

Central Bank of the Republic of Armenia

International Financial Reporting Standards Consolidated financial statements

*for the year ended 31 December 2021
together with independent auditor's report*

Contents

Independent auditor's report

Consolidated financial statements

Consolidated statement of comprehensive income	1
Consolidated statement of financial position.....	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to the consolidated financial statements

1. General information	5
2. Summary of significant accounting policies	6
3. New accounting pronouncements	17
4. Interest income	18
5. Interest expense	19
6. Net foreign exchange (loss)/gain	19
7. Net gain/(loss) on derivatives	19
8. Net (loss)/gain on financial instruments at fair value through profit or loss	19
9. Other income	20
10. Cost of production of banknotes, coins and numismatics	20
11. Other expenses	20
12. Placements and investments with banks and other financial institutions	20
13. Financial instruments at fair value through profit or loss	24
14. Derivative financial instruments	24
15. Investment securities	25
16. Operations with the International Monetary Fund	27
17. Property and equipment	28
18. Intangible assets	29
19. Other assets in domestic currency	29
20. Deposits and accounts of financial and other institutions	29
21. Other borrowed funds	30
22. Other liabilities in domestic currency	30
23. Due to the Government of the Republic of Armenia	30
24. Debt securities issued	31
25. Management of capital	31
26. Commitments	31
27. Related party transactions	32
28. Cash and cash equivalents	33
29. Fair value of financial instruments	33
30. Risk management	37
31. Maturity analysis	47
32. Changes in liabilities arising from financing activities	48
33. Events after the reporting period	49

Independent auditor's report

To the Board of the Central Bank of the Republic of Armenia

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Board of the Central Bank of Armenia for the consolidated financial statements

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

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

The Board of the Central Bank of Armenia is responsible for overseeing the Group's financial reporting process.

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

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

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

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



We communicate with the Board of the Central Bank of Armenia 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.

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner

Marchello Gelashvili

General Director

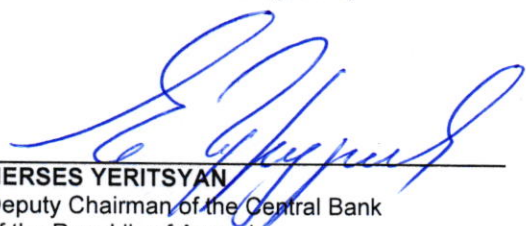
Eric Hayrapetyan

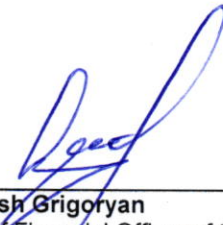
30 March 2022

Consolidated statement of comprehensive income**For the year ended 31 December 2021**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2021</i>	<i>2020</i>
Interest income	4	54,730,955	34,343,569
Interest expense	5	(35,746,542)	(22,836,209)
Net interest income		18,984,413	11,507,360
Credit loss expense	12, 15	(89,343)	(791,184)
Net interest income after credit loss allowance		18,895,070	10,716,176
Fee and commission income		583,437	490,216
Fee and commission expense		(1,758,432)	(1,470,161)
Net foreign exchange (loss)/gain	6	(57,094,752)	65,428,920
Net gain/(loss) on derivatives	7	512,695	(3,826,806)
Net (loss)/gain on financial instruments at fair value through profit or loss	8	(552,234)	9,120,334
Other income	9	5,720,902	4,956,533
Cost of production of banknotes, coins and numismatics	10	(2,365,420)	(1,481,880)
Other expenses	11	(16,235,291)	(18,833,509)
(Loss)/profit before tax		(52,294,025)	65,099,823
Income tax expense		(2,583,891)	(2,186,836)
(Loss)/profit for the year		(54,877,916)	62,912,987
(Loss)/profit is attributable to:			
Owners of the Bank		(55,013,885)	62,849,377
Non-controlling interest		135,969	63,610
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net unrealised loss from changes in fair value of debt financial assets measured through other comprehensive income		(845,535)	(407,164)
Changes in allowance for expected credit losses of debt financial assets at fair value through other comprehensive income	15	22,490	(31,682)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(823,045)	(438,846)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Net (loss)/gain on equity instruments at fair value through other comprehensive income		(43,837)	668,345
Total other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		(43,837)	668,345
Other comprehensive (loss)/income for the year		(866,882)	229,499
Total comprehensive (loss)/income for the year		(55,744,798)	63,142,486
Total comprehensive (loss)/income is attributable to:			
Owners of the Bank		(55,873,060)	63,053,996
Non-controlling interest		128,262	88,490

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 30 March 2022 and were signed by:


NERSES YERITSYAN
 Deputy Chairman of the Central Bank
 of the Republic of Armenia


Anush Grigoryan
 Chief Financial Officer of the Central Bank
 of the Republic of Armenia

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of financial position**As at 31 December 2021**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	31 December 2021	31 December 2020
Assets			
Foreign currency assets			
Cash		44,555,290	51,108,237
Placements with banks and other financial institutions	12	763,636,093	385,019,006
Financial instruments at fair value through profit or loss	13	734,565,274	930,471,867
Derivative financial assets	14	445,057	–
Financial assets measured at fair value through other comprehensive income	15	3,359,146	3,459,465
Placements with the IMF	16	102,324,925	101,636,948
Other assets		168,808	182,954
Total foreign currency assets		1,649,054,593	1,471,878,477
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	906,835,345	704,534,763
Financial assets measured at fair value through other comprehensive income	15	26,407,060	78,543,693
Property and equipment	17	60,039,175	61,252,975
Intangible assets	18	2,787,916	2,897,059
Other assets	19	8,801,628	10,072,335
Total domestic currency assets		1,004,871,124	857,300,825
Total assets		2,653,925,717	2,329,179,302
Liabilities			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	655,408,136	508,273,268
Due to the Government of the Republic of Armenia	23	1,626,616	1,506,451
Derivative financial liabilities	14	–	143,121
Due to the IMF	16	281,278,642	247,496,568
Other borrowed funds	21	175,399,777	160,585,640
Other liabilities		1,208,275	1,442,932
Total foreign currency liabilities		1,114,921,446	919,447,980
Domestic currency liabilities			
Notes and coins in circulation		747,165,753	751,465,873
Deposits and accounts of financial and other institutions	20	413,630,384	310,400,907
Due to the Government of the Republic of Armenia	23	401,983,788	265,035,664
Debt securities issued	24	9,650,642	9,655,324
Other liabilities	22	3,946,269	4,521,819
Total domestic currency liabilities		1,576,376,836	1,341,079,587
Total liabilities		2,691,298,282	2,260,527,567
Equity			
Issued capital	25	100,000	100,000
General reserve		39,988,847	27,418,972
Promissory Note issued by the Government	25	15,776,447	66,055,949
Revaluation reserve for financial assets measured at fair value through other comprehensive income	25	1,767,743	2,626,918
Accumulated deficit		(96,151,814)	(28,568,054)
Net assets attributable to owners of the Bank		(38,518,777)	67,633,785
Non-controlling interest		1,146,212	1,017,950
Total equity		(37,372,565)	68,651,735
Total liabilities and equity		2,653,925,717	2,329,179,302

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2021**

	<i>Attributable to owners of the Bank</i>					<i>Total</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Issued capital</i>	<i>General reserve</i>	<i>Promissory note issued by the Government</i>	<i>Revaluation reserve for financial assets measured at fair value through other comprehensive income</i>	<i>Accumulated deficit</i>			
<i>In thousands of Armenian Drams</i>								
Balance at 1 January 2020	100,000	25,480,248	73,810,843	2,422,299	(89,478,707)	12,334,683	929,460	13,264,143
Profit distribution	–	1,938,724	(7,754,894)	–	(1,938,724)	(7,754,894)	–	(7,754,894)
Profit for the year	–	–	–	–	62,849,377	62,849,377	63,610	62,912,987
Other comprehensive income	–	–	–	204,619	–	204,619	24,880	229,499
Total comprehensive income for the year	–	–	–	204,619	62,849,377	63,053,996	88,490	63,142,486
Balance at 31 December 2020	100,000	27,418,972	66,055,949	2,626,918	(28,568,054)	67,633,785	1,017,950	68,651,735
Profit distribution	–	12,569,875	(50,279,502)	–	(12,569,875)	(50,279,502)	–	(50,279,502)
Loss for the year	–	–	–	–	(55,013,885)	(55,013,885)	135,969	(54,877,916)
Other comprehensive loss	–	–	–	(859,175)	–	(859,175)	(7,707)	(866,882)
Total comprehensive loss for the year	–	–	–	(859,175)	(55,013,885)	(55,873,060)	128,262	(55,744,798)
Balance at 31 December 2021	100,000	39,988,847	15,776,447	1,767,743	(96,151,814)	(38,518,777)	1,146,212	(37,372,565)

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2021**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	2021	2020
Cash flows from operating activities			
(Loss)/profit before tax		(52,294,025)	65,099,823
<i>Adjustments to reconcile (loss)/profit for the year to net cash flows</i>			
Depreciation and amortisation	11, 17, 18	2,876,600	3,858,750
Loss from disposals and write-off of property and equipment		257	1,387,375
Change in interests receivable		1,941,325	(623,393)
Change in interests payable		296,499	(380,556)
Net loss/(gain) from foreign exchange translation	6	63,979,062	(63,453,637)
Net loss from re-measurement of financial instruments at fair value		7,433,805	2,835,330
Credit loss expense	12, 15	89,343	791,184
Income tax paid		(2,185,066)	(1,664,628)
Cash flows from operating activities before changes in operating assets and liabilities		22,137,800	7,850,248
<i>Net (increase)/decrease in operating assets</i>			
Placements with banks and other financial institutions in foreign currency		(9,676,905)	21,286,198
Financial instruments at fair value through profit or loss and derivative financial instruments		103,024,533	(74,408,589)
Placements and investments with banks and other financial institutions in domestic currency		(203,471,380)	(269,799,443)
Other assets		1,137,812	2,497,585
<i>Net increase/(decrease) in operating liabilities</i>			
Notes and coins in circulation		(4,300,120)	144,256,572
Deposits and accounts of financial and other institutions		308,800,525	65,659,763
Due to the Government of the Republic of Armenia		134,888,953	(59,089,285)
Proceeds from issuance of debt securities		3,003,991	3,000,664
Repayment of debt securities issued		(3,000,000)	-
Other liabilities		(1,310,429)	(586,515)
Net cash flows from/(used in) operating activities		351,234,780	(159,332,802)
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(1,434,623)	(788,976)
Proceeds from sale of property and equipment		9,127	81,764
Proceeds from sale and redemption of financial assets measured at fair value through other comprehensive income		1,080,500	1,170,000
Net cash flows (used in)/from investing activities		(344,996)	462,788
Cash flows from financing activities			
Loans received		138,678,324	14,258,245
Loans redeemed		(41,597,657)	(39,375,111)
Lease payments		(96,838)	(89,123)
Net cash flows from/(used in) financing activities		96,983,829	(25,205,989)
Effect of exchange rate changes on cash and cash equivalents		(73,431,353)	42,993,016
Net increase/(decrease) in cash and cash equivalents		374,442,260	(141,082,987)
Cash and cash equivalents at the beginning of the year	28	436,076,390	577,159,377
Cash and cash equivalents at the end of the year	28	810,518,650	436,076,390
Supplementary information			
Interest received		56,672,280	33,720,176
Interest paid		(35,450,043)	(23,216,765)

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

1. General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2021 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank" or the "Central Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law *On the Central Bank of the Republic of Armenia* (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2021 was 725 (2020: 765).

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the prime objective of the Bank is ensuring price stability and financial stability in the Republic of Armenia. In order to ensure price stability the Central Bank develops, approves and implements monetary policy programs. In addition to its prime objective, other objectives include:

- ▶ Ensure the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia;
- ▶ Create and develop of an effective payment and settlement system;
- ▶ Issue the national currency of the Republic of Armenia and regulate its circulation;
- ▶ Organise and regulate anti-money laundering and anti-terrorism financing activities;
- ▶ Secure the conditions necessary for protecting the rights and lawful interests of consumers in the financial system;
- ▶ Ensure free and fair economic competition in the financial system and etc.

To accomplish its objectives the Central Bank:

- ▶ Acts as financial agent and advisor of the Government of the Republic of Armenia (the "Government");
- ▶ Licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- ▶ Uses and manages international reserves of the Republic of Armenia and etc.

The Bank's largest subsidiaries as of 31 December 2021 are listed below:

Name	Country of incorporation	Principal activity	Controlled, %		Date of establishment
			2021	2020	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	56.25	56.25	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/delivery of cash	100.00	100.00	April 1998
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100.00	100.00	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance	100.00	100.00	December 2013
"Stak Money Transfer" CJSC	Republic of Armenia	infrastructure support	100.00	100.00	December 2017
		Payment and settlement services	100.00	100.00	December 2017

Following to the Group's policy disclosed in Note 30, in March 2020 the Group announced its intention to dispose its investment in the subsidiary engaged in cash delivery/transportation activities through liquidation. As of 31 December 2021 the subsidiary was still under liquidation process.

In January 2021 took place the merger transaction of Group's two subsidiaries engaged in payment and settlement services.

1. General information (continued)

(a) Armenian economic environment and effect of COVID-19 pandemic

During 2021 the Bank acted in an environment of a faster than expected recovery in economic activity and aggregate demand after a significant downturn of 2020. Despite the outbreaks and spread of new waves of COVID-19 pandemic during the year, due to active vaccination in the world and avoidance of strict economic restrictions the pandemic had modest implications both on world and Armenian economy. As a result, economic growth in Armenia totaled 5.7% mainly driven by the services sector. The inflationary environment has expanded significantly in the international commodity markets and Armenia's key trading partners. This has transmitted into prices of goods in Armenia. Under such circumstances, in order to curb the inflation and ensure the price stability objective, CBA Board has gradually increased policy interest rate by totally 2.5 percentage points ending the year with 7.75%. As a result though the 12-month inflation grew, reaching 7.7% by the end of 2021 compared with 3.7% in 2020, it is expected that in the 3 years medium-term horizon it will decrease and stabilize around the target inflation rate of 4%.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results

(b) Estimation uncertainty

To the extent that information is available as at 31 December 2021, the Group has reflected revised estimates of expected future cash flows in its ECL assessment and estimation of fair values of financial instruments (Note 30).

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2021 for the Bank and its subsidiaries.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial assets at fair value through other comprehensive income, and financial instruments categorised at fair value through profit or loss, including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(c) Form of presentation of the financial statements

In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

(d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

(e) Use of estimates and judgments

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

Fair value

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

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

Assessment of impairment

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's expected credit losses ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Group's internal credit grading model, which assigns PDs to the individual grades;
- ▶ The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL ("LTECL") basis and the qualitative assessment;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults ("PD"), exposure at defaults ("EAD") and loss given defaults (LGD);
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund (the "IMF")

In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the *Law of the Republic of Armenia on Membership of the Republic of Armenia in the International Monetary Fund, International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes*, the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depository function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

Leases – estimating the incremental borrowing rate

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

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

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2).

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2021. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power to direct relevant activities of the investees that significantly affect their returns;
- ▶ Exposure, or rights, to variable returns from its involvement with the investees; and
- ▶ The ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

2. Summary of significant accounting policies (continued)

(g) Basis of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(h) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of comprehensive income.

As at 31 December 2021 and 31 December 2020, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2021	31 December 2020
AMD / 1 US dollar	480.14	522.59
AMD / 1 Euro	542.61	641.11
AMD / 1 GBP	646.17	709.47
AMD / 1 SDR (Special Drawing Rights)	672	752.67
AMD / 1 JPY	4.17	5.06
AMD / 1 RUB	6.42	7.02

(i) Cash and cash equivalents

For cash flows statement perspective cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms

The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial measurement

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

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

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

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

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category “Financial instruments at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading, including interest income on trading debt securities are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit and loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

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

Financial assets are classified based on the business model and SPPI assessments.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

The SPPI test

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

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

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

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

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Accounting for zero interest rate loans

The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(k) Leases

i. Group as a lessee

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

Right-of-use assets

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

2. Summary of significant accounting policies (continued)

(k) Leases (continued)

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included in line "Other liability" in these consolidated financial statements.

Short-term leases and leases of low-value assets

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

ii. Operating – Group as a lessor

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

(l) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(m) Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo") are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

2. Summary of significant accounting policies (continued)

(n) Securities lending and borrowing

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

(o) Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred.

(p) Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income for the current year.

(q) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation

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

	2021	2020
Land and buildings:		
- Buildings	30-80 years	30-80 years
- Building technical systems	3-20 years	3-20 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

(r) Non-current assets classified as held for sale

Non-current assets are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

2. Summary of significant accounting policies (continued)

(s) Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

(t) Impairment

Impairment of financial assets

Information on impairment assessment of financial assets is presented in Note 30.

Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

(u) Provisions

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

(v) Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

(w) Issued capital

Issued capital represents the authorised capital of the Bank, which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as Promissory Note issued by the Government in the Equity of the Group.

(x) Profit allocation

The profit of the Group determined based on its consolidated financial statements shall be allocated as follows:

- a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;
- b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Group remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Group to be paid to the state budget shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous (Note 25).

2. Summary of significant accounting policies (continued)

(y) Contingencies

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

(z) Interest income and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(aa) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

3. New accounting pronouncements (continued)

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

4. Interest income

In thousands of Armenian Drams

	2021	2020
Interest income from foreign currency assets		
Nostro accounts	145,858	639,647
Term deposits	261,593	225,797
Placements with the IMF	9,247	13,096
Other	43,307	41,685
Total interest income from foreign currency assets	460,005	920,225
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	53,214,681	32,151,420
Financial assets measured at fair value through other comprehensive income	1,056,269	1,271,924
Total interest income from domestic currency assets	54,270,950	33,423,344
Total interest income calculated using effective interest rate	54,730,955	34,343,569

5. Interest expense

<i>In thousands of Armenian Drams</i>	2021	2020
Interest expense on foreign currency liabilities		
Other borrowed funds	3,260,519	3,314,406
Due to the IMF	1,057,696	1,332,940
Total interest expense on foreign currency liabilities	4,318,215	4,647,346
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	30,153,372	16,914,428
Debt securities issued	741,615	664,147
Deposits and accounts of financial and other institutions	485,217	402,717
Other	48,123	207,571
Total interest expense on domestic currency liabilities	31,428,327	18,188,863
Total interest expense	35,746,542	22,836,209

6. Net foreign exchange (loss)/gain

<i>In thousands of Armenian Drams</i>	2021	2020
Net (loss)/gain from foreign exchange translation	(63,979,062)	63,453,637
Net gain on spot transactions	6,884,310	1,975,283
Total net foreign exchange (loss)/gain	(57,094,752)	65,428,920

Included in the net (loss)/gain from revaluation of monetary assets and liabilities is a foreign exchange translation loss of AMD 84,059,388 thousand on financial instruments at fair value through profit or loss (2020: gain in the amount of AMD 84,405,394 thousand).

7. Net gain/(loss) on derivatives

<i>In thousands of Armenian Drams</i>	2021	2020
Net gain/(loss) on swaps	542,380	(395,885)
Net (loss)/gain on futures	(29,685)	30,118
Net loss on forward contract with the Government (Note 27)	–	(3,461,039)
Total net gain/(loss) on derivatives	512,695	(3,826,806)

In accordance with the agreement dated 5 January 2007 with the Government, the Bank was obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year, which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Bank as a result of such foreign currency exchange operations was accounted for as result on derivatives. Starting from 1 January 2021 foreign currency denominated state budget main inflows and outflows are exchanged at market rate on the date of the transaction.

8. Net (loss)/gain on financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	2021	2020
Net (loss)/gain on foreign securities under own management	(562,931)	9,083,463
Net gain on money market instruments under own management	10,697	36,871
Total net (loss)/gain on financial instruments at fair value through profit or loss	(552,234)	9,120,334

9. Other income

<i>In thousands of Armenian Drams</i>	2021	2020
Numismatic coins	1,524,482	1,467,887
Financial agency fee	390,193	427,496
Other	3,806,227	3,061,150
Total other income	5,720,902	4,956,533

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2021, the amount of AMD 2,990,601 thousand included in "Other" line represents the revenue of one subsidiary of the Bank which renders plastic cards processing services (2020: two subsidiaries, AMD 2,453,011 thousand).

10. Cost of production of banknotes, coins and numismatics

<i>In thousands of Armenian Drams</i>	2021	2020
Production of banknotes and coins	1,305,050	247,066
Production of numismatic coins sold during the year	1,060,370	1,234,814
Total cost of production of banknotes, coins and numismatics	2,365,420	1,481,880

11. Other expenses

<i>In thousands of Armenian Drams</i>	2021	2020
Employee compensation, staff training and related payments	7,778,744	8,033,175
Depreciation and amortisation	2,876,600	3,858,750
Repairs and maintenance	1,390,373	1,560,537
Expenses on development and maintenance of payment system	440,101	457,576
Security and insurance expenses	379,822	497,493
Professional services	135,461	57,436
Other	3,234,190	4,368,542
Total other expenses	16,235,291	18,833,509

During the year ended 31 December 2021 and 31 December 2020, the expenses included into "Other" line represent subscription fees, communication expenses, utilities, rent expenses and stationery of the Bank and its subsidiaries. For the year ended 31 December 2020 "Other" line also includes property and equipment write-off amount as disclosed in Note 17.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2021 and 31 December 2020 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions**Placements with banks and other financial institutions in foreign currency**

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	750,194,375	380,277,935
Term deposits	12,875,235	4,173,434
Margin requirements of derivatives	675,167	637,304
Impairment allowance	(108,684)	(69,667)
Total placements with banks and other financial institutions in foreign currency	763,636,093	385,019,006

12. Placements and investments with banks and other financial institutions (continued)**Placements with banks and other financial institutions in foreign currency (continued)***Concentration of placements with banks and other financial institutions in foreign currency*

As at 31 December 2021 the Group had placements in two banks with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2021 amounted to AMD 604,132,858 thousand (31 December 2020: placements with two banks amounting to AMD 295,730,920 thousand).

Allowance for impairment of placements with banks and other financial institutions in foreign currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
Gross carrying value as at 1 January 2021	385,088,673	385,088,673
New assets originated or purchased	761,094,488	761,094,488
Assets repaid	(382,438,384)	(382,438,384)
At 31 December 2021	763,744,777	763,744,777

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
ECL as at 1 January 2021	69,667	69,667
New assets originated or purchased	89,648	89,648
Assets repaid	(38,316)	(38,316)
Changes to models and inputs used for ECL calculations	(12,315)	(12,315)
At 31 December 2021	108,684	108,684

Placements and investments with banks and other financial institutions in foreign currency

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
Gross carrying value as at 1 January 2020	560,139,884	560,139,884
New assets originated or purchased	381,508,352	381,508,352
Assets repaid	(556,559,563)	(556,559,563)
At 31 December 2020	385,088,673	385,088,673

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
ECL as at 1 January 2020	147,896	147,896
New assets originated or purchased	4,412	4,412
Assets repaid	(65,406)	(65,406)
Changes to models and inputs used for ECL calculations	(17,235)	(17,235)
At 31 December 2020	69,667	69,667

12. Placements and investments with banks and other financial institutions (continued)

Placements and investments with banks and other financial institutions in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Placements and investments with banks and other financial institutions in domestic currency		
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	185,767,880	140,847,175
Repurchase agreements and other overnight facilities	485,415,041	345,952,769
Mortgage refinancing	134,676,322	106,377,016
Deposits and current accounts placed in commercial banks	77,167,979	87,282,360
Investments measured at amortised cost	24,306,950	24,305,412
Other loans	3,012,901	3,208,943
Impairment allowance	(3,511,728)	(3,438,912)
Total placements and investments with banks and other financial institutions in domestic currency	906,835,345	704,534,763

Concentration of placements and investments with banks and other financial institutions in domestic currency

As at 31 December 2021 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2020: two banks).

The Group accepted securities on reverse repurchase agreements as collateral, which the Group is permitted to sell or repledge. As at 31 December 2021 amounts receivable under reverse repurchase agreements are with 13 resident bank (31 December 2020: 12 resident banks) and are collateralised by the following securities:

<i>In thousands of Armenian Drams</i>	Fair value as at 31 December 2021	Fair value as at 31 December 2020
Treasury bonds of the Government	447,781,610	306,786,374
Eurobonds issued by the Government	4,187,656	11,951,592
Corporate bonds	58,141,427	43,406,326
Total	510,110,693	362,144,292

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks and other financial institutions under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- ▶ **SME Support.** The objective of the SME support Programs of the World Bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations. During 2017 one more loan was received from EIB within the framework of the "Armenia APEX II Loan for SMEs and MIDCAPs" Program. The conditions of this loan are mostly the same as that of the first phase. The main difference is climate change component inclusion that requires some actions from the side of sub-borrowers to improve the impact on the environment. During 2020 and 2021 one more loan was received from EIB under "Private Sector Facility" Loan Program (EIB-III). The objective of the program is agriculture, tourism and production sectors development as well as export stimulation in the Republic of Armenia. During 2016 a new loan was received under "Support for the financing of the Energy Efficiency in MSME sector" Program. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO₂-emissions as well as to enhance the competitiveness of the enterprises.
- ▶ **Development of the Renewable Energies.** The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- ▶ **Development of sustainable housing market.** The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

12. Placements and investments with banks and other financial institutions (continued)

Placements and investments with banks and other financial institutions in domestic currency (continued)

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2021 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 14 domestic banks (31 December 2020: 14 domestic banks) and 9 financial institutions (31 December 2020: 9 financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2020: 10 years). As at 31 December 2021 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 134,934,241 thousand (31 December 2020: AMD 106,094,093 thousand).

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2021 the management of the Group has classified investments in the amount of AMD 24,306,950 thousand as investments measured at amortised cost (31 December 2020: AMD 24,305,412 thousand as investments measured at amortised cost). Such decision was made due to the business model of managing these investments – to hold financial assets in order to collect contractual cash flows.

Other loans are secured by real estate in the amount of AMD 2,481,653 thousand (31 December 2020: AMD 2,657,699 thousand), movable property and other assets in the amount of AMD 98,477 thousand (31 December 2020: AMD 124,105 thousand).

Allowance for impairment of placements and investments with banks and other financial institutions in domestic currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
Gross carrying value as at 1 January 2021	707,973,675	707,973,675
New assets originated or purchased	669,230,992	669,230,992
Assets repaid	(466,857,594)	(466,857,594)
At 31 December 2021	910,347,073	910,347,073

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
ECL as at 1 January 2021	3,438,912	3,438,912
New assets originated or purchased	1,585,790	1,585,790
Assets repaid	(608,137)	(608,137)
Changes to models and inputs used for ECL calculations	(904,837)	(904,837)
At 31 December 2021	3,511,728	3,511,728

12. Placements and investments with banks and other financial institutions (continued)**Placements and investments with banks and other financial institutions in domestic currency (continued)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
Gross carrying value as at 1 January 2020	436,476,063	436,476,063
New assets originated or purchased	472,592,109	472,592,109
Assets repaid	(201,094,497)	(201,094,497)
At 31 December 2020	707,973,675	707,973,675

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
ECL as at 1 January 2020	2,593,195	2,593,195
New assets originated or purchased	870,474	870,474
Assets repaid	(299,699)	(299,699)
Changes to models and inputs used for ECL calculations	274,942	274,942
At 31 December 2020	3,438,912	3,438,912

13. Financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Assets		
Debt and other fixed-income instruments in foreign currency		
Foreign bonds	720,994,527	825,951,385
Foreign money market instruments	13,570,747	104,520,482
Total financial instruments at fair value through profit or loss in foreign currency	734,565,274	930,471,867

As at 31 December 2021 and 31 December 2020 foreign securities at fair value include:

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Government bonds	607,008,850	737,180,656
Other securities	113,985,677	88,770,729
Total	720,994,527	825,951,385

Debt securities at fair value through profit or loss are quoted US treasury bills and securities issued by governments of European countries, foreign banks and other financial institutions.

14. Derivative financial instruments

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Derivative financial assets		
Foreign currency swap contracts in foreign market	445,057	–
Total derivative financial assets	445,057	–
Derivative financial liabilities		
Foreign currency swap contracts in local market	–	70,825
Foreign currency swap contracts in foreign market	–	66,743
Foreign currency futures contracts in foreign market	–	5,553
Total derivative financial liabilities	–	143,121

15. Investment securities

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Financial assets measured at fair value through other comprehensive income in foreign currency		
Equity investments – unquoted		
Foreign securities	2,567,512	2,615,495
SWIFT	3,736	3,211
Total equity investments	2,571,248	2,618,706
Debt instruments		
Corporate bonds in foreign currency	787,898	840,759
Total debt investments	787,898	840,759
Total financial assets measured at fair value through other comprehensive income in foreign currency	3,359,146	3,459,465
Financial assets measured at fair value through other comprehensive income in domestic currency		
Debt instruments		
Securities of the Government of the Republic of Armenia	9,680,244	11,578,230
Promissory note of the Government (Note 25)	15,776,447	66,055,949
Total debt instruments	25,456,691	77,634,179
Equity investments		
Other investments	950,369	909,514
Total equity investments	950,369	909,514
Total financial assets measured at fair value through other comprehensive income in domestic currency	26,407,060	78,543,693
Total financial assets measured at fair value through other comprehensive income	29,766,206	82,003,158

As at 31 December 2021 and 31 December 2020 within foreign securities there are equity securities classified as financial assets measured at fair value through other comprehensive income in foreign currency, which represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

As at 31 December 2021 and 31 December 2020 debt securities denominated in domestic currency and classified as financial assets measured at fair value through other comprehensive income in domestic currency represent coupon securities issued by the Government of the Republic of Armenia. As at 31 December 2021 and 31 December 2020 debt securities denominated in foreign currency and classified as financial assets measured at fair value through other comprehensive income in foreign currency represent coupon securities issued by one of Armenian banks.

Debt investment securities are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

As at 31 December 2021 carrying value of a non-interest bearing on-demand promissory note issued by the Government amounts to AMD 15,776,447 thousand (2020: AMD 66,055,949 thousand). The management believes that the carrying amount of the promissory note approximates its fair value (Note 25).

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2021	11,578,230	11,578,230
Assets repaid	(1,897,986)	(1,897,986)
At 31 December 2021	9,680,244	9,680,244
<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2021	58,589	58,589
Assets repaid	(833)	(833)
Changes to models and inputs used for ECL calculations	(10,980)	(10,980)
At 31 December 2021	46,776	46,776

15. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2020	13,189,425	13,189,425
New assets originated or purchased	23,853	23,853
Assets repaid	(1,635,048)	(1,635,048)
At 31 December 2020	11,578,230	11,578,230

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2020	34,320	34,320
New assets originated or purchased	132	132
Assets repaid	(4,133)	(4,133)
Changes to models and inputs used for ECL calculations	28,270	28,270
At 31 December 2020	58,589	58,589

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
Gross carrying value as at 1 January 2021	840,759	840,759
Assets repaid	(52,861)	(52,861)
At 31 December 2021	787,898	787,898

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
ECL as at 1 January 2021	14,386	14,386
Assets repaid	(1,169)	(1,169)
Changes to models and inputs used for ECL calculations	(9,508)	(9,508)
At 31 December 2021	3,709	3,709

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
Gross carrying value as at 1 January 2020	761,584	761,584
New assets originated or purchased	79,175	79,175
At 31 December 2020	840,759	840,759

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
ECL as at 1 January 2020	6,973	6,973
New assets originated or purchased	1,335	1,335
Changes to models and inputs used for ECL calculations	6,078	6,078
At 31 December 2020	14,386	14,386

16. Operations with the International Monetary Fund

Assets due from the IMF

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Placements with the IMF		
Membership quota in the IMF (subscription)	86,553,600	96,943,896
SDR holdings in the IMF	15,768,985	4,690,218
Accrued interest	2,340	2,834
Total placements with the IMF	102,324,925	101,636,948

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The 75% of the quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory note issued to the IMF by the Bank. As at 31 December 2021 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 86,553,600 thousand at the year-end official exchange rate of Armenian Dram to SDR (2020: SDR 128,800 thousand or AMD 96,943,896 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

Movements in SDR holdings account during the years ended 31 December 2021 and 31 December 2020 were as follows:

<i>In thousands of Armenian Drams</i>	2021	2020
Balance of SDR holdings as at 1 January	4,690,218	2,953,756
Addition of SDRs	18,734,000	40,947,302
Receipt of funds from the IMF under SDR allocation	85,764,963	–
Repayment of loans to the IMF:		
<i>On behalf of the Bank:</i>		
PRGT	(4,367,883)	(4,476,013)
EFF	(19,397,999)	(19,595,543)
<i>On behalf of the Government:</i>		
PRGT	(11,690,295)	(16,150,746)
Other income	247,999	9,701
Other fees	(87,917)	(764)
Conversion of SDRs into other foreign currencies:	(56,001,520)	–
Payment of interest for use of the IMF resources:		
<i>On behalf of the Bank</i>	(1,037,794)	(1,243,503)
Payment of interest for use of funds received under SDR allocation	(47,785)	(182,800)
Income on SDR holdings	9,486	16,791
Translation differences	(1,046,488)	2,412,037
Balance of SDR holdings as at 31 December	15,768,985	4,690,218

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

Liabilities due to the IMF

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Securities account	95,000,000	95,000,000
Adjustment account for AMD liabilities to the IMF	(15,824,803)	23,091,131
Account 1	53,835,743	51,438,805
Account 2	2,908	2,547
SDR allocation	142,086,112	66,226,424
ECF:	6,034,560	11,515,851
Carrying value	5,973,437	11,315,776
Deferred income	61,123	200,075
Interest accrued	144,122	221,810
Total liabilities due to the IMF	281,278,642	247,496,568

16. Operations with the International Monetary Fund (continued)

Liabilities due to the IMF (continued)

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2021 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 95,000,000 thousand (31 December 2020: AMD 95,000,000 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2021 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2021 the ECF bears no interest (2020: 0%). The loans outstanding as at 31 December 2021 mature in June 2022 – June 2023 (31 December 2020: June 2021 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2021 mature in March 2022 – June 2027 (31 December 2020: March 2021 – June 2027).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

17. Property and equipment

<i>In thousands of Armenian Drams</i>	<i>Land and buildings</i>	<i>Networks, computer and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Right of use assets</i>	<i>Total</i>
Cost						
Balance as at 1 January 2020	74,617,473	23,734,800	627,387	222,315	505,694	99,707,669
Additions	–	515,241	–	189,795	30,051	735,087
Disposals and write-off	(2,171,743)	(1,391,037)	(10,138)	–	(1,774)	(3,574,692)
Balance as at 31 December 2020	72,445,730	22,859,004	617,249	412,110	533,971	96,868,064
Additions	3,531	1,182,799	–	189,293	29,241	1,404,864
Disposals	(62,462)	(53,508)	(22,898)	–	(11,791)	(150,659)
Balance as at 31 December 2021	72,386,799	23,988,295	594,351	601,403	551,421	98,122,269
Depreciation						
Balance as at 1 January 2020	18,707,938	14,744,855	475,080	–	99,861	34,027,734
Charge for the period	2,199,854	1,064,349	36,376	–	99,548	3,400,127
Disposals and write-off	(750,703)	(1,052,387)	(9,327)	–	(355)	(1,812,772)
Balance as at 31 December 2020	20,157,089	14,756,817	502,129	–	199,054	35,615,089
Charge for the period	1,440,280	974,281	28,309	–	101,170	2,544,040
Disposals	(9,169)	(38,524)	(21,752)	–	(6,590)	(76,035)
Balance as at 31 December 2021	21,588,200	15,692,574	508,686	–	293,634	38,083,094
Carrying amount						
At 31 December 2021	50,798,599	8,295,721	85,665	601,403	257,787	60,039,175
At 31 December 2020	52,288,641	8,102,187	115,120	412,110	334,917	61,252,975

As a result of large-scale military operations provoked by Azerbaijan in fall 2020 the Bank has written off property and equipment with the carrying amount of AMD 1,415,090 thousand.

18. Intangible assets

<i>In thousands of Armenian Drams</i>	Computer software	Contracts in progress	Total
Cost			
Balance as at 1 January 2020	4,881,612	1,108,675	5,990,287
Additions	335,568	–	335,568
Disposals	(827)	–	(827)
Balance as at 31 December 2020	5,216,353	1,108,675	6,325,028
Additions	211,620	11,937	223,557
Disposals	(203)	–	(203)
Balance as at 31 December 2021	5,427,770	1,120,612	6,548,382
Amortisation			
Balance as at 1 January 2020	2,969,543	–	2,969,543
Charge for the period	458,623	–	458,623
Disposals	(197)	–	(197)
Balance as at 31 December 2020	3,427,969	–	3,427,969
Charge for the period	332,560	–	332,560
Disposals	(63)	–	(63)
Balance as at 31 December 2021	3,760,466	–	3,760,466
Carrying amount			
At 31 December 2021	1,667,304	1,120,612	2,787,916
At 31 December 2020	1,788,384	1,108,675	2,897,059

19. Other assets in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Numismatic coins	5,705,061	6,563,894
Prepayments and receivables	1,991,843	2,246,227
Other	1,104,724	1,262,214
Total other assets	8,801,628	10,072,335

20. Deposits and accounts of financial and other institutions

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	641,916,757	483,273,909
Current accounts of related parties	1,395,425	304,266
Current accounts of other legal entities	12,095,954	24,695,093
Total foreign currency liabilities	655,408,136	508,273,268
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	409,551,545	299,345,038
Current accounts and term deposit of related parties	2,374,703	9,464,497
Current accounts of other legal entities	1,704,136	1,591,372
Total domestic currency liabilities	413,630,384	310,400,907
Total deposits and accounts of financial and other institutions	1,069,038,520	818,674,175

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2021 two counterparty banks had balances, individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions, amounting to AMD 463,986,308 thousand (31 December 2020: two banks with total balance of AMD 335,788,998 thousand).

21. Other borrowed funds

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Due to the KfW	74,159,671	68,130,265
Due to the EIB	68,981,755	60,195,486
Due to the World Bank	18,362,703	20,968,206
Due to the ADB	6,167,498	7,288,058
Other	7,728,150	4,003,625
Total other borrowed funds	175,399,777	160,585,640

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2022 to 2048 (31 December 2020: from 2021 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2022 to 2035 (31 December 2020: from 2021 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2022 to 2044 (31 December 2020: from 2021 to 2044).

The loan due to the EIB is provided by the European Investment Bank for financing agriculture and tourism sectors through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2022 to 2031 (31 December 2020: from 2021 to 2030).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2022 till 2034 (31 December 2020: from 2021 to 2025). As at 31 December 2021 the balance outstanding under this loan facility is AMD 7,728,150 thousand (31 December 2020: AMD 4,003,625 thousand).

22. Other liabilities in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Other liabilities in domestic currency		
Payables	2,810,006	2,305,013
Demand deposits of employees	–	1,103,853
Other liabilities	1,136,263	1,112,953
Total other liabilities in domestic currency	3,946,269	4,521,819

23. Due to the Government of the Republic of Armenia

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Foreign currency liabilities		
Current accounts of the Government	1,626,616	1,506,451
Total foreign currency liabilities	1,626,616	1,506,451
Domestic currency liabilities		
Term deposits	380,967,925	202,637,377
Current accounts of the Government	21,015,863	62,398,287
Total domestic currency liabilities	401,983,788	265,035,664
Total due to the Government of the Republic of Armenia	403,610,404	266,542,115

Term deposits of the Government have maturity of less than 4 months and interest rate is ranging from 7.34% to 7.87% (31 December 2020: from 4.93% to 5.64%).

24. Debt securities issued

As at 31 December 2021 the subsidiary company of the Group had in issue coupon bonds with AMD 9,500,000 thousand par value and 3 years maturity (31 December 2020: coupon bonds with AMD 9,500,000 thousand par value and 3 years maturity).

As at 31 December 2021 the average annual yield on these bonds is from 7.25% to 8.50% (31 December 2020: from 7.25% to 8.30%). The carrying value of the issued bonds as at 31 December 2021 is AMD 9,650,642 thousand (31 December 2020: AMD 9,655,324 thousand).

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

The size of the capital is established by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations. Promissory Note issued by the Government represents a contribution made by the Government by the way of issuing a non-interest bearing on demand promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Group exceed the aggregate amount of its reserves.

According to the Law, during 2021 the profit for the financial year of 2020 has been allocated in the following way:

- ▶ 20% to the general reserve;
- ▶ 80% to the promissory note issued by the Government.

As a result the Government has issued new non-interest bearing promissory note at the amount of AMD 15,776,447 (2020: AMD 66,055,949 thousand). Profit allocation and issue of the new promissory note were non-cash transactions.

Revaluation reserve for financial assets measured at fair value through other comprehensive income in the amount of AMD 1,767,743 thousand (positive effect) as at 31 December 2021 (31 December 2020: AMD 2,626,918 thousand (positive effect)) represents difference between the fair value of the Group's financial assets measured at fair value through other comprehensive income as at the reporting date and their fair value at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2021 related to the Group's non-current assets amount to AMD 655,561 thousand (31 December 2020: AMD 542,276 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

<i>In thousands of Armenian Drams</i>	2021	2020
Key management including the Board members	355,836	316,936
Total	355,836	316,936

Total amount of loans issued to the members of the key management outstanding as at 31 December 2021 is AMD 185,344 thousand (31 December 2020: AMD 240,704 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2021 is nil (31 December 2020: AMD 116,533 thousand). During the year ended 31 December 2021 the Group recognized interest expenses in amount of AMD 3,530 thousand and interest income in amount of AMD 7,649 thousand from the transactions with the key management (31 December 2020: AMD 19,622 thousand and AMD 7,123 thousand). Since 1 April 2021 Bank has ceased the attraction deposits from employees.

Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2021		31 December 2020	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income (Note 15)	9,680,244	11.46%	11,578,230	11.5%
	9,680,244		11,578,230	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	66,055,949		73,810,843	
Profit distribution	(50,279,502)		(7,754,894)	
Balance at 31 December	15,776,447		66,055,949	
Assets at 31 December	25,456,691		77,634,179	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	401,983,788	6.18%	265,035,664	4.9%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,626,616		1,506,451	
Liabilities at 31 December	403,610,404		266,542,115	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

<i>In thousands of Armenian Drams</i>	2021	2020
Balance at 1 January	202,637,377	285,000,475
Additions	1,859,000,000	1,477,000,000
Interest charge	29,876,634	16,787,029
Redemption (including interest payment)	(1,710,546,086)	(1,576,150,127)
Balance at 31 December	380,967,925	202,637,377

27. Related party transactions (continued)

Transactions with the Government of the Republic of Armenia (continued)

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Government are as follows:

<i>In thousands of Armenian Drams</i>	2021	2020
Consolidated statement of comprehensive income		
Interest income from Government securities (Note 4)	1,056,269	1,271,924
Interest expense (Note 5)	(30,153,372)	(16,914,428)
Net foreign exchange loss	(568,889)	(660,013)
Net loss on forward contract with the Government (Note 7)	–	(3,461,039)

Transactions with other related parties

The information in the tables below relates to the balances and results of transactions with the entities, in the governing body of which the Bank has its representatives.

<i>In thousands of Armenian Drams</i>	31 December 2021		31 December 2020	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Current accounts and term deposits (domestic currency) (Note 20)	2,374,703	7.75%	9,464,497	5.25%
Current accounts (foreign currency) (Note 20)	1,395,425	0.0%	304,266	0.0%
Total	3,770,128		9,768,763	

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

<i>In thousands of Armenian Drams</i>	31 December 2021	31 December 2020
Cash	44,555,290	51,108,237
Nostro accounts (Note 12)	750,194,375	380,277,935
SDR holdings in the IMF (Note 16)	15,768,985	4,690,218
Total cash and cash equivalents	810,518,650	436,076,390

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

In thousands of Armenian Drams	31 December 2021				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
Government bonds (Note 13)	607,008,850	-	-	607,008,850	737,180,656	-	-	737,180,656
Other securities (Note13)	113,985,677	-	-	113,985,677	88,770,729	-	-	88,770,729
Money market instruments (Note13)	-	13,570,747	-	13,570,747	-	104,520,482	-	104,520,482
Derivative financial assets								
Foreign currency swap contracts in foreign market (Note 14)	-	445,057	-	445,057	-	-	-	-
Investment securities measured at fair value through other comprehensive income								
Foreign securities (Note15)	264,479	2,303,033	-	2,567,512	285,955	2,329,540	-	2,615,495
Securities of the Government of the Republic of Armenia (Note15)	-	9,680,244	-	9,680,244	-	11,578,230	-	11,578,230
Promissory note issued by the Government (Note15)	-	15,776,447	-	15,776,447	-	66,055,949	-	66,055,949
Corporate bonds in foreign currency (Note15)	-	787,898	-	787,898	-	840,759	-	840,759
Total assets with recurring fair value measurements	721,259,006	42,563,426	-	763,822,432	826,237,340	185,324,960	-	1,011,562,300

In thousands of Armenian Drams	31 December 2021				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value								
Derivative financial liabilities								
Foreign currency futures contracts in foreign market (Note14)	-	-	-	-	5,553	-	-	5,553
Foreign currency swap contracts in local market (Note14)	-	-	-	-	-	-	70,825	70,825
Foreign currency swap contracts in foreign market (Note14)	-	-	-	-	-	66,743	-	66,743
Total liabilities with recurring fair value measurements	-	-	-	-	5,553	66,743	70,825	143,121

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2021:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note 13)	13,570,747	DCF	BIS interest rate
Derivative financial assets			
Foreign currency swap contracts in foreign market (Note 14)	445,057	DCF	USD OIS curve, FX spot rates, FX forward points
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15)	2,303,033	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note 15)	787,898	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	9,680,244	DCF	Government bonds yield curve
Promissory note issued by the Government (Note 15)	15,776,447	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	42,563,426		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note 13)	104,520,482	DCF	BIS interest rate
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15)	2,329,540	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note 15)	840,759	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	11,578,230	DCF	Government bonds yield curve
Promissory note issued by the Government (Note 15)	66,055,949	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	185,324,960		

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Liabilities carried at fair value			
Financial liabilities			
Derivative financial liabilities			
Foreign currency swap contracts in foreign market (Note 14)	66,743	DCF	USD OIS curve, FX spot rates, FX forward points
Total recurring fair value measurements at Level 2	66,743		

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The Group has not level 3 instruments as at 31 December 2021. The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2020:

<i>In thousands of Armenian Drams</i>	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities (swap)	70,825	DCF	AMD risk-free rate	5.83%	+110/-110 b.p.	(5,586)/5,318

The above tables disclose sensitivity to valuation inputs for derivative financial liabilities and derivative financial assets, if changing one or more of the unobservable inputs to reflect whether reasonably possible alternative assumptions would change fair value significantly. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of financial assets not measured at fair value are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2021		31 December 2020	
	Level 2	Carrying value	Level 2	Carrying value
Financial assets				
Placements with banks and other financial institutions in foreign currency				
Nostro accounts	750,194,375	750,193,434	380,277,935	380,276,878
Term deposits	13,352,882	12,767,492	4,257,941	4,104,824
Margin requirements of derivatives	675,167	675,167	637,304	637,304
Placements and investments with banks and other financial institutions in domestic currency				
Repurchase agreements and other overnight facilities	485,415,041	485,415,041	345,952,769	345,952,769
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	186,319,534	182,783,075	142,528,780	138,082,116
Mortgage refinancing	135,970,476	134,640,720	106,708,374	106,346,889
Deposits and current accounts placed in commercial banks	77,167,979	76,779,821	87,282,360	86,772,875
Other loans and investments	25,444,239	27,216,688	25,785,975	27,380,114
Total	1,674,539,693	1,670,471,438	1,093,431,438	1,089,553,769

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

29. Fair value of financial instruments (continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2021		31 December 2020	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
Current accounts of the Government	1,626,616	1,626,616	1,506,451	1,506,451
Domestic currency liabilities				
Current accounts of the Government	21,015,863	21,015,863	62,398,287	62,398,287
Term deposits	380,868,422	380,967,925	202,564,143	202,637,377
Debt securities issued	9,445,345	9,650,642	9,657,601	9,655,324
Total	412,956,246	413,261,046	276,126,482	276,197,439

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, assessment, treatment, monitoring and reporting, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is responsible for the risk exposures relating to his or her duties. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

The Board is ultimately accountable for risk management; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board

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

Institutional framework

International reserves of the Republic of Armenia are the Bank's claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Group. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

The Bank has a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

30. Risk management (continued)

Administration and control

According to the Bank's structure, the Financial Markets Directorate is responsible for Armenia's international reserves management. The Financial Operations Department is in charge of operations related to day-to-day management of reserves. The Risk Management Department is responsible for risk assessment, providing support for development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a monthly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairman. The Risk Management Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and makes that information publicly available.

Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of adequate liquidity and security of reserves while ensuring of profit maximisation. For this purpose, the Risk Management Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Group evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price formula which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

Derivative financial instruments

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

Maximum credit risk without collateral or other credit enhancement

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

30. Risk management (continued)

Credit quality per class of financial assets

Financial assets of the Group, except equity investments are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

		31 December 2021		31 December 2020	
<i>In thousands of Armenian Drams</i>	<i>Credit rating</i>	<i>Amount</i>	<i>% in financial assets</i>	<i>Amount</i>	<i>% in financial assets</i>
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
Nostro accounts	P-1	748,913,779	98.1	378,347,677	98.3
	P-2	328,979	0.1	124,129	0.0
	P-3	650,510	0.1	1,055,570	0.3
	NP	169,020	0.0	680,551	0.2
	Unrated	132,087	0.0	70,008	0.0
Term deposits	P-1	4,801,854	0.6	–	–
	Unrated	960,656	0.1	1,310,245	0.3
	NP	7,112,725	0.9	2,863,189	0.7
Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	675,167	0.1	637,304	0.2
Impairment allowance		(108,684)		(69,667)	
Total placements with banks and other financial institutions in foreign currency		763,636,093	100.0	385,019,006	100.0
Financial instruments at fair value through profit and loss					
Government bonds	Aaa	524,663,535	71.4	651,746,838	70.0
	Aa1-Aa3	82,345,315	11.2	85,433,818	9.0
Other securities	Aaa	111,528,216	15.2	88,770,729	10.0
	Aa1-Aa3	2,457,461	0.4	–	–
Money market instruments	Unrated*	13,570,747	1.8	104,520,482	11.0
Total financial instruments at fair value through profit and loss		734,565,274	100.0	930,471,867	100.0
Financial assets measured at fair value through other comprehensive income, excluding equity investments					
Securities of the Government of the Republic of Armenia	B1	9,680,244	36.9	11,578,230	14.7
Promissory note issued by the Government	B1	15,776,447	60.1	66,055,949	84.2
Corporate bonds in foreign currency	Unrated	787,898	3.0	840,759	1.1
Total financial assets measured at fair value through other comprehensive income, excluding equity investments		26,244,589	100.0	78,474,938	100.0

* As at 31 December 2021 and 31 December 2020 money market instruments included in the unrated credit category represent securities issued by the Bank for International Settlements.

30. Risk management (continued)

Credit quality per class of financial assets (continued)

As at 31 December 2021 current accounts and term deposits included in the unrated credit rating category amounting to AMD 123,131 thousand and AMD 960,656 thousand respectively (31 December 2020: AMD 62,886 and 1,310,245 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

		31 December 2021		31 December 2020	
<i>In thousands of Armenian Drams</i>	<i>Credit rating</i>	<i>Amount</i>	<i>% in financial assets</i>	<i>Amount</i>	<i>% in financial assets</i>
Placements and investments with banks and other financial institutions in domestic currency					
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	14,064,179	7.6	13,204,400	9.4
	Not due at the date of authorisation of the consolidated financial statements for issue	171,703,701	92.4	127,642,775	90.6
Total		185,767,880	100.0	140,847,175	100.0
Mortgage refinancing	Settled after the end of the reporting period	2,780,012	2.1	5,442,659	5.1
	Not due at the date of authorisation of the consolidated financial statements for issue	131,896,310	97.9	100,934,357	94.9
Total		134,676,322	100.0	106,377,016	100.0
Deposits and current accounts in commercial banks	Settled after the end of the reporting period	39,834,458	51.6	13,993,998	16.0
	Not due at the date of authorisation of the consolidated financial statements for issue	37,333,521	48.4	73,288,362	84.0
Total		77,167,979	100.0	87,282,360	100.0
Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	485,415,041	100.0	345,952,769	100.0
Total		485,415,041	100.0	345,952,769	100.0
Investments measured at amortised cost	Settled after the end of the reporting period	2,951,878	12.1	547,614	2.3
	Not due at the date of authorisation of the consolidated financial statements for issue	21,355,072	87.9	23,757,798	97.7
Total		24,306,950	100.0	24,305,412	100.0
Other loans		3,012,901	100.0	3,208,943	100.0
Total		3,012,901	100.0	3,208,943	100.0
Impairment allowance		(3,511,728)		(3,438,912)	
Total placements and investments with banks and other financial institutions in domestic currency		906,835,345	–	704,534,763	–

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

30. Risk management (continued)

Impairment assessment

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

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

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

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

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

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when the counterparty's rating downgrades lower than the rating predefined by the Group. Regardless of the change in credit grades in all cases when the borrower becomes 90 days past due on its contractual payments, financial instrument is considered as defaulted.

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

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ The borrower requesting emergency funding from the Group;
- ▶ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- ▶ A covenant breach not waived by the Group;
- ▶ The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- ▶ Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

30. Risk management (continued)

Impairment assessment (continued)

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the 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.

PD estimation process

For the counterparties that have ratings assigned by the international rating agencies Annual Transition Matrix of Moody's rating company is used.

For the counterparties that do not have ratings assigned by the international rating agencies the probability of default is assessed based on internal Financial Stability Index using extrapolation of rated counterparties' probability of default.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Loss given default

For each group of financial assets the recovery rates corresponding to the debt seniority status of respective financial instruments (Moody's) or recovery rates of the country of domicile (IMF) are used to calculate the LGD rate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the counterparty's credit rating has changed since initial recognition pursuant to the internal principles of risk management.

The assessment of significant increase in credit risk for exposures of local commercial banks and financial institutions, with no international credit ratings, is based on performance of individual exposure and overall financial stability index of commercial banks and financial institutions. Macro prudential analysis on systemic risk dimensions consist another tool to consider the feasibility to reclassify certain asset from Stage 1 to Stage 2.

Regardless of the change in credit grades the credit risk is deemed to have increased significantly since initial recognition if contractual payments are more than 30 days past due.

Forward-looking information and multiple economic scenarios

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

- ▶ GDP growth;
- ▶ Unemployment rates;
- ▶ CPI;
- ▶ International reserves;
- ▶ Monetary policy rate;
- ▶ Equity Index Price;
- ▶ Foreign exchange rates;
- ▶ Credit/GDP ratio;
- ▶ Other macroeconomic factors depending on the specificities of each country.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

30. Risk management (continued)

Offsetting financial assets and financial liabilities

As at 31 December 2021 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions.

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the consolidated statement of financial position:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
<i>In thousands of Armenian Drams</i>					
31 December 2021					
Financial assets					
Repurchase agreements and other overnight facilities (Note 12)	485,415,041	–	485,415,041	485,415,041	–
Total	485,415,041	–	485,415,041	485,415,041	–

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
<i>In thousands of Armenian Drams</i>					
31 December 2020					
Financial assets					
Repurchase agreements and other overnight facilities (Note 12)	345,952,769	–	345,952,769	345,952,769	–
Total	345,952,769	–	345,952,769	345,952,769	–

The geographical concentration of the Group's assets and liabilities is set out below:

	31 December 2021				31 December 2020			
<i>In thousands of Armenian Drams</i>	<i>Armenia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>	<i>Armenia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Assets								
Cash	44,555,290	–	–	44,555,290	51,108,237	–	–	51,108,237
Placements with banks and other financial institutions in foreign currency	8,137,991	749,837,479	5,660,623	763,636,093	4,325,169	379,108,638	1,585,199	385,019,006
Placements and investments with banks and other financial institutions in domestic currency	906,835,345	–	–	906,835,345	704,534,763	–	–	704,534,763
Financial instruments at fair value through profit or loss	–	734,565,274	–	734,565,274	–	930,471,867	–	930,471,867
Derivative financial assets	–	445,057	–	445,057	–	–	–	–
Financial assets measured at fair value through other comprehensive income	27,194,958	2,571,248	–	29,766,206	79,384,452	2,618,706	–	82,003,158
Placements with the IMF	–	102,324,925	–	102,324,925	–	101,636,948	–	101,636,948
Property and equipment and intangible assets	62,827,091	–	–	62,827,091	64,150,034	–	–	64,150,034
Other assets	8,801,628	56,963	111,845	8,970,436	10,072,335	71,109	111,845	10,255,289
Total assets	1,058,352,303	1,589,800,946	5,772,468	2,653,925,717	913,574,990	1,413,907,268	1,697,044	2,329,179,302
Liabilities								
Notes and coins in circulation	747,165,753	–	–	747,165,753	751,465,873	–	–	751,465,873
Deposits and accounts of financial and other institutions	1,068,258,568	18,692	761,260	1,069,038,520	818,064,536	18,545	591,094	818,674,175
Derivative financial liabilities	–	–	–	–	70,825	72,296	–	143,121
Due to the Government	403,610,404	–	–	403,610,404	266,542,115	–	–	266,542,115
Due to the IMF	–	281,278,642	–	281,278,642	–	247,496,568	–	247,496,568
Other borrowed funds	–	169,232,279	6,167,498	175,399,777	–	153,297,582	7,288,058	160,585,640
Debt securities issued	9,650,642	–	–	9,650,642	9,655,324	–	–	9,655,324
Other liabilities	4,090,311	1,001,731	62,502	5,154,544	4,678,594	639,968	646,189	5,964,751
Total liabilities	2,232,775,678	451,531,344	6,991,260	2,691,298,282	1,850,477,267	401,524,959	8,525,341	2,260,527,567
Net assets	(1,174,423,375)	1,138,269,602	(1,218,792)	(37,372,565)	(936,902,277)	1,012,382,309	(6,828,297)	68,651,735

30. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2021 and 31 December 2020 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

31 December 2021							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	747,165,753	–	–	–	–	–	747,165,753
Deposits and accounts of financial and other institutions	1,069,039,528	–	–	–	–	–	1,069,039,528
Due to the Government	90,925,269	204,539,724	113,015,840	–	–	–	408,480,833
Due to the IMF	–	860,209	19,366,437	33,005,057	916,679	228,580,750	282,729,132
Other borrowed funds	652,008	58,168	19,240,039	83,624,141	84,696,873	–	188,271,229
Debt securities issued	–	127,500	4,107,500	6,491,250	–	–	10,726,250
Total non-discounted financial liabilities	1,907,782,558	205,585,601	155,729,816	123,120,448	85,613,552	228,580,750	2,706,412,725

31 December 2020							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	751,465,873	–	–	–	–	–	751,465,873
Deposits and accounts of financial and other institutions	818,702,938	–	–	–	–	–	818,702,938
Derivative financial liabilities	143,121	–	–	–	–	–	143,121
Due to the Government	95,790,052	172,005,247	–	–	–	–	267,795,299
Due to the IMF	–	1,056,590	25,383,822	59,452,305	993,657	163,080,453	249,966,827
Other borrowed funds	543,943	63,310	21,748,095	80,357,139	72,192,146	–	174,904,633
Debt securities issued	–	3,124,500	480,000	7,088,750	–	–	10,693,250
Total non-discounted financial liabilities	1,666,645,927	176,249,647	47,611,917	146,898,194	73,185,803	163,080,453	2,273,671,941

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios.

30. Risk management (continued)

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.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black-Litterman and Markowitz models with certain constraints are used.

For monitoring and managing risk, the Risk Management Department within the Financial Markets Directorate uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2021 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousands of Armenian Drams</i>	2021		2020	
	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>
Currency				
AMD	+150	(648,874)	+110	(587,436)
AMD	-150	725,697	-110	642,517
USD	+125	(8,987)	+100	14,433
USD	-25	(12,347)	-25	1,353

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2021 and 31 December 2020, based on the assumption of changing interest rates. Amounts included in the table below are disclosed in the presentation currency.

	2021		2020	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>
Currency				
USD	+125/-50	(5,741,909)/2,296,763	+100/-40	(4,151,813)/1,660,725
EUR	+50/-50	(442,904)/442,904	+60/-60	(651,992)/651,992
GBP	+125/-125	(121,132)/121,132	+80/-80	(86,624)/86,624

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2021 and 31 December 2020.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2021 and 31 December 2020 based on the assumption of changing interest rates on borrowings obtained by the Group:

<i>In thousands of Armenian Drams</i>	2021		2020	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/ (increase) of equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/ (increase) of equity</i>
Currency				
USD	+/-202	393,156/(393,156)	+/-252	658,102/(658,102)
SDR	+/-6	38,803/(38,803)	+/-70	617,372/(617,372)
EUR	+/-20	20,030/(20,030)	+/-20	1,044/(1,044)

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

30. Risk management (continued)

Interest rate risk (continued)

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. During 2021, the Group has in place detailed plans, processes and procedures to support the transition.

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

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

The table below shows the Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

<i>In thousands of Armenian Drams</i>	2021			2020		
	<i>Non-derivative financial assets – carrying value</i>	<i>Non-derivative financial liabilities carrying value</i>	<i>Derivatives nominal amount</i>	<i>Non-derivative financial assets – carrying value</i>	<i>Non-derivative financial liabilities carrying value</i>	<i>Derivatives nominal amount</i>
LIBOR USD (6 months)	–	26,494,515	–	–	25,581,277	–
Total	–	26,494,515	–	–	25,581,277	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board sets the clear principles of currency allocation, whereas the Investment Committee determines and revises the actual weights of respective currencies.

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

<i>In thousands of Armenian Drams</i>	2021		2020	
	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
Currency				
USD	5.00%	26,849,747	5.00%	24,889,215
EUR	8.50%	9,699,867	8.50%	13,728,477
GBP	11.00%	2,742,257	11.00%	3,025,918
JPY	8.50%	3,262,333	8.50%	2,731,413
RUB	15.00%	18,856	16.00%	(25,649)
SDR	7.00%	(12,958,510)	7.00%	(10,720,337)

<i>In thousands of Armenian Drams</i>	2021		2020	
	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
Currency				
USD	-5.00%	(26,849,747)	-5.00%	(24,889,215)
EUR	-8.50%	(9,699,867)	-8.50%	(13,728,477)
GBP	-11.00%	(2,742,257)	-11.00%	(3,025,918)
JPY	-8.50%	(3,262,333)	-8.50%	(2,731,413)
RUB	-15.00%	(18,856)	-16.00%	25,649
SDR	-7.00%	12,958,510	-7.00%	10,720,337

The expected change in the exchange rates was determined by the Group by analysing annual standard deviations based on the historical market data of respective exchange rates.

30. Risk management (continued)

Currency risk (continued)

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Currently Armenia's foreign public debt is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- ▶ Participation in the shareholders' meetings;
- ▶ Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries);
- ▶ Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries;
- ▶ Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate;
- ▶ Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

<i>In thousands of Armenian Drams</i>	31 December 2021		
	Current	Non-current	Total
Assets			
Cash	44,555,290	–	44,555,290
Placements with banks and other financial institutions in foreign currency	758,050,697	5,585,396	763,636,093
Financial instruments at fair value through profit or loss	734,565,274	–	734,565,274
Placements and investments with banks and other financial institutions in domestic currency	609,185,688	297,649,657	906,835,345
Derivative financial assets	445,057	–	445,057
Financial assets measured at fair value through other comprehensive income	16,835,743	12,930,463	29,766,206
Placements with the IMF	15,771,325	86,553,600	102,324,925
Property and equipment	–	60,039,175	60,039,175
Intangible assets	–	2,787,916	2,787,916
Other assets	7,974,277	996,159	8,970,436
Total assets	2,187,383,351	466,542,366	2,653,925,717
Liabilities			
Notes and coins in circulation	747,165,753	–	747,165,753
Deposits and accounts of other financial institutions	1,069,038,520	–	1,069,038,520
Due to the Government	403,610,404	–	403,610,404
Due to the IMF	19,719,485	261,559,157	281,278,642
Other borrowed funds	17,711,618	157,688,159	175,399,777
Debt securities issued	3,650,642	6,000,000	9,650,642
Other liabilities	4,448,518	706,026	5,154,544
Total liabilities	2,265,344,940	425,953,342	2,691,298,282
Net position as at 31 December 2021	(77,961,589)	40,589,024	(37,372,565)

31. Maturity analysis (continued)

<i>In thousands of Armenian Drams</i>	31 December 2020		
	Current	Non-current	Total
Assets			
Cash	51,108,237	–	51,108,237
Placements with banks and other financial institutions in foreign currency	382,189,873	2,829,133	385,019,006
Financial instruments at fair value through profit or loss	930,471,867	–	930,471,867
Placements and investments with banks and other financial institutions in domestic currency	475,937,559	228,597,204	704,534,763
Financial assets measured at fair value through other comprehensive income	67,531,128	14,472,030	82,003,158
Placements with the IMF	4,693,052	96,943,896	101,636,948
Property and equipment	–	61,252,975	61,252,975
Intangible assets	–	2,897,059	2,897,059
Other assets	9,237,744	1,017,545	10,255,289
Total assets	1,921,169,460	408,009,842	2,329,179,302
Liabilities			
Notes and coins in circulation	751,465,873	–	751,465,873
Deposits and accounts of other financial institutions	818,674,175	–	818,674,175
Derivative financial liabilities	143,121	–	143,121
Due to the Government	266,542,115	–	266,542,115
Due to the IMF	25,553,548	221,943,020	247,496,568
Other borrowed funds	19,824,309	140,761,331	160,585,640
Debt securities issued	3,155,324	6,500,000	9,655,324
Other liabilities	5,193,920	770,831	5,964,751
Total liabilities	1,890,552,385	369,975,182	2,260,527,567
Net position as at 31 December 2020	30,617,075	38,034,660	68,651,735

32. Changes in liabilities arising from financing activities

<i>In thousands of Armenian Drams</i>	Due to IMF	Other borrowed funds	Lease liabilities	Total liabilities from financing activities
Carrying amount at 1 January 2020	240,948,903	142,742,121	425,845	384,116,869
Loans received	–	14,258,245	–	14,258,245
Loans redeemed	(24,071,556)	(15,303,555)	–	(39,375,111)
Lease payments	–	–	(89,123)	(89,123)
Foreign currency translation	30,802,225	18,632,037	–	49,434,262
Other	(183,004)	256,792	30,050	103,838
Carrying amount at 31 December 2020	247,496,568	160,585,640	366,772	408,448,980
Carrying amount at 1 January 2021	247,496,568	160,585,640	366,772	408,448,980
Loans received	85,764,963	52,913,361	–	138,678,324
Loans redeemed	(23,765,882)	(17,831,775)	–	(41,597,657)
Lease payments	–	–	(96,838)	(96,838)
Foreign currency translation	(28,139,320)	(20,320,603)	–	(48,459,923)
Other	(77,687)	53,154	22,638	(1,895)
Carrying amount at 31 December 2021	281,278,642	175,399,777	292,572	456,970,991

The “Other” line includes the effect of accrued but not yet paid interest. The Group classifies interest paid as cash flows from operating activities.

The “Loans received” line includes the receipt of funds from the IMF under SDR allocation amounting AMD 85,764,963 thousand.

33. Events after the reporting period

In January 2022 one of the Group`s subsidiaries invested in the equity of one of the commercial banks of Armenia, acquiring 25.001959% of the shares.

As a result of geopolitical developments in the region and sanctions imposed by some countries on Russian Federation, the volatility in the financial markets and macroeconomic uncertainties have grown significantly both in the world and in Armenia. Under such circumstances the Central Bank monitors developments through multiple scenario analysis to assess the effect of changing economic conditions on its financial position and financial results.