	-	97,936,482	97,936,482
Other borrowings	-	78,269,244	-	78,269,244	78,269,244
Debt securities issued	-	15,165,242	-	15,165,242	15,165,242
Subordinated debt	-	2,154,443	-	2,154,443	2,154,443
Lease liabilities		3,261,337		3,261,337	3,261,337
Other liabilities	-	1,718,981	-	1,718,981	1,718,981

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 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 4.5% to 24% per annum (2020: 4.5% 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 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.

35.2 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 at FVOCI (included securities pledged under repurchase agreements)	14,246,002	18,726,490	-	32,972,492
Derivative financial assets	-	2,733	-	2,733
Total	14,246,002	18,729,223	-	32,975,225

In thousand Armenian drams				31 December 2021
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities	-	397	-	397
Total	-	397	-	397
	-		-	
Net fair value	14,246,002	18,728,826	-	32,974,828

In thousand Armenian drams				31 December 2020
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities at FVOCI (include securities pledged under repurchase agreements)	11,374,362	16,331,485	-	27,705,847
Derivative financial assets	-	857	-	857
Total	11,374,362	16,332,342	-	27,706,704
Financial liabilities				
Derivative financial liabilities	-	1,202	-	1,202
Total	-	1,202	-	1,202
	-		-	
Net fair value	11,374,362	16,331,140	-	27,705,502

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

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Armenia.

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.

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

36 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					
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 18)	6,592,620	-	6,592,620	-	(7,040,711)	(448,091)
Financial liabilities						
Repurchase agreements (Note 19, 24)	12,008,019	-	12,008,019	(12,791,552)	-	(783,533)

In thousand Armenian drams	31 December 2020					
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 18)	11,901,670	-	11,901,670	-	(11,932,474)	(30,804)
Financial liabilities						
Repurchase agreements (Note 19, 24, 26)	10,715,977	-	10,715,977	(11,041,154)	-	(325,177)

37 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 38.3 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	43,415,731	-	43,415,731	-	-	-	43,415,731
Derivative financial assets	2,733	-	2,733	-	-	-	2,733
Amounts due from financial institutions	13,298,060	1,444,186	14,742,246	799,753	433,674	1,233,427	15,975,673
Investment securities including securities pledged under repurchase agreements	305,185	12,683,968	12,989,153	22,972,468	10,871,117	33,843,585	46,832,738
Loans and advances to customers	5,975,845	38,928,073	44,903,918	66,837,448	36,045,295	102,882,743	147,786,661
Other assets	1,224,792	-	1,224,792	-	-	-	1,224,792
	64,222,346	53,056,227	117,278,573	90,609,669	47,350,086	137,959,755	255,238,328
Liabilities							
Amounts due to banks	12,331,783	2,990,827	15,322,610	1,327,008	-	1,327,008	16,649,618
Derivative financial liabilities	397	-	397	-	-	-	397
Amounts due to customers	54,446,832	4,339,299	58,786,131	65,907,818	72,826	65,980,644	124,766,775
Other borrowings	1,248,065	17,049,440	18,297,505	43,576,142	5,874,876	49,451,018	67,748,523
Debt securities issued	2,487,260	7,700,140	10,187,400	2,811,087	-	2,811,087	12,998,487
Subordinated debt	10,866	-	10,866	1,968,574	-	1,968,574	1,979,440
Lease liabilities	40,885	462,974	503,859	1,777,571	1,249,655	3,027,226	3,531,085
Other liabilities	2,210,685	-	2,210,685	-	-	-	2,210,685
	72,776,773	32,542,680	105,319,453	117,368,200	7,197,357	124,565,557	229,885,010
Net position	(8,554,427)	20,513,547	11,959,120	(26,758,531)	40,152,729	13,394,198	25,353,318
Accumulated gap	(8,554,427)	11,959,120		(14,799,411)	25,353,318		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2020
Assets							
Cash	31,458,022	-	31,458,022	-	-	-	31,458,022
Derivative financial assets	857	-	857	-	-	-	857
Amounts due from financial institutions	13,002,138	436,742	13,438,880	902,655	-	902,655	14,341,535
Investment securities including securities pledged under repurchase agreements	11,294,661	6,188,432	17,483,093	18,651,686	5,432,101	24,083,787	41,566,880
Loans and advances to customers	5,404,488	43,367,377	48,771,865	66,704,572	32,745,620	99,450,192	148,222,057
Other assets	825,106	-	825,106	-	-	-	825,106
	61,985,272	49,992,551	111,977,823	86,258,913	38,177,721	124,436,634	236,414,457
Liabilities							
Amounts due to banks	10,282,009	1,407,288	11,689,297	259,016	-	259,016	11,948,313
Derivative financial liabilities	1,202	-	1,202	-	-	-	1,202
Amounts due to customers	50,987,455	8,459,451	59,446,906	38,417,561	72,015	38,489,576	97,936,482
Other borrowings	3,279,999	25,871,533	29,151,532	43,125,253	5,992,459	49,117,712	78,269,244
Debt securities issued	112,451	1,018,780	1,131,231	14,034,011	-	14,034,011	15,165,242
Subordinated debt	11,824	-	11,824	2,142,619	-	2,142,619	2,154,443
Lease liabilities	35,556	400,467	436,023	1,675,450	1,149,864	2,825,314	3,261,337
Other liabilities	1,718,981	-	1,718,981	-	-	-	1,718,981
	66,429,477	37,157,519	103,586,996	99,653,910	7,214,338	106,868,248	210,455,244
Net position	(4,444,205)	12,835,032	8,390,827	(13,394,997)	30,963,383	17,568,386	25,959,213
Accumulated gap	(4,444,205)	8,390,827		(5,004,170)	25,959,213		

38 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.

Risk management structure

Risk management is performed in the different levels of the Bank’s structure.

Board of Directors

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

Executive Board

The Executive Board is responsible for the control of risk management process.

Audit and Risk Management Committee

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

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for the liquidity and market risk management, for the assets and liabilities management and makes decisions in respect of these risks within the scope of its authority.

Credit committee

The Credit Committees make decisions on accepting credit risk within the scope of their authority and are responsible for maintaining limits established for controlling credit risk.

Risk Management Department

The Risk Management Department is responsible for disclosure, assessment, analysis, monitoring and controlling of the Bank's risks. It is also responsible for the creation of appropriate risk assessment reporting database.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that 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 Audit and Risk Management Committee.

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 models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. 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. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Executive Board. The report includes aggregate credit exposure, hold limit exceptions, foreign currency risk, liquidity ratios and stress-tests. On a monthly basis detailed reporting of concentration of economic sectors takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. Assets and Liabilities Management Committee and Credit Committee receive a detailed risk report on a monthly basis which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

A daily briefing is given to the Executive Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR 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.

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.

38.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 of Directors.

38.1.1 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 38.1.2.

In thousand Armenian drams				**31 December 2021**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
High	43,430,985	-	-	43,430,985
Gross carrying amount	43,430,985	-	-	43,430,985
Loss allowance	(15,254)	-	-	(15,254)
Net carrying amount	43,415,731	-	-	43,415,731
Amounts due from financial institutions				
Standard	16,088,980	-	-	16,088,980
Gross carrying amount	16,088,980	-	-	16,088,980
Loss allowance	(113,307)	-	-	(113,307)
Net carrying amount	15,975,673	-	-	15,975,673

In thousand Armenian drams				31 December 2021
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Investment securities at FVOCI (including securities pledged under repurchase agreements)				
Standard grade	32,861,525	-	-	32,861,525
Fair value	32,861,525	-	-	32,861,525
Loss allowance	(266,942)	-	-	(266,942)
Investment securities at amortised cost including the pledged instruments				
Standard	13,952,820	-	-	13,952,820
Gross carrying amount	13,952,820	-	-	13,952,820
Loss allowance	(92,574)	-	-	(92,574)
Net carrying amount	13,860,246	-	-	13,860,246
Mortgage and consumer loans				
High	64,880,436	-	-	64,880,436
Standard	269,678	1,882,241	-	2,151,919
Substandard	-	328,365	-	328,365
Non-performing	-	-	630,878	630,878
Gross carrying amount	65,150,114	2,210,606	630,878	67,991,598
Loss allowance	(408,745)	(393,207)	(304,195)	(1,106,147)
Net carrying amount	64,741,369	1,817,399	326,683	66,885,451
Loans to commercial customers				
High	76,084,894	-	-	76,084,894
Standard	4,898	5,076,532	-	5,081,430
Substandard	-	6,900	-	6,900
Non-performing	-	-	1,788,737	1,788,737
Gross carrying amount	76,089,792	5,083,432	1,788,737	82,961,961
Loss allowance	(200,216)	(378,584)	(1,481,951)	(2,060,751)
Net carrying amount	75,889,576	4,704,848	306,786	80,901,210
Other financial assets				
Standard	1,250,844	-	-	1,250,844
Gross carrying amount	1,250,844	-	-	1,250,844
Loss allowance	(26,052)	-	-	(26,052)
Net carrying amount	1,224,792	-	-	1,224,792
Loan commitments and financial guarantee				
High grade	17,493,283	-	-	17,493,283
Loss allowance*	(4,347)	-	-	(4,347)

In thousand Armenian drams				31 December 2020
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
High	31,463,730	-	-	31,463,730
Gross carrying amount	31,463,730	-	-	31,463,730
Loss allowance	(5,708)	-	-	(5,708)
Net carrying amount	31,458,022	-	-	31,458,022
Amounts due from financial institutions				
Standard	14,449,872	-	-	14,449,872
Gross carrying amount	14,449,872	-	-	14,449,872
Loss allowance	(108,337)			(108,337)
Net carrying amount	14,341,535	-	-	14,341,535
Investment securities at FVOCI (including securities pledged under repurchase agreements)				
Standard grade	27,596,940	-	-	27,596,940
Fair value	27,596,940	-	-	27,596,940
Loss allowance	(268,789)	-	-	(268,789)
Investment securities at amortised cost (including securities pledged under repurchase agreements)				
Standard grade	13,984,361	-	-	13,984,361
Gross carrying amount	13,984,361	-	-	13,984,361
Loss allowance	(123,328)			(123,328)
Net carrying amount	13,861,033	-	-	13,861,033
Mortgage and consumer loans				
High	61,574,921	-	-	61,574,921
Standard	445,679	298,792	-	744,471
Substandard	-	503,839	-	503,839
Non-performing	-	-	1,354,899	1,354,899
Gross carrying amount	62,020,600	802,631	1,354,899	64,178,130
Loss allowance	(474,597)	(171,752)	(618,826)	(1,265,175)
Net carrying amount	61,546,003	630,879	736,073	62,912,955
Loans to commercial customers				
High	81,813,236	-	-	81,813,236
Standard	82,392	1,589,033	-	1,671,425
Substandard	-	16,597	-	16,597
Non-performing	-	-	5,775,837	5,775,837
Gross carrying amount	81,895,628	1,605,630	5,775,837	89,277,095
Loss allowance	(353,527)	(391,068)	(3,223,398)	(3,967,993)
Net carrying amount	81,542,101	1,214,562	2,552,439	85,309,102

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Standard	850,233	-	-	850,233
Gross carrying amount	850,233	-	-	850,233
Loss allowance	(25,127)	-	-	(25,127)
Net carrying amount	825,106	-	-	825,106
Loan commitments and financial guarantee				
High grade	18,310,012			18,310,012
Loss allowance*	(27,887)			(27,887)

*The ECL allowance disclosed in loan commitments and financial guarantees of the above table applies only to the guarantees provided. The ECL allowance on loans 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.

38.1.2 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 4.5.6).

Significant increase in credit risk

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

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

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

Criteria for loans and advances to customers

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system

- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

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

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

Criteria for Investment securities

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

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

Exit criteria from significant deterioration stage

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

Credit risk grades

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

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

		2021	2020
	Grade	**12 month PD range**	**12 month PD range**
Loans to mortgage and consumer customers	High, Standard	0.10-4.04%	0.09-3.93%
	Substandard	8.44-53.23%	10.40-53.18%
	Non-Performing	89.81-100%	88.54-100%
Loans to commercial customers	High, Standard	0.92-2.10%	1.07-2.35%
	Substandard	19.22-85.79%	19.34-84.20%
	Non-Performing	96.47-100%	94.70-100%

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

		2021	2020
International external rating agency (S&P) rating	**Grade**	**12 month PD**	**12 month PD**
AAA to A-	High	0.001-0.025%	0.001-0.04%
BBB+ to B-	Standard	0.043-3.472%	0.059-7.21%
CCC+ to CC	Substandard	6.003-31.025%	12.834-23.60%
D	Non-Performing	100%	100%

Collective or individual assessment

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

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

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

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

Definition of default and cure

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

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

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

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

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

Forborne and modified loan

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

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

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

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

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

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

If modifications are substantial, the loan is derecognised, as explained in note 4.5.4.

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

In thousand Armenian drams

	2021	2020
Amortised costs of financial assets modified during the period	-	706,537
Net modification loss	-	402,888

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.5.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- GDP (current LCU)

- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan)

38.1.3 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

Industry sectors

The analysis of loan portfolio by industry sectors is represented in note 20.

38.1.4 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, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

As of 31.12.2021 allowance for ECL on loans at the total amount of 31,927,788 thousand has not been recognized because of collaterals (As of 31.12.2020: AMD 28,852,479 thousand).

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
Real estate	111,287,262	99,848,733
Movable property	438,371	1,965,170
Inventories	382,226	609,013
Guarantees of enterprises and individuals	7,900,262	15,960,403
Precious metals, gold	12,526,721	13,649,374
Cash flows	14,449,655	15,414,678
Cash	519,391	322,166
Securities	19,512	51,510
Other	3,430,159	5,634,178
Total loans and advances, gross	150,953,559	153,455,225

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

As of 31 December 2021, the net carrying amount of credit-impaired loans to customers in Stage 3 amounted to AMD 2,419,615 thousand (2020: AMD 7,130,736 thousand) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AMD 1,248,008 thousand (2020: 5,957,631 thousand).

38.2 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. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

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

38.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments The Board of the Bank 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.

Average interest rates

The following table demonstrates applicable average interest rates as of 31 December 2021 and 2020 for interest bearing assets and liabilities.

	2021 Average effective interest rate, %			2020 Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Amounts due from financial institutions	10.17	5.07	6.38	7.00	3.94	1.25
Investment securities at amortised cost including the securities pledged under repurchase agreements	8.91	4.61	3.19	9.21	5.17	3.87
Investment securities at amortised cost including the securities pledged under repurchase agreements	7.74	3.75	4.04	7.85	5.53	4.04
Loans and advances to customers	13.49	9.75	6.67	12.51	10.20	6.74
Interest bearing liabilities						
Amounts due to banks	8.30	1.25	0.47	5.80	1.48	0.48
Current accounts and deposits from customers						
-Current accounts and demand deposits	0.10	0.10	-	0.10	0.10	-
-Term deposits	9.69	4.66	2.52	9.02	4.59	2.49
Other borrowings	7.60	5.37	4.67	7.93	5.38	3.87
Debt securities issued	-	5.55	-	9.83	5.55	-
Subordinated debt	-	6.50	-		6.50	-

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 at 31 December 2021.

The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI as of 31 December 2021 for the effects of the assumed changes in interest rates.

In thousand Armenian drams	31 December 2021		
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(727,965)
EUR	+2	200,617	-
AMD	(1)	-	804,088
EUR	(2)	(200,617)	-

In thousand Armenian drams	31 December 2020		
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
AMD	+1	-	(482,650)
EUR	+2	60,283	-
AMD	(1)	-	533,840
EUR	(2)	(60,283)	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 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). 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	Change in currency rate in %	Effect on profit before tax
USD	+5	22,799	+5	32,343
EUR	+5	(1,860)	+5	(387)

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

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Assets					
Cash	17,389,863	21,760,487	3,622,214	643,167	43,415,731
Amounts due from financial institutions	7,612,141	7,989,974	110,230	263,328	15,975,673
Investment securities including the securities pledged	37,246,494	8,513,985	1,072,259	-	46,832,738
Loans and advances to customers	54,499,573	86,172,628	7,099,490	14,970	147,786,661
Other assets	432,811	558,650	63,402	169,929	1,224,792
Total	117,180,882	124,995,724	11,967,595	1,091,394	255,235,595
Liabilities					
Amounts due to banks	12,500,269	2,844,554	422,230	882,565	16,649,618
Amounts due to customers	61,995,780	54,886,630	7,199,178	685,187	124,766,775
Other borrowings	11,355,277	52,048,933	4,344,313	-	67,748,523
Debt securities issued	-	12,998,487	-		12,998,487
Subordinated debt	-	1,979,440	-	-	1,979,440
Lease liabilities	3,531,085	-	-	-	3,531,085
Other liabilities	1,576,130	597,082	14,890	22,583	2,210,685
Total	90,958,541	125,355,126	11,980,611	1,590,335	229,884,613
Total effect of derivative financial instruments	-	815,381	(24,183)	(788,862)	2,336
Net position as of 31 December 2021	26,222,341	455,979	(37,199)	(1,287,803)	25,353,318
Commitments and contingent liabilities as of 31 December 2021	6,417,967	10,326,223	677,220	71,873	17,493,283

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Total financial assets	103,370,203	120,165,793	12,033,899	843,705	236,413,600
Total financial liabilities	77,493,958	122,418,834	9,916,850	624,400	210,454,042
Total effect of derivative financial instruments	526,909	(2,899,895)	2,124,783	247,858	(345)
Net position as of 31 December 2020	26,403,154	(5,152,936)	4,241,832	467,163	25,959,213
Commitments and contingent liabilities as of 31 December 2020	8,305,867	9,233,127	767,542	3,476	18,310,012

38.3 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 basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The 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. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. Refer to notes 16 And 18. 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.

As of 31 December, these ratios were as follows:

	Unaudited	
	31 December 2021, %	31 December 2020, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	27.28	24.56
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	125.42	125.36

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank’s financial liabilities of 31 December 2021 based on contractual undiscounted repayment obligations. Refer to note 37 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 months	More than 5 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities						
Amounts due to banks	12,181,754	3,118,975	1,676,411	-	16,977,140	16,649,618
Amounts due to customers	54,311,345	4,531,908	73,933,027	100,559	132,876,839	124,766,775
Other borrowings	2,213,880	19,598,279	49,126,982	6,648,921	77,588,062	67,748,523
Debt securities issued	2,434,772	8,658,743	1,954,047	-	13,047,562	12,998,487
Subordinated debt	10,868	-	2,357,354	-	2,368,222	1,979,440
Lease liabilities	67,082	723,763	2,875,827	1,440,000	5,106,672	3,531,085
Other liabilities	2,210,685	-	-	-	2,210,685	2,210,685
Total undiscounted non-derivative financial liabilities	73,430,386	36,631,668	131,923,648	8,189,480	250,175,182	229,884,613
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	150,182	-	-	-	150,182	-
Outflow	(150,579)	-	-	-	(150,579)	(397)
Commitments and contingent liabilities	15,825,404	903,726	764,153	-	17,493,283	17,493,283

In thousand Armenian drams						31 December 2020
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 months	More than 5 year	Total gross amount outflow	Total
Non-derivative liabilities						
Amounts due to banks	10,291,544	1,440,941	279,547	-	12,012,032	11,948,313
Amounts due to customers	50,990,600	8,770,631	44,369,127	128,170	104,258,528	97,936,482
Other borrowings	3,357,582	28,849,144	48,753,494	7,017,503	87,977,723	78,269,244
Debt securities issued	112,451	1,071,876	15,184,487	-	16,368,814	15,165,242
Subordinated debt	11,824	-	2,705,042	-	2,716,866	2,154,443
Lease liabilities	59,499	641,079	2,358,492	1,350,000	4,409,070	3,261,337
Other liabilities	1,718,981	-	-	-	1,718,981	1,718,981
Total undiscounted non-derivative financial liabilities	66,542,481	40,773,671	113,650,189	8,495,673	229,462,014	210,454,042
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	2,341,690	-	-	-	2,341,690	-
Outflow	(2,342,740)	-	-	-	(2,342,740)	(1,050)

In thousand Armenian drams						31 December 2020
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 months	More than 5 year	Total gross amount outflow	Total
Foreign exchange swap contracts						
Inflow	521,903	-	-	-	521,903	-
Outflow	(522,570)	-	-	-	(522,570)	(152)
Commitments and contingent liabilities	16,370,281	1,814,188	116,688	8,855	18,310,012	18,310,012

38.4 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 Risk Management department, Board, 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.

39 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						31 December 2021
	Amounts due to RA banks	**Debt securities issued**	**Other borrowings**	**Subordi-nated debt**	**Lease liabilities**	**Total**
Carrying amount as of 1 January 2020	4,142,592	14,005,787	77,048,866	1,977,270	2,588,778	99,763,293
Proceeds from issue	7,632,030	5,386,686	24,627,910	-	-	37,646,626
Redemption	(10,013,937)	(4,240,120)	(30,331,125)	(494)	(393,757)	(44,979,433)
Foreign currency translation	173,366	-	6,531,749	176,346	-	6,881,461
Other	1,938	12,889	(313,493)	1,321	1,066,316	768,971
Carrying amount at 31 December 2020	1,935,989	15,165,242	77,563,907	2,154,443	3,261,337	100,080,918
Proceeds from issue	8,123,419	2,788,951	65,571,497	-	-	76,483,867
Redemption	(5,148,079)	(4,928,934)	(68,104,053)	-	(424,731)	(78,605,797)
Foreign currency translation	(282,524)	-	(6,934,180)	(174,528)	-	(7,391,232)
Other	11,702	(26,772)	(348,648)	(475)	694,479	330,286
Carrying amount at 31 December 2021	4,640,507	12,998,487	67,748,523	1,979,440	3,531,085	90,898,042

The ''Other'' line includes origination of new lease liabilities and lease modifications being non-movements. This also includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds, subordinated debt and lease liabilities. The Bank classifies interest paid as cash flows from operating activities.

40 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	37,087,874	36,036,621
Tier 2 capital	591,602	1,855,708
Total regulatory capital	37,679,476	37,892,329
Risk-weighted assets	254,638,774	251,167,386
Capital adequacy ratio	14.80%	15.09%

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, in 2017 the Board of RA the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2018.

41 Segment reporting

Operating segments

The Bank is organised on the basis of three main operating segments. These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

Retail banking representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Investment banking – representing financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

In thousand Armenian drams	Retail banking	Corporate banking	Investment banking	Total
				2021
Net interest Income	4,318,716	2,114,303	1,927,225	8,360,244
Net non-interest income/(expense)	657,982	1,176,852	(139,461)	1,695,373
Operating income	4,976,698	3,291,155	1,787,764	10,055,617
Impairment loss	(972,763)	(1,728,405)	15,181	(2,685,987)
Personnel expenses	(651,517)	(521,352)	(305,630)	(1,478,499)
Depreciation of property and equipment and amortization of intangible assets	(1,808,602)	(1,561,841)	(844,228)	(4,214,671)
Other expenses	(746,593)	(597,432)	(350,231)	(1,694,256)
Profit/(loss) before tax	797,223	(1,117,875)	302,856	(17,796)
Income tax (expense)/recovery	(143,500)	283,973	(76,934)	63,539
Profit/(loss) for the year	653,723	(833,902)	225,922	45,743
Segment assets	72,537,560	85,424,092	110,103,096	268,064,748
Segment liabilities	90,435,660	107,039,434	32,811,030	230,286,124
Interest earning financial assets	66,885,451	80,901,210	107,451,667	255,238,328
Interest bearing financial liabilities	90,258,905	106,897,992	32,728,113	229,885,010

In thousand Armenian drams	Retail banking	Corporate banking	Investment banking	Total
				2020
Net interest Income	4,407,220	1,561,339	2,422,839	8,391,398
Net non-interest income	1,573,962	877,178	86,101	2,537,241
Operating income	5,981,182	2,438,517	2,508,940	10,928,639
Impairment loss	(856,884)	(1,133,429)	(273,718)	(2,264,031)
Personnel expenses	(1,690,154)	(1,606,132)	(809,100)	(4,105,386)
Depreciation of property and equipment and amortization of intangible assets	(523,250)	(444,303)	(241,285)	(1,208,838)
Other expenses	(620,588)	(526,956)	(586,171)	(1,733,715)
Profit/(loss) before tax	2,290,306	(1,272,303)	598,666	1,616,669
Income tax (expense)/recovery	(390,969)	217,190	(102,196)	(275,975)
Profit/(loss) for the year	1,899,337	(1,055,113)	496,470	1,340,694
Segment assets	68,309,330	89,891,287	90,680,820	248,881,437
Segment liabilities	74,300,744	103,239,809	33,114,320	210,654,873
Interest earning financial assets	62,912,955	85,309,102	88,192,400	236,414,457
Interest bearing financial liabilities	74,214,334	103,166,436	33,074,474	210,455,244

42 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.