ACBA Federation CJSC

Consolidated financial statements

Year ended 31 December 2021
together with independent auditor's report

Contents

Independent auditor's report

Consolidated financial statements

Notes to the consolidated financial statements

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Independent auditor's report

To the Shareholders and the Board of
ACBA Federation CJSC

Opinion

We have audited the consolidated financial statements of ACBA Federation CJSC (the Company) and its subsidiaries ACBA Bank OJSC, ACBA Leasing Credit Organization CJSC and ACBA Technologies CJSC (together, the Group), which comprise the consolidated statement of financial position as of 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2021, 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 ended 31 December 2021 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 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 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 scepticism throughout the audit. We also:

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

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

We communicate with the Board 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.

CJSC Ernst & Young
Yerevan, Armenia

Partner (Assurance) Marija Ignatjeva

General Director Eric Hayrapetyan

28 June 2022

Consolidated statement of financial position

As of 31 December 2021

(thousands of Armenian Drams)

	Notes	2021	2020
Assets			
Cash and cash equivalents	6	96,447,988	66,398,135
Trading securities	7	433,697	319,353
Derivative financial assets	8	38,625	250,207
Loans and advances to banks	9	19,619,083	57,171,584
Investment securities	10	23,994,829	17,405,067
Loans to customers	11	340,528,365	302,202,232
Receivables from finance leases	12	31,233,067	25,017,394
Investments in associates	35	1,218,677	984,442
Property, equipment and intangible assets	13	23,729,559	21,211,192
Other assets	16	10,727,098	5,318,983
Deferred tax assets	14	91,722	167,436
Total assets		**548,062,710**	**496,446,025**
Liabilities			
Derivative financial liabilities	8	–	79,893
Deposits and balances from banks		1,070,890	45,717
Current accounts and deposits from customers	17	336,550,246	296,742,238
Debt securities issued	18	5,068,908	8,439,060
Other borrowed funds	19	92,331,761	101,043,374
Current income tax liabilities		1,187,740	126,703
Deferred tax liabilities	14	1,296,678	680,497
Other liabilities	21	13,016,499	10,618,279
Subordinated loans	20	9,794,000	11,130,839
Total liabilities		**460,316,722**	**428,906,600**
Equity			
Share capital	22	22,312,000	22,312,000
Additional paid-in capital		26,038	–
Revaluation reserve for property and equipment		2,550,569	2,056,843
Revaluation reserve for investment securities		3,168,514	2,890,036
Retained earnings		45,296,832	36,755,091
Total equity attributable to shareholders of the parent		**73,353,953**	**64,013,970**
Non-controlling interests		14,392,035	3,525,455
Total equity		**87,745,988**	**67,539,425**
Total equity and liabilities		**548,062,710**	**496,446,025**

Signed and authorised for release on behalf of the Management of the Company

Harutyun Poghosyan General Director

Vahan Abrahamyan Chief Accountant

28 June 2022

The accompanying notes from 1 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2021

(thousands of Armenian Drams)

	Notes	2021	2020
Interest revenue calculated using effective interest rate	25	43,240,112	43,377,427
Other interest revenue	25	3,498,291	2,675,996
Interest expense	25	(21,353,781)	(20,345,640)
Net interest income		**25,384,622**	**25,707,783**
Reversal of credit loss expense / (credit loss expense)	15	228,883	(10,769,399)
Net interest income after credit loss expense		**25,613,505**	**14,938,384**
Fee and commission income	26	6,294,559	4,916,294
Fee and commission expense	26	(2,510,554)	(1,868,608)
Net gain/(loss) on financial instruments at fair value through profit and loss		560,811	(132,117)
Net foreign exchange gain	27	2,284,582	2,005,879
Share of profit of associates	35	579,024	399,958
Other income	28	3,022,604	1,568,004
Non-interest income		**10,231,026**	**6,889,410**
Personnel expenses		(14,983,392)	(10,957,106)
Depreciation and amortisation	13	(2,497,486)	(2,319,144)
Other operating expenses	29	(2,011,119)	(1,505,266)
Other general administrative expenses	30	(4,023,453)	(3,508,362)
(Charge for) / reversal of other impairment and provisions	16	(95,529)	49,975
Non-interest expense		**(23,610,979)**	**(18,239,903)**
Profit before income tax expense		**12,233,552**	**3,587,891**
Income tax expense	14	(2,803,449)	(1,049,286)
Profit for the year		**9,430,103**	**2,538,605**
Attributable to:			
- Shareholders of the parent		8,544,979	2,402,373
- Non-controlling interests		885,124	136,232
		9,430,103	**2,538,605**

The accompanying notes from 1 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

(thousands of Armenian Drams)

	Note	2021	2020
Profit for the year		**9,430,103**	**2,538,605**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income		(226,739)	258,888
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		304,374	92,348
Income tax relating to components of other comprehensive income	14	(13,974)	(63,222)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**63,661**	**288,014**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings and motor vehicles		1,165,549	–
(Losses)/Gains on equity instruments at fair value through other comprehensive income		(253,375)	597,001
Income tax relating to components of other comprehensive income	14	(73,356)	(107,460)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**838,818**	**489,541**
Share of the other comprehensive income of associates			
Not to be reclassified to profit or loss in subsequent periods		20,686	64,352
Total share of the other comprehensive income of associates		**20,686**	**64,352**
Other comprehensive income for the year, net of tax		**923,165**	**841,907**
Total comprehensive income for the year		**10,353,268**	**3,380,512**
Attributable to:			
- shareholders of the parent		9,328,097	3,202,185
- non-controlling interests		1,025,171	178,327
		10,353,268	**3,380,512**

The accompanying notes from 1 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(thousands of Armenian Drams)

	Attributable to shareholders of the Parent							
	Share capital	*Additional paid-in capital*	*Revaluation surplus for property and equipment*	*Revaluation reserve for financial assets at FVOCI*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 1 January 2020 (unaudited)	**22,312,000**	**–**	**2,119,398**	**2,090,224**	**34,290,163**	**60,811,785**	**3,432,128**	**64,243,913**
Total comprehensive income								
Profit for the year	–	–	–	–	2,402,373	**2,402,373**	136,232	**2,538,605**
Other comprehensive income	–	–	–	799,812	–	**799,812**	42,095	**841,907**
Total comprehensive income for the year	**–**	**–**	**–**	**799,812**	**2,402,373**	**3,202,185**	**178,327**	**3,380,512**
Transfer of revaluation surplus to retained earnings due to disposal of fixed assets	–	–	(62,555)	–	**62,555**	**–**	–	**–**
Transactions with owners, recorded directly in equity								
Dividends to non-controlling interests (Note 22)	–	–	–	–	–	**–**	(85,000)	**(85,000)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**(85,000)**	**(85,000)**
Balance as at 31 December 2020	**22,312,000**	**–**	**2,056,843**	**2,890,036**	**36,755,091**	**64,013,970**	**3,525,455**	**67,539,425**
Total comprehensive income								
Profit for the year	–	–	–	–	8,544,979	**8,544,979**	885,124	**9,430,103**
Other comprehensive income	–	–	504,640	278,478	–	**783,118**	140,047	**923,165**
Total comprehensive income for the year	**–**	**–**	**504,640**	**278,478**	**8,544,979**	**9,328,097**	**1,025,171**	**10,353,268**
Transfer of revaluation surplus to retained earnings due to disposal of fixed assets	–	–	(10,914)	–	**10,914**	**–**	–	**–**
Transactions with owners, recorded directly in equity								
Decrease in ownership in subsidiary (Note 22)	–	–	–	–	(429,456)	(429,456)	7,929,456	**7,500,000**
Dividends to non-controlling interests (Note 22)	–	–	–	–	–	–	(125,000)	**(125,000)**
Total transactions with owners	**–**	**–**	**–**	**–**	**(429,456)**	**(429,456)**	**7,804,456**	**7,375,000**
Share-based payments (Note 23)	–	26,038	–	–	415,304	**441,342**	2,036,953	**2,478,295**
Balance as at 31 December 2021	**22,312,000**	**26,038**	**2,550,569**	**3,168,514**	**45,296,832**	**73,353,953**	**14,392,035**	**87,745,988**

The accompanying notes from 1 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

(thousands of Armenian Drams)

	Notes	2021	2020
Cash flows from operating activities			
Interest received		46,446,643	45,608,103
Interest paid		(21,004,799)	(20,131,238)
Fees and commissions received		6,429,127	4,992,954
Fees and commissions paid		(2,510,553)	(1,868,608)
Net receipt/(payment) from financial instruments at fair value through profit or loss		772,393	(132,117)
Net receipts from foreign exchange	27	2,919,335	1,801,683
Other operating expenses paid		(2,426,799)	(220,306)
Other income received		2,712,820	313,619
Salaries and other payments to employees		(11,926,258)	(11,020,581)
Other general administrative expenses paid		(3,946,766)	(3,509,815)
Cash flows from operating activities before changes in operating assets and liabilities		**17,465,143**	**15,833,694**
Net (increase)/decrease in operating assets			
Trading securities		(114,344)	(68,176)
Derivative financial assets		-	(249,870)
Loans and advances to banks		37,508,706	(26,633,310)
Loans to customers		(38,283,739)	(37,511,841)
Receivables from finance leases and related assets		(12,598,205)	(4,051,999)
Other assets		(389,545)	617,728
Net increase/(decrease) in operating liabilities			
Derivative financial liabilities		(79,831)	(120,116)
Deposits and balances from banks		1,019,240	13,660
Current accounts and deposits from customers		39,447,997	42,300,308
Other liabilities		1,381,367	1,365,331
Net cash flows from/ (used) in operating activities before income tax		**45,356,789**	**(8,504,591)**
Income tax paid		(1,137,847)	(1,226,755)
Net cash from / (used in) operating activities		**44,218,942**	**(9,731,346)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(2,025,077)	(2,215,321)
Proceeds from sale of property, equipment and intangible assets		103,225	131,840
Purchases of investment securities		(11,458,482)	(8,724,750)
Sale and repayment of investment securities		3,824,060	15,139,588
Net cash (used in) / from investing activities		**(9,556,274)**	**4,331,357**
Cash flows from financing activities			
Decrease in ownership in subsidiary	22	7,500,000	–
Proceeds from debt securities issued	36	3,461,498	–
Redemption of debt securities issued	36	(6,033,577)	(3,631,337)
Proceeds from other borrowed funds	36	33,778,000	47,077,963
Repayment of other borrowed funds	36	(43,034,045)	(33,580,438)
Subordinated loans received	36	–	7,098,874
Repayment of subordinated loans	36	–	(950,933)
Dividends paid to non-controlling interests	22	(125,000)	(85,000)
Net cash (used in) / from financing activities		**(4,453,124)**	**15,929,129**
Effect of exchange rates changes on cash and cash equivalents		(84,277)	6,943
Effect of changes in impairment allowance on cash and cash equivalents		(75,414)	(53,199)
Net increase in cash and cash equivalents		**30,049,853**	**10,482,884**
Cash and cash equivalents, beginning		66,398,135	55,915,251
Cash and cash equivalents, ending	6	**96,447,988**	**66,398,135**

The accompanying notes from 1 to 38 are an integral part of these consolidated financial statements.

(thousands of Armenian Drams)

1. Principal activities

ACBA Federation CJSC (the "Company") is the parent company in the Group, which is comprised of the Company and its subsidiaries ACBA Bank OJSC (the "Bank") and its subsidiary ACBA Leasing Credit Organization CJSC and ACBA Technologies CJSC (together the "Group"). It was founded on 6 May 2017 by 10 Rural Mutual Assistance Regional Unions (RMARUs), former shareholders of ACBA Bank OJSC, which are currently shareholders of ACBA Federation CJSC. The RMARUs are NGOs working in the 10 regions of RA which were founded to develop agriculture in the regions. The 10 RMARUs together have 77,500 members. According to type of activities, it is a profit organization.

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

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

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

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan and it has 62 branches (including Head office) in Yerevan and other regions of Armenia. The Bank's registered legal address is 82-84 Aram Street, Yerevan, 0002, Armenia.

Bank's name and legal form has been changed from ACBA-Credit Agricole Bank CJSC to ACBA Bank OJSC based on shareholder's annual general meeting on 26 May 2020. The Central Bank of Armenia has registered the change of the Bank's name and legal form on 3 July 2020.

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

ACBA Federation CJSC owns 83.68% shares of ACBA Bank OJSC.

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

The list of shareholders of ACBA Federation CJSC is disclosed in Note 22. The Group has no single controlling party.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment and trading securities, derivative financial instruments, land, buildings and motor vehicles have been measured at fair value.

These consolidated financial statements are presented in thousands of Armenian Drams ("AMD"), unless otherwise indicated.

Effect of COVID-19 pandemic

Following the rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments, including the Government of the Republic of Armenia, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

(thousands of Armenian Drams)

2. Basis of preparation (continued)

Effect of COVID-19 pandemic (continued)

Support measures were introduced by the Government of the Republic of Armenia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

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

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 (Note 11), estimation of fair values of financial instruments, property, revaluation of plant and equipment (Note 32*).*

Reclassifications

In 2021 the Group made reclassifications in Note 16 “Other assets” and Note 21 “Other liabilities” reclassifying Advances paid to leased property suppliers from other financial assets to other non-financial assets, and prepayments from lessees from other financial liabilities to other non-financial liabilities. Effect on comparative balances is AMD 1,956,666 thousand for Advances paid to lease property supplier and AMD 1,139,852 thousand for Prepayments from lessees.

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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.

The Group applied the practical expedients provided by the amendments. Please see details in Note 31.

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.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Basis of consolidation

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

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

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

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

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Any difference between the total book value of net assets, including the predecessor’s goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders’ equity.

Investments in associates

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

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

Fair value measurement

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

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

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

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

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities

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

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

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

The Group only measures loans and advances to banks, loans to customers and investment securities at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The 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;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

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.

Financial guarantees, letters of credit and undrawn loan commitments

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Nostro accounts in banks and amounts due from the CBA, including obligatory reserves in AMD free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at CBA bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBA bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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

Derivative financial instruments

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Derivative financial instruments (continued)

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

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

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from banks or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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

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

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.

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.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

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

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 consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. Finance − Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Offsetting of financial instruments

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

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

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

Renegotiated loans

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

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

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where 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.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Taxation

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

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

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

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

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

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

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

Property and equipment

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

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

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

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

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

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

	Years
Buildings	50
Equipment	5-10
Motor vehicles	7-10
Other	7-10

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

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

Goodwill

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

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

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

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 7 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Repossessed assets

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Fiduciary assets

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

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

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

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

Interest revenue from penalties on loans to customers is recognised using the effective interest rate and is presented in “Other income” in the consolidated statement of profit or loss.

Fee and commission income

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

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

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

Fee income from providing transaction services

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

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

Customer loyalty programs

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

Dividend income

Revenue is recognised when the Group’s right to receive the payment is established.

Foreign currency translation

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBA exchange rates at 31 December 2021 and 31 December 2020, were 480.14 Drams and 522.59 Drams to 1 USD and 542.61 Drams and 641.11 Drams to 1 EUR, respectively.

Share-based payments

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

Equity-settled transactions

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

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

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

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

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

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

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

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

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

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation

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.

Property, Plant and Equipment: Proceeds before Intended Use − Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

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

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Onerous Contracts − Costs of Fulfilling a Contract − Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards − Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

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

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.

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.

(thousands of Armenian Drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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.

4. Significant accounting judgments and estimates

Judgments

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

Estimation uncertainty

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

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

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

Fair value measurement

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

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

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on the Group's ECL measurement. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

(thousands of Armenian Drams)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

The amount of allowance for loan and finance lease impairment recognized in consolidated statement of financial position at 31 December 2021 was AMD 8,317,805 thousand (2020: AMD 13,077,359 thousand). More details are provided in Notes 11 and 12.

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). More details are provided in Note 3.

5. Segment information

For management purposes, the Group is organised into five operating segments based on products and services as follows:

Retail banking	Principally handling individual customers’ deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Agriculture	Principally handling loans and other credit facilities and deposit and current accounts for customers in agriculture industry.
Trading and Investment banking (IB)	Treasury and finance, investment banking and other central functions.
Finance lease	Principally providing finance lease services to corporate and individual customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are allocated to operating segments.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group’s total revenue in 2021 or 2020.

In 2021 the Group revised its methodology of internal fund transfer and added a new reporting segment − Agriculture which was separated from Retail banking and Corporate banking segments.

Comparative information for 2020 is restated based on the updated methodology.

(thousands of Armenian Drams)

5. Segment information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments.

2021	*Retail banking, other than agriculture*	*Corporate banking*	*Agriculture*	*Trading and IB*	*Finance lease*	*Total*
Interest revenue calculated using effective interest rate	14,995,446	11,030,170	15,002,468	2,212,028	–	**43,240,112**
Other interest revenue	–	–	–	158,602	3,339,689	**3,498,291**
Interest expense	(5,260,441)	(4,850,330)	(6,326,428)	(3,612,471)	(1,304,111)	**(21,353,781)**
Net Interest income/(expense)	**9,735,005**	**6,179,840**	**8,676,040**	**(1,241,841)**	**2,035,578**	**25,384,622**
Reversal of credit loss expense / (credit loss expense)	(1,009,868)	1,303,308	61,537	(254,905)	128,811	**228,883**
Net interest income/(expense) after credit loss expense	**8,725,137**	**7,483,148**	**8,737,577**	**(1,496,746)**	**2,164,389**	**25,613,505**
Fee and commission income	2,161,137	1,400,965	2,368,967	–	363,490	**6,294,559**
Fee and commission expense	(925,347)	(599,859)	(824,689)	–	(160,659)	**(2,510,554)**
Net gain on financial instruments at fair value through profit and loss	–	–	–	560,811	–	**560,811**
Net foreign exchange gain/(loss)	845,259	780,575	753,312	–	(94,564)	**2,284,582**
Share of profit of associates	–	–	–	579,024	–	**579,024**
Other income	1,160,726	750,990	1,034,464	–	76,424	**3,022,604**
Non-interest income	**3,241,775**	**2,332,671**	**3,332,054**	**1,139,835**	**184,691**	**10,231,026**
Personnel expenses	(5,588,327)	(4,038,994)	(4,980,433)	–	(375,638)	**(14,983,392)**
Depreciation and amortisation	(968,621)	(631,436)	(863,256)	–	(34,173)	**(2,497,486)**
Other operating expenses	(763,892)	(499,148)	(680,796)	–	(67,283)	**(2,011,119)**
Other general administrative expenses	(1,533,042)	(1,050,409)	(1,366,278)	–	(73,724)	**(4,023,453)**
Charge for other impairment and provisions	(37,617)	(24,386)	(33,526)	–	–	**(95,529)**
Non-interest expense	**(8,891,499)**	**(6,244,373)**	**(7,924,289)**	**–**	**(550,818)**	**(23,610,979)**
Profit/(loss) before income tax expense	**3,075,413**	**3,571,446**	**4,145,342**	**(356,911)**	**1,798,262**	**12,233,552**
Income tax expense	(971,082)	(629,507)	(865,448)	–	(337,412)	**(2,803,449)**
Profit/(loss) for the year	**2,104,331**	**2,941,939**	**3,279,894**	**(356,911)**	**1,460,850**	**9,430,103**
Segment interest earning assets	102,909,919	123,164,417	114,454,029	44,086,234	31,233,067	**415,847,666**
Segment interest bearing liabilities	73,972,127	110,577,032	80,232,006	151,339,780	31,233,067	**447,348,708**

(thousands of Armenian Drams)

5. Segment information (continued)

2020	*Retail banking, other than agriculture*	*Corporate banking*	*Agriculture*	*Trading and IB*	*Finance lease*	*Total*
Interest revenue calculated using effective interest rate	15,768,792	9,152,022	16,167,228	2,289,385	–	**43,377,427**
Other interest revenue	–	–	–	345,576	2,330,420	**2,675,996**
Interest expense	(5,762,001)	(4,289,781)	(6,330,256)	(2,938,754)	(1,024,848)	**(20,345,640)**
Net Interest income/(expense)	**10,006,791**	**4,862,241**	**9,836,972**	**(303,793)**	**1,305,572**	**25,707,783**
Credit loss expense	(6,073,845)	(2,431,496)	(916,570)	(437,569)	(909,919)	**(10,769,399)**
Net interest income/(expense) after credit loss expense	**3,932,946**	**2,430,745**	**8,920,402**	**(741,362)**	**395,653**	**14,938,384**
Fee and commission income	1,683,028	1,239,294	1,654,467	–	339,505	**4,916,294**
Fee and commission expense	(703,501)	(355,652)	(691,563)	–	(117,892)	**(1,868,608)**
Net loss on financial instruments at fair value through profit and loss	–	–	–	(132,117)	–	**(132,117)**
Net foreign exchange gain/(loss)	965,974	142,915	949,581	–	(52,591)	**2,005,879**
Share of profit of associates	–	–	–	399,958	–	**399,958**
Other income	615,126	309,519	604,687	–	38,672	**1,568,004**
Non-interest income	**2,560,627**	**1,336,076**	**2,517,172**	**267,841**	**207,694**	**6,889,410**
Personnel expenses	(4,264,623)	(2,224,450)	(4,192,250)	–	(275,783)	**(10,957,106)**
Depreciation and amortisation	(929,923)	(475,080)	(914,141)	–	–	**(2,319,144)**
Other operating expenses	(777,740)	74,074	(764,542)	–	(37,058)	**(1,505,266)**
Other general administrative expenses	(1,345,492)	(721,811)	(1,322,659)	–	(118,400)	**(3,508,362)**
Reversal of other impairment and provisions	20,082	10,152	19,741	–	–	**49,975**
Non-interest expense	**(7,297,696)**	**(3,337,115)**	**(7,173,851)**	**–**	**(431,241)**	**(18,239,903)**
Profit/(loss) before income tax expense	**(804,123)**	**429,706**	**4,263,723**	**(473,521)**	**172,106**	**3,587,891**
Income tax expense	(402,227)	(203,344)	(395,401)	–	(48,314)	**(1,049,286)**
Profit/(loss) for the year	**(1,206,350)**	**226,362**	**3,868,322**	**(473,521)**	**123,792**	**2,538,605**
Segment interest earning assets	92,080,611	102,708,092	107,413,529	75,146,211	25,017,394	**402,365,837**
Segment interest bearing liabilities	72,393,692	100,015,344	87,552,836	136,548,253	25,017,394	**421,527,519**

The Group's operations are primarily concentrated in Armenia. The Group has no non-current assets other than financial instrument outside Armenia.

(thousands of Armenian Drams)

5. Segment information (continued)

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the year ended 31 December 2021 and 2020 is as follows:

2021	*Retail banking, other than agriculture*	*Corporate banking*	*Agriculture*	*Finance lease*	*Total*
Commission income					
Plastic card maintenance	1,515,067	982,145	1,356,392	−	**3,853,604**
Money transfers	263,287	170,677	234,647	−	**668,611**
Banking account servicing fees	174,347	113,023	155,382	−	**442,752**
Guarantee and letter of credit issuance	−	−	436,782	−	**436,782**
Cash withdrawal services	103,254	66,936	92,023	−	**262,213**
Other	105,182	68,184	93,741	363,490	**630,597**
Total revenue from contracts with customers	**2,161,137**	**1,400,965**	**2,368,967**	**363,490**	**6,294,559**

2020	*Retail banking, other than agriculture*	*Corporate banking*	*Agriculture*	*Finance lease*	*Total*
Commission income					
Plastic card maintenance	1,057,624	534,677	1,039,675	−	**2,631,976**
Money transfers	290,225	146,722	285,299	−	**722,246**
Banking account servicing fees	204,673	103,471	201,199	−	**509,343**
Guarantee and letter of credit issuance	−	388,446	−	−	**388,446**
Cash withdrawal services	78,153	39,510	76,827	−	**194,490**
Other	52,353	26,468	51,467	339,505	**469,793**
Total revenue from contracts with customers	**1,683,028**	**1,239,294**	**1,654,467**	**339,505**	**4,916,294**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	*2020*
Cash on hand	17,723,893	15,507,824
Current accounts with the Central Bank, including obligatory reserves (not restricted part, see Note 9)	76,712,728	43,875,865
Current accounts with other banks	2,144,660	7,084,277
Impairment	(133,293)	(69,831)
Cash and cash equivalents	**96,447,988**	**66,398,135**

As of 31 December 2021, current accounts with Central Bank of Armenia include obligatory reserve in the amount of AMD 23,850,732 thousand (2020: AMD 16,777,146 thousand).

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 4% (2020: 2%) of the amounts attracted in Armenian drams and 18% (2020: 18%) of the amounts attracted in foreign currencies.

The banks are required to maintain 10% (2020: 10%) of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 8% (2020: 8%) − in the foreign currency.

Moreover, the banks' ability to withdraw reserved amounts in foreign currency is restricted, so the Group classifies obligatory reserves deposited in foreign currency as loans and advances to banks (Note 9).

(thousands of Armenian Drams)

6. Cash and cash equivalents (continued)

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

	2021	*2020*
ECL allowance as at 1 January	**69,831**	**6,284**
Changes in ECL	75,414	53,199
Foreign exchange adjustments	(11,952)	10,348
At 31 December	**133,293**	**69,831**

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

7. Trading securities

Trading securities owned comprise:

	2021	*2020*
Corporate bonds of Armenian banks	433,697	319,353
Trading securities	**433,697**	**319,353**

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

8. Derivative financial instruments

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

	2021		*2020*	
	Notional amount	***Fair value***	***Notional amount***	***Fair value***
Assets				
Derivative financial instruments				
Interest rate swap	9,166,309	36,221	–	–
Currency swap	3,415,776	2,404	7,318,900	250,207
	12,582,085	**38,625**	**7,318,900**	**250,207**
Liabilities				
Derivative financial instruments				
Currency swap	–	–	15,412,670	79,893
	–	**–**	**15,412,670**	**79,893**

(thousands of Armenian Drams)

9. Loans and advances to banks

Loans and advances to banks comprise:

	2021	*2020*
Due from the CBA		
Credit card settlement deposit with the CBA	1,572,500	868,000
Mandatory reserves in CBA (in foreign currency) (Note 6)	11,585,135	11,077,718
Total	**13,157,635**	**11,945,718**
Loans and advances to other banks		
Armenian banks	487,894	6,188,910
Foreign banks	739,754	591,713
Total loans and deposits to other banks	**1,227,648**	**6,780,623**
Other receivables		
Unsettled transactions	4,119,022	99,766
Amounts receivable from money transfer systems	1,047,268	1,043,174
Amounts receivable from transactions with plastic cards	123,526	530,948
Amounts receivable under reverse repurchase agreements		
Amounts receivable from Armenian banks	–	36,843,265
Loans and advances to banks before impairment	**19,675,099**	**57,243,494**
Impairment	(56,016)	(71,910)
Total loans and advances to banks	**19,619,083**	**57,171,584**

As of 31 December 2021, mandatory reserves in Central Bank of Armenia include reserves in foreign currencies in the amount of AMD 11,585,135 thousand (2020: AMD 11,077,718 thousand) (See Note 6).

As at 31 December 2021, AMD 739,754 thousand (2020: AMD 591,713 thousand) were placed as deposited amounts with three (2020: three) internationally recognized OECD banks, who are the main counterparties of the Group in performing international settlements.

As at 31 December 2021, loans and advances to banks include loans in the amount of AMD 487,894 thousand (2020: AMD 6,188,910 thousand) placed with one Armenian bank (2020: four).

As at 31 December 2020 the Group had entered into reverse repurchase agreements with six Armenian banks. The collateral under these agreements is Armenian government bonds with a fair value of AMD 38,913,124 thousand.

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

	Stage 1	*Total*
Gross carrying value as at 1 January 2021	**57,243,494**	**57,243,494**
New assets originated or purchased	19,675,099	**19,675,099**
Assets repaid	(57,243,494)	**(57,243,494)**
At 31 December 2021	**19,675,099**	**19,675,099**

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

(thousands of Armenian Drams)

9. Loans and advances to banks (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on loans and advances to banks during the year ended 31 December 2020 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2020	**30,552,163**	**30,552,163**
New assets originated or purchased	57,243,494	**57,243,494**
Assets repaid	(30,552,163)	**(30,552,163)**
At 31 December 2020	**57,243,494**	**57,243,494**

	Stage 1	*Total*
ECL allowance as at 1 January 2020	**28,889**	**28,889**
New assets originated or purchased	71,910	**71,910**
Assets repaid	(28,889)	**(28,889)**
At 31 December 2020	**71,910**	**71,910**

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

10. Investment securities

Investment securities as at 31 December 2021 and 31 December 2020 comprise:

	2021	*2020*
Debt securities at amortised cost		
Bonds of Armenian companies	180,897	−
Less: allowance for impairment	(62,680)	−
Debt securities at amortised cost	**118,217**	**−**

	2021	*2020*
Debt and other fixed income instruments at FVOCI		
Government bonds		
Government securities of the Republic of Armenia	16,541,954	9,452,410
Corporate bonds		
Bonds of Armenian companies	4,460,248	4,824,872
Equity instruments		
Quoted equity securities − international companies	2,759,029	3,009,909
Unquoted equity securities − local companies	115,381	117,876
	23,876,612	**17,405,067**

78.76% (2020: 66.21%) of debt instruments are presented by government bonds of the republic of Armenia at 31 December 2021.

At 31 December 2021 and 2020 no securities were past due or impaired and there were no renegotiated balances of investment securities that would otherwise be past due.

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

(thousands of Armenian Drams)

10. Investment securities (continued)

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

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2021	**–**	**–**
New assets originated or purchased	180,897	**180,897**
At 31 December 2021	**180,897**	**180,897**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2021	**–**	**–**
New assets originated or purchased	62,680	**62,680**
At 31 December 2021	**62,680**	**62,680**

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

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

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

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2020	**20,292,178**	**20,292,178**
New assets originated or purchased	8,724,750	**8,724,750**
Assets repaid	(15,139,588)	**(15,139,588)**
Net change in fair value	258,888	**258,888**
Foreign exchange adjustments	141,054	**141,054**
At 31 December 2020	**14,277,282**	**14,277,282**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2020	**216,674**	**216,674**
New assets originated or purchased	96,593	**96,593**
Assets repaid	(31,056)	**(31,056)**
Changes to models and inputs used for ECL calculations	9,687	**9,687**
Foreign exchange adjustments	17,124	**17,124**
At 31 December 2020	**309,022**	**309,022**

The Group has designated some of its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Investments primarily include mandatory shares in exchanges and clearing houses, investments arising when the Group received equity shares in exchange for debt settlement, and strategic investments in other banks.

In 2021, the Group received dividends of AMD 12,455 thousand (2020: AMD 10,953 thousand) from its FVOCI equities which was recorded in the consolidated statement as other income.

(thousands of Armenian Drams)

11. Loans to customers

	2021	*2020*
Loans to corporate customers		
Loans to small and medium size companies	72,036,337	78,857,082
Loans to large corporates	47,850,286	29,977,548
Total loans to corporate customers	**119,886,623**	**108,834,630**
Loans to retail customers		
Agricultural loans	107,654,524	95,348,630
Consumer loans	76,471,101	70,316,815
Mortgage loans	32,885,091	25,028,359
Credit cards	11,282,532	13,367,120
Gold-secured loans	11,021	1,494,551
Total loans to retail customers at amortised cost	**228,304,269**	**205,555,475**
Gross loans to customers	**348,190,892**	**314,390,105**
Impairment allowance	(7,662,527)	(12,187,873)
Net loans to customers at amortised cost	**340,528,365**	**302,202,232**

The Bank's operations are primarily focused on financing agriculture in the country. The Bank offers agricultural loans to individuals and legal entities engaged, or planning to be engaged, in agricultural production or processing. Agricultural loans are provided for agricultural long-term investments, as well as short-term financing needs.

Allowance for impairment of loans to customers at amortised cost

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

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

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**545,108**	**596,723**	**2,170,952**	**31,742**	**3,344,525**
New assets originated or purchased	382,159	–	–	–	**382,159**
Assets repaid	(215,578)	(123,722)	(1,525,480)	(28,959)	**(1,893,739)**
Transfers to Stage 1	131,500	(61,991)	(69,509)	–	**–**
Transfers to Stage 2	(64,107)	653,500	(589,393)	–	**–**
Transfers to Stage 3	(167,292)	(135,968)	303,260	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(127,383)	(545,370)	531,387	–	**(141,366)**
Unwinding of discount (recognised in interest revenue)	–	–	58,915	–	**58,915**
Changes to models and inputs used for ECL calculations	(200,633)	(117,860)	639,690	28,441	**349,638**
Recoveries	–	–	283,728	–	**283,728**
Amounts written off	–	–	(240,466)	–	**(240,466)**
Foreign exchange adjustments	(7,729)	(18,967)	(85,948)	–	**(112,644)**
At 31 December 2021	**276,045**	**246,345**	**1,477,136**	**31,224**	**2,030,750**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

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

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**1,414,836**	**327,503**	**1,310,750**	**3,053,089**
New assets originated or purchased	644,253	–	–	**644,253**
Assets repaid	(307,654)	(69,324)	(2,513,658)	**(2,890,636)**
Transfers to Stage 1	13,976	(12,197)	(1,779)	**–**
Transfers to Stage 2	(43,853)	43,853	–	**–**
Transfers to Stage 3	(317,405)	(186,179)	503,584	**–**
Impact on period end ECL of exposures transferred between stages during the period	(13,237)	11,115	502,159	**500,037**
Unwinding of discount (recognised in interest revenue)	–	–	105,503	**105,503**
Changes to models and inputs used for ECL calculations	(732,697)	(48,982)	2,466,488	**1,684,809**
Recoveries	–	–	616,875	**616,875**
Amounts written off	–	–	(1,882,280)	**(1,882,280)**
Foreign exchange adjustments	(4,252)	(590)	(16,814)	**(21,656)**
At 31 December 2021	**653,967**	**65,199**	**1,090,828**	**1,809,994**

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

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

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**1,718,187**	**1,005,334**	**2,056,911**	**4,780,432**
New assets originated or purchased	1,025,756	–	–	**1,025,756**
Assets repaid	(519,505)	(164,989)	(1,845,009)	**(2,529,503)**
Transfers to Stage 1	10,785	(10,785)	–	**–**
Transfers to Stage 2	(85,554)	85,554	–	**–**
Transfers to Stage 3	(477,827)	(489,066)	966,893	**–**
Impact on period end ECL of exposures transferred between stages during the period	(10,093)	33,356	829,520	**852,783**
Unwinding of discount (recognised in interest revenue)	–	–	202,116	**202,116**
Changes to models and inputs used for ECL calculations	(599,126)	(208,828)	2,676,956	**1,869,002**
Recoveries	–	–	743,454	**743,454**
Amounts written off	–	–	(3,973,078)	**(3,973,078)**
At 31 December 2021	**1,062,623**	**250,576**	**1,657,763**	**2,970,962**

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

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

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**61,269**	**43,048**	**128,747**	**38,534**	**271,598**
New assets originated or purchased	85,907	–	–	–	**85,907**
Assets repaid	(10,460)	(9,548)	(110,642)	(103)	**(130,753)**
Transfers to Stage 1	5,791	(5,791)	–	–	**–**
Transfers to Stage 2	(10,429)	35,587	(25,158)	–	**–**
Transfers to Stage 3	(25,252)	(13,193)	38,445	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(5,721)	(12,773)	144,210	–	**125,716**
Unwinding of discount (recognised in interest revenue)	–	–	21,500	–	**21,500**
Changes to models and inputs used for ECL calculations	22,828	8,139	277,883	(16,445)	**292,405**
Recoveries	–	–	12,253	–	**12,253**
Amounts written off	–	–	(239,158)	–	**(239,158)**
Foreign exchange adjustments	(1,449)	(1,791)	(6,278)	–	**(9,518)**
At 31 December 2021	**122,484**	**43,678**	**241,802**	**21,986**	**429,950**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

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

Credit cards and gold-secured loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**320,191**	**44,436**	**372,809**	**793**	**738,229**
New assets originated or purchased	100,322	–	–	–	**100,322**
Assets repaid	(83,828)	(11,715)	(972,807)	–	**(1,068,350)**
Transfers to Stage 1	4,271	(1,601)	(2,670)	–	**–**
Transfers to Stage 2	(13,515)	13,556	(41)	–	**–**
Transfers to Stage 3	(75,892)	(27,700)	103,592	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(4,193)	1,738	126,047	–	**123,592**
Unwinding of discount (recognised in interest revenue)	–	–	33,501	–	**33,501**
Changes to models and inputs used for ECL calculations	(107,195)	(2,408)	373,387	(793)	**262,991**
Recoveries	–	–	903,563	–	**903,563**
Amounts written off	–	–	(659,689)	–	**(659,689)**
Foreign exchange adjustments	(3,487)	(520)	(9,281)	–	**(13,288)**
At 31 December 2021	**136,674**	**15,786**	**268,411**	**–**	**420,871**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 is as follows:

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	**82,478,850**	**498,280**	**4,954,288**	**221,203**	**88,152,621**
New assets originated or purchased	51,825,701	–	–	15,449	**51,841,150**
Assets repaid	(28,706,208)	(1,199,636)	(805,789)	(1,689)	**(30,713,322)**
Transfers to Stage 1	162,750	(162,750)	–	–	**–**
Transfers to Stage 2	(14,534,636)	14,534,636	–	–	**–**
Transfers to Stage 3	(6,086,665)	(68,671)	6,155,336	–	**–**
Recoveries	–	–	774,521	–	**774,521**
Amounts written off	–	–	(4,786,123)	–	**(4,786,123)**
Foreign exchange adjustments	2,391,981	824,119	340,127	9,556	**3,565,783**
At 31 December 2020	**87,531,773**	**14,425,978**	**6,632,360**	**244,519**	**108,834,630**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2020	**184,681**	**9,768**	**4,363,961**	**146,476**	**4,704,886**
New assets originated or purchased	1,025,166	–	–	–	**1,025,166**
Assets repaid	(49,636)	(1,342)	(574,249)	–	**(625,227)**
Transfers to Stage 1	2,218	(2,218)	–	–	**–**
Transfers to Stage 2	(196,315)	196,315	–	–	**–**
Transfers to Stage 3	(560,859)	(3,119)	563,978	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(1,034)	360,791	1,420,527	–	**1,780,284**
Unwinding of discount (recognised in interest revenue)	–	–	57,607	–	**57,607**
Changes to models and inputs used for ECL calculations	126,550	2,594	236,863	(114,734)	**251,273**
Recoveries	–	–	774,521	–	**774,521**
Amounts written off	–	–	(4,786,123)	–	**(4,786,123)**
Foreign exchange adjustments	14,337	33,934	113,867	–	**162,138**
At 31 December 2020	**545,108**	**596,723**	**2,170,952**	**31,742**	**3,344,525**

An analysis of changes in the gross carrying value and corresponding ECL in relation to agricultural loans during the year ended 31 December 2020 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**72,894,053**	**1,388,961**	**2,185,342**	**76,468,356**
New assets originated or purchased	50,838,950	–	–	**50,838,950**
Assets repaid	(30,611,624)	(770,382)	(1,876,360)	**(33,258,366)**
Transfers to Stage 1	249,061	(249,061)	–	**–**
Transfers to Stage 2	(3,753,787)	3,753,787	–	**–**
Transfers to Stage 3	(2,459,634)	(571,449)	3,031,083	**–**
Recoveries	–	–	2,662,329	**2,662,329**
Amounts written off	–	–	(1,970,139)	**(1,970,139)**
Foreign exchange adjustments	534,158	32,847	40,495	**607,500**
At 31 December 2020	**87,691,177**	**3,584,703**	**4,072,750**	**95,348,630**

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**417,819**	**32,288**	**854,730**	**1,304,837**
New assets originated or purchased	1,042,449	–	–	**1,042,449**
Assets repaid	(64,550)	(4,647)	(1,312,825)	**(1,382,022)**
Transfers to Stage 1	4,387	(4,387)	–	**–**
Transfers to Stage 2	(84,335)	84,335	–	**–**
Transfers to Stage 3	(225,337)	(18,674)	244,011	**–**
Impact on period end ECL of exposures transferred between stages during the period	(557)	230,768	765,140	**995,351**
Unwinding of discount (recognised in interest revenue)	–	–	99,704	**99,704**
Changes to models and inputs used for ECL calculations	312,319	4,605	(56,132)	**260,792**
Recoveries	–	–	2,662,329	**2,662,329**
Amounts written off	–	–	(1,970,139)	**(1,970,139)**
Foreign exchange adjustments	12,641	3,215	23,932	**39,788**
At 31 December 2020	**1,414,836**	**327,503**	**1,310,750**	**3,053,089**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2020 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**78,212,234**	**1,479,242**	**2,166,717**	**81,858,193**
New assets originated or purchased	27,054,380	–	–	**27,054,380**
Assets repaid	(34,511,441)	(816,054)	(1,154,051)	**(36,481,546)**
Transfers to Stage 1	279,641	(279,641)	–	**–**
Transfers to Stage 2	(6,178,909)	6,178,909	–	**–**
Transfers to Stage 3	(4,144,946)	(934,985)	5,079,931	**–**
Recoveries	–	–	1,564,922	**1,564,922**
Amounts written off	–	–	(3,679,134)	**(3,679,134)**
At 31 December 2020	**60,710,959**	**5,627,471**	**3,978,385**	**70,316,815**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**296,891**	**51,090**	**710,609**	**1,058,590**
New assets originated or purchased	1,329,006	–	–	**1,329,006**
Assets repaid	(74,071)	(5,423)	(638,972)	**(718,466)**
Transfers to Stage 1	4,086	(4,086)	–	**–**
Transfers to Stage 2	(255,830)	255,830	–	**–**
Transfers to Stage 3	(429,157)	(40,336)	469,493	**–**
Impact on period end ECL of exposures transferred between stages during the period	2,605	736,757	1,422,258	**2,161,620**
Unwinding of discount (recognised in interest revenue)	–	–	155,193	**155,193**
Changes to models and inputs used for ECL calculations	844,657	11,502	2,052,542	**2,908,701**
Recoveries	–	–	1,564,922	**1,564,922**
Amounts written off	–	–	(3,679,134)	**(3,679,134)**
At 31 December 2020	**1,718,187**	**1,005,334**	**2,056,911**	**4,780,432**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2020 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	**16,117,329**	**155,701**	**280,923**	**117,997**	**16,671,950**
New assets originated or purchased	10,788,456	–	–	19,050	**10,807,506**
Assets repaid	(2,632,739)	(65,175)	(249,841)	(72,199)	**(3,019,954)**
Transfers to Stage 1	46,363	(46,363)	–	–	**–**
Transfers to Stage 2	(1,211,925)	1,211,925	–	–	**–**
Transfers to Stage 3	(227,002)	(84,326)	311,328	–	**–**
Recoveries	–	–	291,135	–	**291,135**
Amounts written off	–	–	(137,913)	–	**(137,913)**
Foreign exchange adjustments	348,801	44,790	17,949	4,095	**415,635**
At 31 December 2020	**23,229,283**	**1,216,552**	**513,581**	**68,943**	**25,028,359**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2020	**29,189**	**3,773**	**113,809**	**80,531**	**227,302**
New assets originated or purchased	36,586	–	–	–	**36,586**
Assets repaid	(2,224)	(282)	(194,184)	(40,652)	**(237,342)**
Transfers to Stage 1	1,092	(1,092)	–	–	**–**
Transfers to Stage 2	(12,170)	12,170	–	–	**–**
Transfers to Stage 3	(781)	(1,988)	2,769	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(989)	28,692	78,620	–	**106,323**
Unwinding of discount (recognised in interest revenue)	–	–	9,817	–	**9,817**
Changes to models and inputs used for ECL calculations	9,443	12	(41,625)	(3,655)	**(35,825)**
Recoveries	–	–	291,135	–	**291,135**
Amounts written off	–	–	(137,913)	–	**(137,913)**
Foreign exchange adjustments	1,123	1,763	6,319	2,310	**11,515**
At 31 December 2020	**61,269**	**43,048**	**128,747**	**38,534**	**271,598**

An analysis of changes in the gross carrying value and corresponding ECL in relation to credit cards and gold-secured loans during the year ended 31 December 2020 is as follows:

Credit cards and gold-secured loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	**19,001,266**	**364,793**	**467,887**	**–**	**19,833,946**
New assets originated or purchased	2,871,404	–	–	1,401	**2,872,805**
Assets repaid	(7,833,329)	(124,212)	(432,861)	–	**(8,390,402)**
Transfers to Stage 1	68,834	(68,834)	–	–	**–**
Transfers to Stage 2	(191,718)	191,718	–	–	**–**
Transfers to Stage 3	(817,739)	(157,577)	975,316	–	**–**
Recoveries	–	–	593,193	–	**593,193**
Amounts written off	–	–	(686,000)	–	**(686,000)**
Foreign exchange adjustments	602,541	9,475	26,113	–	**638,129**
At 31 December 2020	**13,701,259**	**215,363**	**943,648**	**1,401**	**14,861,671**

Credit cards and gold-secured loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2020	**82,963**	**11,689**	**151,492**	**–**	**246,144**
New assets originated or purchased	105,501	–	–	–	**105,501**
Assets repaid	(20,340)	(4,592)	(318,524)	–	**(343,456)**
Transfers to Stage 1	989	(989)	–	–	**–**
Transfers to Stage 2	(4,627)	4,627	–	–	**–**
Transfers to Stage 3	(49,681)	(6,039)	55,720	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(584)	36,162	225,529	–	**261,107**
Unwinding of discount (recognised in interest revenue)	–	–	30,843	–	**30,843**
Changes to models and inputs used for ECL calculations	192,207	1,347	305,743	793	**500,090**
Recoveries	–	–	593,193	–	**593,193**
Amounts written off	–	–	(686,000)	–	**(686,000)**
Foreign exchange adjustments	13,763	2,231	14,813	–	**30,807**
At 31 December 2020	**320,191**	**44,436**	**372,809**	**793**	**738,229**

(thousands of Armenian Drams)

11. Loans to customers (continued)

Impact of COVID-19 on ECL assessment by the Group

As at 31 December 2021, the Group did not to apply certain post-model adjustments and additional sectoral overlays.

In 2020, the Group granted grace periods to some borrowers affected by COVID-19 pandemic according to the Central Bank of Armenia recommendations to mitigate COVID-19 impact for the companies and individuals. The Group didn't consider these renegotiations as criteria for significant increase in credit risk. However, more strict criteria for staging assessment were applied for these exposures subsequent to the grace period which resulted to additional ECL in amount of AMD 2,629,622 thousand in 2020 (as compared to ECL amount if calculated according to standard staging criteria of the Group).

Changes in ECL assessment and write-off policy

In 2020, the Group revised its policy for ECL assessment and write-off of loans to customers, increasing period after which loans are considered as irrecoverable, based on historical statistics of recoveries of the Group. Credit loss expense for 2020 recognized by the Group would be more by AMD 3,109,184 thousand if the previous write-off policy is applied.

Modified and restructured loans

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties, gold and guarantees.

Collateral and other credit enhancements (continued)

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

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

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2021 and 2020 would have been higher by:

	2021	***2020***
Corporate lending	3,416,526	3,102,920
Mortgage loans	537,052	384,834
	3,953,578	**3,487,754**

Assets under lien

As at 31 December 2021, loans to customers with a gross value of AMD 29,428,199 thousand (2020: AMD 21,928,036 thousand) serve as collateral for other borrowed funds (see Note 19).

(thousands of Armenian Drams)

11. Loans to customers (continued)

Repossessed collateral

During the year, the Group took possession of collateral with an estimated value of AMD 402,802 thousand (2020: AMD 149,439 thousand), which the Group is in the process of selling. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2021, the Group had a concentration of loans represented by AMD 24,161,333 thousand due from the ten largest third-party borrowers (7% of gross loan portfolio) (2020: AMD 18,839,216 thousand or 6%). An allowance of AMD 146,733 thousand (2020: AMD 241,681 thousand) was recognised against these loans.

As at 31 December 2021, the Group had a concentration of loans to agriculture sector (both to individual and corporate borrowers) in amount of AMD 110,189,950 thousand or 32% of total gross portfolio (2020: AMD 100,493,088 thousand or 32% of total gross portfolio).

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

	2021	*2020*
Individuals	228,304,269	205,555,475
Food and beverage	38,132,723	32,406,379
Trade	37,125,724	35,898,839
Construction	20,239,550	14,458,523
Manufacturing	6,981,224	7,860,414
Transportation	4,657,219	3,595,471
Energy	4,454,886	3,247,464
Financial sector	4,284,067	5,019,069
Agriculture	2,535,426	5,144,458
Other	1,475,804	1,204,013
Impairment allowance	(7,662,527)	(12,187,873)
	340,528,365	**302,202,232**

12. Receivables from finance leases

	2021	*2020*
Finance leases to corporate customers	27,328,408	22,009,853
Finance leases to retail customers	4,559,937	3,897,027
Gross finance leases	**31,888,345**	**25,906,880**
Impairment allowance	(655,278)	(889,486)
Net investments in finance leases	**31,233,067**	**25,017,394**

The amount of finance lease receivables as at 31 December 2021 includes equipment on the way, purchased in the scope of finance lease agreements in the amount of AMD 274,249 thousand (2020: AMD 9,213 thousand).

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

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

(thousands of Armenian Drams)

12. Receivables from finance leases (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**163,473**	**71,137**	**654,876**	**889,486**
New assets originated or purchased	142,645	–	–	**142,645**
Assets repaid	(36,493)	(11,194)	(147,476)	**(195,163)**
Transfers to Stage 1	30,263	(30,263)	–	**–**
Transfers to Stage 2	(4,833)	119,975	(115,142)	**–**
Transfers to Stage 3	(18,381)	6,002	12,379	**–**
Foreign exchange adjustments	(7,287)	(1,726)	(26,215)	**(35,228)**
Impact on period end ECL of exposures transferred between stages during the period	(26,324)	(105,747)	238,791	**106,720**
Changes to models and inputs used for ECL calculations	(29,322)	(16,013)	(157,114)	**(202,449)**
Recovery	–	–	98,678	**98,678**
Write-off	–	–	(149,411)	**(149,411)**
At 31 December 2021	**213,741**	**32,171**	**409,366**	**655,278**

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2020 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**20,196,143**	**139,487**	**101,497**	**20,437,127**
New assets originated or purchased	10,863,250	–	–	**10,863,250**
Assets repaid	(6,635,441)	(54,422)	(27,711)	**(6,717,574)**
Transfers to Stage 1	26,684	(26,684)	–	**–**
Transfers to Stage 2	(2,377,060)	2,377,060	–	**–**
Transfers to Stage 3	(761,169)	(25,340)	786,509	**–**
Foreign exchange adjustments	1,173,920	244,083	4,613	**1,422,616**
Recovery	–	–	11,879	**11,879**
Write-off	–	–	(110,418)	**(110,418)**
At 31 December 2020	**22,486,327**	**2,654,184**	**766,369**	**25,906,880**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**44,718**	**5,172**	**74,386**	**124,276**
New assets originated or purchased	260,455	–	–	**260,455**
Assets repaid	(5,913)	(111)	(9,957)	**(15,981)**
Transfers to Stage 1	411	(411)	–	**–**
Transfers to Stage 2	(31,935)	31,935	–	**–**
Transfers to Stage 3	(162,522)	5,841	156,681	**–**
Foreign exchange adjustments	8,691	6,450	3,792	**18,933**
Impact on period end ECL of exposures transferred between stages during the period	(220)	22,466	531,410	**553,656**
Changes to models and inputs used for ECL calculations	49,788	(205)	(2,895)	**46,688**
Recovery	–	–	11,879	**11,879**
Write-off	–	–	(110,420)	**(110,420)**
At 31 December 2020	**163,473**	**71,137**	**654,876**	**889,486**

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

	2021 AMD'000	*2020 AMD'000*
Finance lease receivables	–	14,527
	–	**14,527**

Assets under lien

As at 31 December 2021, finance lease receivables with a gross value of AMD 6,959,933 thousand (2020: AMD 6,062,766 thousand) serve as collateral for other borrowed funds (see Note 19).

(thousands of Armenian Drams)

12. Receivables from finance leases (continued)

Repossessed collateral

The carrying value of the assets repossessed during the period and held as at 31 December 2021 is AMD 30,795 thousand (2020: AMD 25,145 thousand).

Industry and geographical analysis of the finance lease portfolio

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

	2021	***2020***
Construction	5,218,432	4,151,089
Food and beverages production	4,823,923	2,986,422
Agriculture	4,616,771	2,231,578
Finance leases to retail customers	4,559,937	3,897,027
Trade	4,198,963	4,870,308
Services	3,445,727	3,273,488
Manufacturing	2,852,638	1,795,821
Transportation	1,217,883	1,693,781
Air transportation	350,490	478,038
Hydropower plants	279,495	235,110
Manufacture of leather goods	32,321	62,538
Other	291,765	231,680
Impairment allowance	(655,278)	(889,486)
	31,233,067	**25,017,394**

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

	Not later than 1 year	***Between 1 and 2 years***	***Between 2 and 3 years***	***Between 3 and 4 years***	***Between 4 and 5 years***	***Later than 5 years***
Gross investment in finance leases	12,445,124	10,280,780	7,551,901	5,135,507	3,013,621	879,724
Unearned future finance income on finance leases	(690,916)	(1,553,565)	(1,843,295)	(1,716,125)	(1,207,623)	(406,788)
Net investment in finance leases before allowance	**11,754,208**	**8,727,215**	**5,708,606**	**3,419,382**	**1,805,998**	**472,936**

The table below provides the maturity profile of gross and net investment in leases as of 31 December 2020:

	Not later than 1 year	***Between 1 and 2 years***	***Between 2 and 3 years***	***Between 3 and 4 years***	***Between 4 and 5 years***	***Later than 5 years***
Gross investment in finance leases	10,874,156	8,399,359	5,298,232	3,309,296	1,798,721	1,230,120
Unearned future finance income on finance leases	(537,797)	(1,112,829)	(1,175,540)	(983,963)	(669,532)	(523,343)
Net investment in finance leases before allowance	**10,336,359**	**7,286,530**	**4,122,692**	**2,325,333**	**1,129,189**	**706,777**

(thousands of Armenian Drams)

13. Property, equipment, intangible assets and right-of-use assets

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

	Land and buildings	*Leasehold improve-ments*	*Equipment*	*Fixtures and fittings*	*Motor vehicles*	*Goodwill*	*Other intangible assets*	*Right-of-use assets*	*Total*
Cost/revalued amount									
31 December 2020	**9,717,396**	**850,425**	**9,079,644**	**3,349,381**	**614,776**	**18,132**	**6,160,476**	**2,298,423**	**32,088,653**
Additions	315,564	56,821	649,720	200,786	10,925	–	791,261	1,420,876	**3,445,953**
Disposals and write-offs	–	–	(142,627)	(42,593)	(2,991)	–	–	–	**(188,211)**
Effect of revaluation in profit or loss	153,704	–	–	–	(47,157)	–	–	–	**106,547**
Effect of revaluation in OCI	944,138	–	–	–	(93,839)	–	–	–	**850,299**
31 December 2021	**11,130,802**	**907,246**	**9,586,737**	**3,507,574**	**481,714**	**18,132**	**6,951,737**	**3,719,299**	**36,303,241**
Accumulated depreciation, amortisation and impairment									
31 December 2020	**384,327**	**225,471**	**4,994,144**	**2,160,057**	**163,887**	**–**	**1,837,035**	**1,112,540**	**10,877,461**
Depreciation charge	174,671	90,736	827,336	200,080	74,971	–	599,188	530,504	**2,497,486**
Disposals and write-offs	–	–	(43,205)	(21,655)	(92)	–	2	–	**(64,950)**
Effect of revaluation in OCI	(165,000)	–	–	–	(150,250)	–	–	–	**(315,250)**
Effect of revaluation in profit or loss	(371,448)	–	–	–	(49,617)	–	–	–	**(421,065)**
31 December 2021	**22,550**	**316,207**	**5,778,275**	**2,338,482**	**38,899**	**–**	**2,436,225**	**1,643,044**	**12,573,682**
Net book value									
31 December 2021	**11,108,252**	**591,039**	**3,808,462**	**1,169,092**	**442,815**	**18,132**	**4,515,512**	**2,076,255**	**23,729,559**

	Land and buildings	*Leasehold improve-ments*	*Equipment*	*Fixtures and fittings*	*Motor vehicles*	*Goodwill*	*Other intangible assets*	*Right-of-use assets*	*Total*
Cost/revalued amount									
31 December 2019	**9,810,136**	**732,070**	**8,318,520**	**3,222,440**	**552,535**	**18,132**	**5,099,887**	**2,251,165**	**30,004,885**
Additions	16,395	127,268	772,202	135,926	75,118	–	1,104,807	85,496	**2,317,212**
Disposals and write-offs	(109,135)	(8,913)	(11,078)	(8,985)	(12,877)	–	(44,218)	(38,238)	**(233,444)**
31 December 2020	**9,717,396**	**850,425**	**9,079,644**	**3,349,381**	**614,776**	**18,132**	**6,160,476**	**2,298,423**	**32,088,653**
Accumulated depreciation and amortisation									
31 December 2019	**208,737**	**149,604**	**4,254,794**	**1,996,717**	**102,619**	**–**	**1,359,479**	**545,620**	**8,617,570**
Depreciation charge	175,590	75,867	747,150	166,787	65,241	–	519,579	568,930	**2,319,144**
Disposals and write-offs	–	–	(7,800)	(3,447)	(3,973)	–	(42,023)	(2,010)	**(59,253)**
31 December 2020	**384,327**	**225,471**	**4,994,144**	**2,160,057**	**163,887**	**–**	**1,837,035**	**1,112,540**	**10,877,461**
Net book value									
31 December 2020	**9,333,069**	**624,954**	**4,085,500**	**1,189,324**	**450,889**	**18,132**	**4,323,441**	**1,185,883**	**21,211,192**

Right-of-use assets include only buildings.

The Group engaged an independent valuer to determine the fair value of its land and buildings and motor vehicles. Fair value is determined by reference to market-based evidence. The date of the revaluation was 1 December 2021. More details about the fair value of buildings are disclosed in Note 32.

As of 31 December 2021 property, plant and equipment included fully depreciated assets in amount of AMD 697,010 thousand (2020: AMD 229,855 thousand).

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

	2021	***2020***
Cost	10,708,596	10,687,140
Accumulated depreciation and impairment	(3,152,600)	(3,399,354)
Net carrying amount	**7,555,996**	**7,287,786**

(thousands of Armenian Drams)

14. Taxation

	2021	*2020*
Current tax charge	2,198,884	1,262,447
Adjustments of current income tax of previous years	−	(61,531)
Deferred tax credit − origination and reversal of temporary differences	604,565	(151,630)
Income tax expense	**2,803,449**	**1,049,286**

In 2021 the applicable tax rate for current and deferred tax is 18% (2020: 18%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2021	*2020*
Profit before income tax	**12,233,552**	**3,587,891**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**2,202,039**	**645,820**
Non-deductible expenses	571,568	418,773
Adjustments of current income tax of previous years	−	(61,531)
Change in unrecognized deferred tax assets	29,842	46,224
Income tax expense	**2,803,449**	**1,049,286**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 1 January 2020 (unaudited)	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2020*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2021*
Deferred tax assets/ (liabilities)							
Tax losses carry-forward	51,825	46,224	−	98,049	29,842	−	127,891
Loans and advances to banks	18,357	(4,651)	−	13,706	(23,064)	−	(9,358)
Investment securities	(585,731)	(43,913)	(170,682)	(800,326)	4,337	82,697	(713,292)
Loans to customers	360,982	331,516	−	692,498	(796,841)	−	(104,343)
Finance lease receivable	9,496	133,769	−	143,265	(81,743)	−	61,522
Investments in associates	25,720	(71,993)	−	(46,273)	(104,224)	−	(150,497)
Property, plant and equipment	(391,821)	(59,814)	−	(451,635)	(114,441)	(170,027)	(736,103)
Other assets	57,083	(63,057)	−	(5,974)	55,506	−	49,532
Other borrowed funds	83,654	(98,681)	−	(15,027)	(15,347)	−	(30,374)
Other liabilities	(103,619)	13,461	−	(90,158)	459,829	−	369,671
Other financial instruments at amortised cost and provisions	31,870	14,993	−	46,863	11,423	−	58,286
Deferred tax assets/(liabilities)	**(442,184)**	**197,854**	**(170,682)**	**(415,012)**	**(574,723)**	**(87,330)**	**(1,077,065)**
Unrecognized deferred tax assets	51,825	46,224	−	98,049	29,842	−	127,891
Deferred tax assets/(liabilities), net	**(494,009)**	**151,630**	**(170,682)**	**(513,061)**	**(604,565)**	**(87,330)**	**(1,204,956)**

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

	2021	*2020*
Deferred tax assets	91,722	167,436
Deferred tax liabilities	(1,296,678)	(680,497)

(thousands of Armenian Drams)

15. Credit loss expense

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	(75,414)	–	–	–	**(75,414)**
Loans and advances to banks	9	15,894	–	–	–	**15,894**
Debt securities at amortised cost	10	(62,680)	–	–	–	**(62,680)**
Debt securities measured at FVOCI	10	(313,910)	–	–	–	**(313,910)**
Loans to customers at amortised cost	11	676,078	1,261,171	(1,600,131)	17,859	**354,977**
Receivables from finance leases	12	(50,506)	132,954	65,799	–	**148,247**
Other financial assets	16	(23,520)	–	8,808	–	**(14,712)**
Guarantees and letters of credit	24	(426)	–	–	–	**(426)**
Loan, credit line and credit card commitments	24	174,690	658	1,559	–	**176,907**
Total credit loss expense		**340,206**	**1,394,783**	**(1,523,965)**	**17,859**	**228,883**

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2020:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	(53,199)	–	–	–	**(53,199)**
Loans and advances to banks	9	(43,021)	–	–	–	**(43,021)**
Debt securities measured at FVOCI	10	(75,224)	–	–	–	**(75,224)**
Loans to customers at amortised cost	11	(4,812,504)	(1,396,944)	(3,370,711)	158,248	**(9,421,911)**
Receivables from finance leases	12	(304,110)	(22,150)	(518,558)	–	**(844,818)**
Other financial assets	16	(13,746)	–	(56,152)	–	**(69,898)**
Guarantees and letters of credit	24	(461)	–	–	–	**(461)**
Loan, credit line and credit card commitments	24	(260,220)	(715)	68	–	**(260,867)**
Total credit loss expense		**(5,562,485)**	**(1,419,809)**	**(3,945,353)**	**158,248**	**(10,769,399)**

16. Other assets

Other assets comprise:

	2021	*2020*
Other receivables	1,353,421	1,002,613
Impairment allowance	(21,848)	(19,967)
Total other financial assets	**1,331,573**	**982,646**
Advances paid to leased property suppliers	6,857,303	1,956,666
Repossessed assets	1,515,768	1,236,043
Prepayments to suppliers	741,128	1,012,251
VAT recoverable	410,555	222,471
Inventories	148,842	104,132
Property to be leased	99,996	302,204
Returned lease property	30,795	25,145
Other	346,288	137,046
Total other non-financial assets	**10,150,675**	**4,995,958**
Less impairment allowance	(755,150)	(659,621)
Total other assets	**10,727,098**	**5,318,983**

(thousands of Armenian Drams)

16. Other assets (continued)

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

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

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2020 is as follows:

	Stage 1	*Stage 3*	*Total*
ECL at 1 January 2020	**6,611**	**–**	**6,611**
New assets originated or redeemed (net)	8,949	–	**8,949**
Transfers to Stage 3	(390)	390	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	56,152	**56,152**
Changes to models and inputs used for ECL calculations	4,797	–	**4,797**
Write-off	–	(56,542)	**(56,542)**
At 31 December 2020	**19,967**	**–**	**19,967**

The movements in other impairment allowances and provisions were as follows:

	2021	*2020*
Balance at the beginning of the year	**659,621**	**803,549**
Net charge	95,529	–
Reversal	–	(49,975)
Write-offs	–	(93,953)
Balance at the end of the year	**755,150**	**659,621**

17. Current accounts and deposits from customers

Current accounts and deposits from customers include the following:

	2021	*2020*
Current accounts and demand deposits		
Retail	46,917,615	36,369,737
Corporate	71,040,463	63,503,041
Term deposits		
Retail	156,966,490	144,090,445
Corporate	61,625,678	52,779,015
Total	**336,550,246**	**296,742,238**
Held as security against guarantees	1,097,872	1,327,270

At 31 December 2021, current accounts and deposits from customers of AMD 72,646,000 thousand (21.5%) were due to the ten largest customers (2020: AMD 64,685,367 thousand (21.8%).

As at 31 December 2021, the Group has two customers (31 December 2020: two customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2021 is AMD 42,793,584 thousand (31 December 2020: AMD 30,210,955 thousand).

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

(thousands of Armenian Drams)

18. Debt securities issued

Debt securities issued consisted of the following:

	2021	*2020*
Promissory notes	1,607,410	5,684,063
Domestic bonds issued	3,461,498	2,754,997
Debt securities issued	**5,068,908**	**8,439,060**

Debt securities issued include promissory notes amounting AMD 1,607,410 thousand (2020: AMD 5,684,063 thousand), which were issued by the Group to non-resident funds for financing purposes.

During the second quarter of 2021 the Group issued AMD and USD denominated bonds with nominal amount of AMD 2,000,000 thousand and USD 3,000,000 accordingly.

As at 31 December 2021 the carrying value of the placed AMD and USD denominated bonds is correspondingly AMD 2,015,577 thousand and AMD 1,445,921 thousand. Bonds, denominated in AMD, bear annual interest rate of 9.50% and USD denominated bonds, bear annual interest rate of 4.10%. Maturity dates for placed bonds are in 2023.

19. Other borrowed funds

Other borrowed funds consisted of the following:

	2021	*2020*
Borrowings from international financial institutions	54,300,591	64,925,479
Borrowings from Government of Armenia	33,617,057	33,161,366
Borrowings from local financial institutions	2,322,917	1,590,725
Lease liabilities	2,091,196	1,365,804
Other borrowed funds	**92,331,761**	**101,043,374**

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

Borrowings from Government of Armenia mainly include AMD denominated borrowings provided under Central Bank of Armenia refinancing programs, maturing from 2022 till 2033.

Borrowings from local financial institutions comprise of AMD borrowings under mortgage refinancing programs, maturing from 2022 till 2033.

As at 31 December 2021, loans to customers and finance lease receivables with a gross value of AMD 36,388,132 thousand (2020: AMD 27,990,802 thousand) serve as collateral for secured borrowings from RA Government and Armenian financial institutions (see Notes 11 and 12).

As at 31 December 2021 the Group has other borrowed funds from five lenders (2020: five lenders), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2021 is AMD 81,358,062 thousand (2020: AMD 93,916,377 thousand).

Breach of covenants

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

As at 31 December 2020 the Group breached certain covenants under the loan agreements with financial institutions. Accordingly, borrowings from international institutions amounting to AMD 14,533,161 thousand were classified as “Within one year” in maturity analysis in Note 33 and “Less than 3 months” in liquidity analysis in Note 31. Subsequent to the reporting date the Group obtained waivers from counterparties for exposures in amount of AMD 14,533,161 thousand.

(thousands of Armenian Drams)

19. Other borrowed funds (continued)

Lease liabilities

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

	2021	*2020*
As at 1 January	**1,365,804**	**1,749,482**
Additions	122,802	85,496
Modification	1,298,074	–
Accretion of interest	110,963	99,348
Payments	(692,215)	(621,778)
Forex loss/gain	(114,232)	87,472
Write-off	–	(34,216)
As at 31 December	**2,091,196**	**1,365,804**

The Group had total cash outflows for leases of AMD 692,215 thousand in 2021 (2020: AMD 621,778 thousand).

The Group also had non-cash additions to right-of-use assets and lease liabilities of AMD 1,420,876 thousand in 2021 (2020: AMD 85,496 thousand).

20. Subordinated loans

Subordinated loans consisted of the following:

	2021	*2020*
Subordinated loan received from international financial institutions	9,794,000	11,130,839
Subordinated loans	**9,794,000**	**11,130,839**

In September 2020 the Group received a subordinated loan in amount of USD 10,000,000 maturing in September 2027. As of 31 December 2021 total carrying amount of these loans amounted to AMD 4,889,302 thousand (2020: AMD 11,130,839 thousand).

21. Other liabilities

	2021	*2020*
Accounts payable	5,750,351	6,481,365
Payables to employees	2,366,706	1,802,702
Provisions for credit-related commitments	211,416	397,404
Total other financial liabilities	**8,328,473**	**8,681,471**
Prepayments from lessees	3,959,354	1,139,852
Taxes payable other than on income	455,009	539,316
Payables to Deposit Guarantee fund	112,948	117,135
Other non-financial liabilities	160,715	140,505
Total other non-financial liabilities	**4,688,026**	**1,936,808**
Total other liabilities	**13,016,499**	**10,618,279**

As of 31 December 2021, accounts payable include payables to former shareholders of ACBA Bank OJSC for purchase of Bank’s shares in the amount of USD 5,156,929 equivalent AMD (2020: USD 7,736,850). This liability is subject to repayment until 30 September 2023 by annual equal payments. Payables are secured by 389 shares of ACBA Bank OJSC. For the payables with deferred payment requirement, the Group pays interests with an annual interest rate of 4%.

(thousands of Armenian Drams)

22. Equity

Issued capital

As of 31 December 2021 the Group's share capital was AMD 22,312,000 thousand (2020: AMD 22,312,000 thousand). The authorized, issued and outstanding share capital comprises 22,312,000 ordinary shares (2020: 22,312,000 ordinary shares) with a par value of AMD 1,000 (2020: AMD 1,000) each.

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

As of 31 December 2021 and 31 December 2020, shareholder of the Group are:

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

Nature and purpose of reserves

Revaluation surplus for property and equipment

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

Revaluation reserve for investment securities

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

Non-controlling interest of the Group

Share-based payments

In June 2021 the Group's employees received 147,530 ordinary shares of the Bank from ACBA Federation CJSC, each with a fair value of AMD 16,798.58 at grant date, with no consideration and conditions attached. As a result of the transaction the non-controlling interest in the subsidiary increased to 7.95%, the company's share decreased to 92.05%. Refer to Note 23.

Decrease in ownership in subsidiary

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

Dividends paid by subsidiary to non-controlling interests

The dividends paid to non-controlling interests by ACBA Bank OJSC in 2021 and 2020 amounted to AMD 125,000 thousand and AMD 85,000 thousand accordingly.

(thousands of Armenian Drams)

23. Share-based payments

Share-based payments

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

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

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

In June 2021 the Group's employees received 147,980 ordinary shares of the Bank from ACBA Federation CJSC, each with a fair value of AMD 16,798.58 at grant date, with no consideration and conditions attached. Total fair value of shares granted to Group's employees in amount of AMD 2,478,295 thousand was recognized as personnel expense in the consolidated statement of profit or loss with a corresponding increase in equity.

The Bank hired independent consultants for fair value estimation of its shares. Dividend discount approach was applied for valuation of the shares which included the following steps:

- Determination of general assumptions and structure of the financial model;
- Forecast of the balance sheet of the Bank and its subsidiaries;
- Forecast of the financial result of the Bank and its subsidiaries;
- Forecast of dividends with consideration of capital adequacy and liquidity requirements;
- Determination of discount rate;
- Determination of the Bank's terminal value;
- Analysis of assets and liabilities not included in forecast of the financial results;
- Calculation of 100% of the Bank's equity.

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

24. Commitments and contingencies

Operating environment

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

During 2021 the Group operated 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, Central Bank of Armenia has gradually increased policy interest rate by totally 2.5 percentage points ending the year with 7.75%. As a result the 12-month inflation grew, reaching 7.7% by the end of 2021, compared with 3.7% in 2020.

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

(thousands of Armenian Drams)

24. Commitments and contingencies (continued)

Legal

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

Taxation

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

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

Commitments and contingencies

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

	2021	*2020*
Credit related commitments		
Loan and credit line commitments	13,916,868	11,303,550
Credit card commitments	14,984,639	18,501,443
Guarantees and letters of credit	14,130,722	14,808,022
Commitments and contingencies	**43,032,229**	**44,613,015**

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

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

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

(thousands of Armenian Drams)

24. Commitments and contingencies (continued)

Commitments and contingencies (continued)

An analysis of changes in the ECLs during the year ended 31 December 2020 is as follows:

Loan, credit line and credit card commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2020	**111,284**	**2,343**	**3,615**	**117,242**
New exposures	120,762	–	–	**120,762**
Expired exposures	(35,695)	(1,068)	(2,681)	**(39,444)**
Transfers to Stage 1	1,215	(1,215)	–	**–**
Transfers to Stage 2	(628)	628	–	**–**
Transfers to Stage 3	(1,330)	(33)	1,363	**–**
Impact on period end ECL of exposures transferred between stages during the period	(671)	1,757	1,921	**3,007**
Changes to models and inputs used for ECL calculations	175,824	26	692	**176,542**
Foreign exchange adjustments	18,247	152	151	**18,550**
At 31 December 2020	**389,008**	**2,590**	**5,061**	**396,659**

Guarantees and letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2020	**284**	**284**
New exposures	740	**740**
Expired exposures	(279)	**(279)**
At 31 December 2020	**745**	**745**

25. Net interest income

Net interest income comprises:

	2021	***2020***
Financial assets measured at amortized cost		
Loans to legal entities and individuals	41,028,084	41,088,042
Amounts receivable under reverse repurchase agreements	598,700	852,099
Loans and advances to banks	193,600	221,875
Other	86,340	574
	41,906,724	**42,162,590**
Financial assets measured at fair value through other comprehensive income		
Debt instruments	1,333,388	1,214,837
Interest revenue calculated using effective rate	**43,240,112**	**43,377,427**
Receivables from finance leases	3,022,189	2,182,233
Other interest income	476,102	493,763
Other interest revenue	**3,498,291**	**2,675,996**
Total interest revenue	**46,738,403**	**46,053,423**
Interest expense		
Current accounts and deposits from customers	13,189,865	12,052,482
Other borrowed funds and subordinated loans except lease liabilities	7,340,858	7,432,396
Amounts payable under repurchase agreements	261,868	7,045
Debt securities issued	181,868	241,533
Other	268,359	512,836
Interest expense calculated using effective interest rate	**21,242,818**	**20,246,292**
Lease liabilities	110,963	99,348
Interest expense	**21,353,781**	**20,345,640**
Net interest income	**25,384,622**	**25,707,783**

(thousands of Armenian Drams)

26. Net fee and commission income

Net fee and commission income comprise:

	2021	*2020*
Plastic card maintenance	3,853,604	2,631,976
Money transfers	668,611	722,246
Banking account servicing fees	442,752	509,343
Guarantee and letter of credit issuance	436,782	388,446
Cash withdrawal services	262,213	194,490
Commissions from lease equipment suppliers	228,322	303,463
Commissions for acting as an insurance agent	135,167	132,980
Other	267,108	33,350
Fee and commission income	**6,294,559**	**4,916,294**
Plastic card maintenance	2,319,495	1,637,775
Money transfers	64,341	65,868
Other	126,718	164,965
Fee and commission expense	**2,510,554**	**1,868,608**
Net fee and commission income	**3,784,005**	**3,047,686**

27. Net foreign exchange gain

	2021	*2020*
Net gain from foreign exchange trading activities	2,919,335	2,147,112
Net loss from foreign exchange translation	(634,753)	(141,233)
	2,284,582	**2,005,879**

28. Other income

	2021	*2020*
Fines and penalties received	2,139,674	1,434,887
Gain from revaluation of land and buildings	527,612	–
Other	355,318	133,117
Total other income	**3,022,604**	**1,568,004**

29. Other operating expenses

Other operating expenses comprise:

	2021	*2020*
Guarantee fees on deposit insurance fund	448,438	471,998
Loan collection expenses	363,975	183,641
Taxes other than on income	301,414	222,313
Credit card related expenses	272,006	204,128
Encashment expenses	173,831	160,708
Loss on disposal of property, plant and equipment	112,292	–
Fines and penalties paid	27,163	21,941
Loss on disposal of other assets	–	15,267
Other	312,000	225,270
Other operating expenses	**2,011,119**	**1,505,266**

The Group recognised rent expense from short-term leases of AMD 7,617 thousand and leases of low-value assets of AMD 28,442 thousand for the year ended 31 December 2021 (2020 − rent expense from short-term leases of AMD 8,910 thousand and leases of low-value assets of AMD 27,066 thousand).

(thousands of Armenian Drams)

30. Other general administrative expenses

	2021	*2020*
Advertising and marketing	1,073,077	702,010
Repairs and maintenance	678,502	785,847
Software maintenance expense	653,309	911,209
Communications	361,510	318,442
Security	279,454	282,348
Utilities and office supplies	193,222	183,152
Representative expenses	168,424	29,419
Insurance	153,154	134,706
Operating lease expense	32,240	30,684
Other	430,561	130,545
Other general administrative expenses	**4,023,453**	**3,508,362**

31. Risk management

Introduction

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

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

Risk management structure

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

Board of the Bank

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

Chief Executive Officer of the Bank

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

Risk Management Committee of the Bank

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

Risk Management Department of the Bank

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

Assets and Liabilities Management Division of the Bank

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

Internal audit of the Bank

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

(thousands of Armenian Drams)

31. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Group takes individual approach when analyzing and assessing different types of risks through applying statistical models, sensitivity analysis, as well as analyzing the dynamics of various risk indicators and taking appropriate actions in case of necessity. The models are further backtested for checking the validity. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Credit risk information related to all the business lines is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Chief Executive Officer, the Risk Management Committee, and the head of each business division. The report to Risk Management Committee includes aggregate credit exposure analysis, credit concentration limits monitoring results, GAP analysis, VaR estimations, liquidity ratios and benchmark analysis, stress test analysis, overall risk appetite control and risk profile changes. On a quarterly basis detailed reporting of industry, customer and business line risks takes place. The Risk Management Committee discusses the critical risk issue and approves on actions to mitigate and control them. The Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

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

Risk mitigation

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

The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

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

Credit risk

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

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

Derivative financial instruments

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

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

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Notes 11 and 12.

Impairment assessment

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

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

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

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

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 91 days past due on its contractual payments. The Group considers amounts due from banks defaulted and takes immediate action if counterparty at the end of reporting date fails to do payment of the accrued interest (coupon) and/or principal amount more than 15 business days.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as the quality of credits due to affiliated parties, the state of being rescheduled, as well as the outcome of financial monitoring, which are approved by the management.

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

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

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

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

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

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

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

Exposure at default

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

Loss given default

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

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties;
- Significant difficulties in the financial conditions of the borrower;
- Renegotiation of the loan terms resulting from deterioration of the borrower's financial position;
- The outcome of the financial monitoring of the borrower's activity.

Forward-looking information and multiple economic scenarios

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

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

The Group obtains the forward-looking information from third party sources (Economic Intelligence Unit and World Bank Database, as well as Government of the RA Forecasts). 15%, 70% and 15% probabilities are attributed to each of the corresponding scenarios: best case, base and worst case scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations as at 31 December 2021.

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations 31 December 2020.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2021*	*2022*	*2023*
GDP annual growth, %					
	Upside	15%	6.09%	8.51%	9.08%
	Base case	70%	3.40%	4.70%	4.40%
	Downside	15%	0.71%	0.89%	-0.28%
Industrial production annual growth, %					
	Upside	15%	5.93%	8.52%	8.33%
	Base case	70%	2.80%	3.20%	3.40%
	Downside	15%	-3.13%	1.68%	2.51%
Fiscal/Budget Deficit thousand AMD					
	Upside	15%	(162,402,853)	(37,878,094)	(60,035,085)
	Base case	70%	(341,400,000)	(228,832,136)	(258,820,471)
	Downside	15%	(520,397,147)	(419,786,179)	(457,605,856)
Consumer price inflation, % (cum)					
	Upside	15%	1.22%	1.10%	1.23%
	Base case	70%	3.30%	3.70%	4.20%
	Downside	15%	5.38%	6.30%	7.17%
Exports of goods volume, thousand AMD					
	Upside	15%	1,475,644,347	1,706,701,048	1,958,721,508
	Base case	70%	1,350,542,177	1,447,781,214	1,550,573,680
	Downside	15%	1,225,440,007	1,210,023,715	1,203,168,612
Imports of goods, volume thousand AMD					
	Upside	15%	2,747,902,737	3,281,384,516	3,876,590,198
	Base case	70%	2,444,087,071	2,622,505,427	2,800,835,796
	Downside	15%	2,140,271,404	2,037,235,668	1,944,768,432
Construction annual growth, %					
	Upside	15%	8.70%	12.46%	13.96%
	Base case	70%	1.70%	4.00%	4.50%
	Downside	15%	-5.30%	-4.46%	-4.96%
Share of total bank loans in GDP, %					
	Upside	15%	64.46%	66.86%	68.93%
	Base case	70%	66.73%	70.57%	74.20%
	Downside	15%	69.24%	74.69%	80.08%
Exchange rate USD/AMD, end-period					
	Upside	15%	515.89	501.10	480.36
	Base case	70%	533.00	538.50	539.50
	Downside	15%	550.11	577.24	603.26

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The following table provides information on the credit quality of net loans to legal entities and individuals and receivables from finance lease as at 31 December 2021 and 31 December 2020:

2021	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Loans to customers at amortised cost	11						
- Corporate lending		Stage 1	446,110	103,200,193	−	−	**103,646,303**
		Stage 2	−	−	9,427,578	−	**9,427,578**
		Stage 3	−	−	−	4,680,896	**4,680,896**
		POCI	−	−	−	101,096	**101,096**
- Agricultural loans		Stage 1	1,166,512	99,438,028	−	−	**100,604,540**
		Stage 2	−	−	2,462,054	−	**2,462,054**
		Stage 3	−	−	−	2,777,936	**2,777,936**
- Consumer loans		Stage 1	104,915	67,768,522	−	−	**67,873,437**
		Stage 2	−	−	2,683,211	−	**2,683,211**
		Stage 3	−	−	−	2,943,491	**2,943,491**
- Credit cards		Stage 1	173,944	9,769,101	−	−	**9,943,045**
		Stage 2	−	−	356,165	−	**356,165**
		Stage 3	−	−	−	562,613	**562,613**
- Mortgage loans		Stage 1	7,797,703	23,114,459	−	−	**30,912,162**
		Stage 2	−	−	1,011,131	−	**1,011,131**
		Stage 3	−	−	−	498,705	**498,705**
		POCI	−	−	−	33,143	**33,143**
- Gold-secured loans		Stage 1	−	6,330	−	−	**6,330**
		Stage 2	−	−	771	−	**771**
		Stage 3	−	−	−	3,758	**3,758**
Receivables from finance lease	12	Stage 1	−	29,753,092	−	−	**29,753,092**
		Stage 2	−	−	1,100,284	−	**1,100,284**
		Stage 3	−	−	−	379,691	**379,691**
Total			**9,689,184**	**333,049,725**	**17,041,194**	**11,981,329**	**371,761,432**

2020	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Loans to customers at amortised cost	11						
- Corporate lending		Stage 1	549,575	86,437,062	−	−	**86,986,637**
		Stage 2	−	−	13,829,254	−	**13,829,254**
		Stage 3	−	−	−	4,466,971	**4,466,971**
		POCI	−	−	−	212,777	**212,777**
- Agricultural loans		Stage 1	451,186	85,825,885	−	−	**86,277,071**
		Stage 2	−	−	3,257,201	−	**3,257,201**
		Stage 3	−	−	−	2,762,075	**2,762,075**
- Consumer loans		Stage 1	952,930	58,039,842	−	−	**58,992,772**
		Stage 2	−	−	4,622,137	−	**4,622,137**
		Stage 3	−	−	−	1,921,474	**1,921,474**
- Credit cards		Stage 1	1,260,534	10,719,903	−	−	**11,980,437**
		Stage 2	−	−	148,209	−	**148,209**
		Stage 3	−	−	−	516,233	**516,233**
		POCI	−	−	−	608	**608**
- Mortgage loans		Stage 1	5,033,842	18,134,172	−	−	**23,168,014**
		Stage 2	−	−	1,173,505	−	**1,173,505**
		Stage 3	−	−	−	384,834	**384,834**
		POCI	−	−	−	30,409	**30,409**
- Gold-secured loans		Stage 1	−	1,401,774	−	−	**1,401,774**
		Stage 2	−	−	22,717	−	**22,717**
		Stage 3	−	−	−	47,123	**47,123**
Receivables from finance lease	12	Stage 1	−	22,322,854	−	−	**22,322,854**
		Stage 2	−	−	2,583,047	−	**2,583,047**
		Stage 3	−	−	−	111,493	**111,493**
Total			**8,248,067**	**282,881,492**	**25,636,070**	**10,453,997**	**327,219,626**

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

The tables below present average PDs per grades for loans to customers and receivables from finance lease under baseline scenario as of 31 December 2021 and 31 December 2020:

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

2020	***Grade***	***Average PD***
Corporate lending	Standard	2.11%
	Sub-standard	14.54%
	Impaired	100%
Agricultural loans	Standard	4.33%
	Sub-standard	31.63%
	Impaired	100%
Consumer loans	Standard	6.16%
	Sub-standard	65.90%
	Impaired	100%
Credit cards	Standard	6.33%
	Sub-standard	48.64%
	Impaired	100.00%
Mortgage loans	Standard	1.21%
	Sub-standard	36.90%
	Impaired	100.00%
Gold-secured loans	Standard	1.85%
	Sub-standard	18.91%
	Impaired	100.00%
Receivables from finance lease	Standard	1.08%
	Sub-standard	7.47%
	Impaired	100.00%

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

(thousands of Armenian Drams)

31. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

As at 31 December 2021:

	Note		*High grade*	*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	1,322,505	77,534,883	**78,857,388**
Loans and advances to banks	9	Stage 1	–	19,675,099	**19,675,099**
Debt securities at amortised cost	10	Stage 1	–	180,897	**180,897**
Debt securities at FVOCI	10	Stage 1	–	21,002,202	**21,002,202**
Total			**1,322,505**	**118,393,081**	**119,715,586**

As at 31 December 2020:

	Note		*High grade*	*Standard grade*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	5,989,212	44,970,930	**50,960,142**
Loans and advances to banks	9	Stage 1	–	57,243,494	**57,243,494**
Debt securities at FVOCI	10	Stage 1	–	14,277,282	**14,277,282**
Total			**5,989,212**	**116,491,706**	**122,480,918**

The table below shows the mapping of the Group's grading system and external ratings of the counterparties as at 31 December 2021 and 31 December 2020.

2021:

International external rating agency (Moody's) rating	*Internal rating description*	*PD*
Aaa to A3	High grade	0-0.05%
Baa1 to B3	Standard	0.02-3.2%
Caa1 to Ca	Sub-standard grade	9.7%
C	Impaired	100%

2020:

International external rating agency (Moody's) rating	*Internal rating description*	*PD*
Aaa to A3	High grade	0-0.06%
Baa1 to B3	Standard	0.06-3.3%
Caa1 to Ca	Sub-standard grade	9.7%
C	Impaired	100%

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the CBA, the amount of which depends on the level of customer funds attracted.

(thousands of Armenian Drams)

31. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group, based on certain liquidity ratios established by the CBA. As at 31 December, these ratios were as follows:

	Threshold	*2021, %*	*2020, %*
N2.1 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	24.57%	24.74%
N2.2 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	111.12%	125.48%

Analysis of financial liabilities by remaining contractual maturities

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

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

As at 31 December 2020	*Trading derivatives*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Derivative financial liabilities	79,893	–	–	–	–	**79,893**
Deposits and balances from banks	–	45,717	–	–	–	**45,717**
Current accounts and deposits from customers	–	136,030,031	124,719,006	42,040,892	10,776,582	**313,566,511**
Debt securities issued	–	14,083,221	3,113,853	131,100	–	**17,328,174**
Subordinated loans	–	215,779	490,064	2,825,307	11,941,269	**15,472,419**
Other borrowed funds except lease liabilities	–	14,936,834	12,341,880	77,763,727	11,565,611	**116,608,052**
Other financial liabilities	–	4,636,321	–	4,045,150	–	**8,681,471**
Total undiscounted financial liabilities	**79,893**	**169,947,903**	**140,664,803**	**126,806,176**	**34,283,462**	**471,782,237**
Credit related commitments	**–**	**44,613,015**	**–**	**–**	**–**	**44,613,015**

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

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

The analysis of lease liabilities at 31 December 2020 is as follows:

	Not later than 1 year	*Between 1 and 2 years*	*Between 2 and 3 years*	*Between 3 and 4 years*	*Between 4 and 5 years*	*Later than 5 years*	*Total*
Lease liabilities	392,504	338,668	290,547	151,415	103,551	89,119	**1,365,804**

(thousands of Armenian Drams)

31. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

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

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

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

Currency	*Increase in basis points 2020*	*Sensitivity of net interest income 2020*	*Sensitivity of equity 2020*
AMD	1.10%	(360,794)	(3,339)
USD	1.00%	(156,777)	(376,375)

Currency	*Decrease in basis points 2020*	*Sensitivity of net interest income 2020*	*Sensitivity of equity 2020*
AMD	1.10%	360,794	3,339
USD	0.25%	39,194	94,094

Currency risk

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

(thousands of Armenian Drams)

31. Risk management (continued)

Market risk (continued)

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

Currency	*Change in currency rate in % 2021*	*Effect on profit before tax 2021*	*Change in currency rate in % 2020*	*Effect on profit before tax 2020*
USD	5.00%	184,968	5.00%	(156,214)
USD	(5.00%)	(184,968)	(5.00%)	156,214
EUR	8.50%	(139,456)	8.50%	(77,159)
EUR	(8.50%)	139,456	(8.50%)	77,159

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

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

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

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

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

31 December 2021	*Non-derivative financial assets − carrying value*	*Non-derivative financial liabilities carrying value*	*Derivatives nominal amount*
LIBOR USD (3 months)	−	6,000,000	−
LIBOR USD (6 months)	2,656,872	29,091,000	19,091,000
Other	6,344,927	−	

Operational risk

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

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

(thousands of Armenian Drams)

32. Fair value measurements

Fair value measurement procedures

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

External valuers are involved for valuation of significant assets, such as properties, securities held at FVPL or at FVOCI and derivatives. Involvement of external valuers is decided by the management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

Fair value hierarchy

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

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

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

	Fair value measurement using			
At 31 December 2021	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Trading securities	−	433,697	−	**433,697**
- Derivative financial assets	−	38,625	−	**38,625**
Financial assets at fair value through other comprehensive income				
- Debt instruments	−	21,002,202	−	**21,002,202**
- Equity instruments	2,759,029	−	−	**2,759,029**
- Unquoted equity securities − local companies	−	−	115,381	**115,381**
Non-financial assets				
- Property and equipment − land and buildings, motor vehicles	−	−	11,551,067	**11,551,067**
Assets for which fair values are disclosed				
- Cash and cash equivalents	96,447,988	−	−	**96,447,988**
- Loans and advances to banks	−	−	19,619,083	**19,619,083**
- Debt securities at amortised cost	−	−	118,217	**118,217**
- Receivables from finance leases	−	−	31,213,390	**31,213,390**
- Other financial assets	−	−	1,331,573	**1,331,573**
- Loans to customers	−	−	340,330,883	**340,330,883**
Liabilities for which fair values are disclosed				
- Current accounts and deposits from customers	−	−	340,034,498	**340,034,498**
- Debt securities issued − domestic bonds issued	−	3,494,385	−	**3,494,385**
- Deposits and balances from banks	−	−	1,070,890	**1,070,890**
- Subordinated loans	−	−	9,794,000	**9,794,000**
- Other borrowed funds	−	−	93,347,410	**93,347,410**
- Other financial liabilities	−	−	8,328,473	**8,328,473**

(thousands of Armenian Drams)

32. Fair value measurements (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
At 31 December 2020	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Trading securities	−	319,353	−	**319,353**
- Derivative financial assets	−	250,207	−	**250,207**
- Derivative financial liabilities	−	(79,893)	−	**(79,893)**
Financial assets at fair value through other comprehensive income				
- Debt instruments	−	14,277,282	−	**14,277,282**
- Equity instruments	3,009,909	−	−	**3,009,909**
- Unquoted equity securities − local companies	−	−	117,876	**117,876**
Non-financial assets				
- Property and equipment −land and buildings, motor vehicles	−	−	9,783,958	**9,783,958**
Assets for which fair values are disclosed				
- Cash and cash equivalents	66,398,135	−	−	**66,398,135**
- Loans and advances to banks	−	−	57,171,584	**57,171,584**
- Receivables from finance leases	−	−	25,017,394	**25,017,394**
- Other financial assets	−	−	982,646	**982,646**
- Loans to customers	−	−	302,106,031	**302,106,031**
Liabilities for which fair values are disclosed				
- Current accounts and deposits from customers	−	−	298,453,252	**298,453,252**
- Debt securities issued − domestic bonds issued	−	2,760,813	−	**2,760,813**
- Deposits and balances from banks	−	−	45,717	**45,717**
- Subordinated loans	−	−	11,130,839	**11,130,839**
- Other borrowed funds	−	−	101,043,374	**101,043,374**
- Other financial liabilities	−	−	8,681,471	**8,681,471**

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

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

	Carrying value 2021	***Fair value 2021***	***Unrecognised loss 2021***	***Carrying value 2020***	***Fair value 2020***	***Unrecognised loss 2020***
Financial assets						
Cash and cash equivalents	96,447,988	96,447,988	−	66,398,135	66,398,135	−
Loans and advances to banks	19,619,083	19,619,083	−	57,171,584	57,171,584	−
Investment securities − debt securities at amortised cost	118,217	118,217	−	−	−	−
Receivables from finance leases	31,233,067	31,213,390	(19,677)	25,017,394	25,017,394	−
Other financial assets	1,331,573	1,331,573	−	982,646	982,646	−
Loans to customers	340,528,365	340,330,883	(197,482)	302,202,232	302,106,031	(96,201)
Financial liabilities						
Current accounts and deposits from customers	336,550,246	340,034,498	(3,484,252)	296,742,238	298,453,252	(1,711,014)
Debt securities issued − domestic bonds issued	3,461,498	3,494,385	(32,887)	2,754,997	2,760,813	(5,816)
Deposits and balances from banks	1,070,890	1,070,890	−	45,717	45,717	−
Subordinated loans	9,794,000	9,794,000	−	11,130,839	11,130,839	−
Other borrowed funds	92,331,761	93,347,410	(1,015,649)	101,043,374	101,043,374	−
Other financial liabilities	8,328,473	8,328,473	−	8,681,471	8,681,471	−
Total unrecognised change in fair value			**(4,749,947)**			**(1,813,031)**

(thousands of Armenian Drams)

32. Fair value measurements (continued)

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Derivatives

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

Financial assets at fair value through other comprehensive income

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

Property and equipment − land, buildings and motor vehicles

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the date of revaluation, 1 December 2021, land and buildings' and motor vehicles' fair values are based on valuations performed by RVM CONSULT LLC, an independent valuer.

33. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 31 Risk management for the Group's contractual undiscounted repayment obligations.

	2021			*2020*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	96,447,988	−	**96,447,988**	66,398,135	−	**66,398,135**
Trading securities	433,697	−	**433,697**	−	319,353	**319,353**
Derivative financial assets	2,404	36,221	**38,625**	250,207	−	**250,207**
Loans and advances to banks	4,941,291	14,677,792	**19,619,083**	43,424,475	13,747,109	**57,171,584**
Investment securities	3,936,354	20,058,475	**23,994,829**	3,824,061	13,581,006	**17,405,067**
Loans to customers	38,365,956	302,162,409	**340,528,365**	45,423,135	256,779,097	**302,202,232**
Receivables from finance leases	13,587,107	17,645,960	**31,233,067**	9,366,831	15,650,563	**25,017,394**
Investments in associates	−	1,218,677	**1,218,677**	−	984,442	**984,442**
Property, equipment and intangible assets	−	23,729,559	**23,729,559**	−	21,211,192	**21,211,192**
Deferred tax assets	−	91,722	**91,722**	−	167,436	**167,436**
Other assets	8,954,008	1,773,090	**10,727,098**	3,782,501	1,536,482	**5,318,983**
Total	**166,668,805**	**381,393,905**	**548,062,710**	**172,469,345**	**323,976,680**	**496,446,025**
Derivative financial liabilities	−	−	**−**	79,893	−	**79,893**
Deposits and balances from banks	199,906	870,984	**1,070,890**	45,717	−	**45,717**
Current accounts and deposits from customers	278,131,179	58,419,067	**336,550,246**	253,125,915	43,616,323	**296,742,238**
Debt securities issued	−	5,068,908	**5,068,908**	8,439,060	−	**8,439,060**
Other borrowed funds	17,834,751	74,497,010	**92,331,761**	21,420,925	79,622,449	**101,043,374**
Subordinated loans	−	9,794,000	**9,794,000**	−	11,130,839	**11,130,839**
Current income tax liabilities	1,187,740	−	**1,187,740**	126,703	−	**126,703**
Deferred tax liabilities	−	1,296,678	**1,296,678**	−	680,497	**680,497**
Other liabilities	11,018,754	1,997,745	**13,016,499**	7,190,914	3,427,365	**10,618,279**
Total	**308,372,330**	**151,944,392**	**460,316,722**	**290,429,127**	**138,477,473**	**428,906,600**
Net	**(141,703,525)**	**229,449,513**	**87,745,988**	**(117,959,782)**	**185,499,207**	**67,539,425**

(thousands of Armenian Drams)

33. Maturity analysis of assets and liabilities (continued)

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

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

34. Related party disclosures

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

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

The outstanding balances of related party transactions are as follows:

	2021	*2020*
	Key management personnel and their close family members	*Key management personnel and their close family members*
Loans outstanding at 1 January, gross	**400,678**	**406,218**
Loans issued during the year	231,933	322,421
Loan repayments during the year	(284,431)	(325,443)
Other movements	(2,116)	(2,518)
Loans outstanding at 31 December, gross	**346,064**	**400,678**
Less: allowance for impairment at 31 December	(2,205)	(5,968)
Loans outstanding at 31 December, net	**343,859**	**394,710**
Current accounts and deposits at 1 January	**1,545,556**	**1,145,398**
Current accounts and deposits received during the year	1,351,459	2,743,951
Current accounts and deposits repaid during the year	(2,002,486)	(2,343,793)
Other movements	–	–
Current accounts and deposits at 31 December	**894,529**	**1,545,556**

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

	For the year ended 31 December	
	2021	*2020*
	Key management personnel and their close family members	*Key management personnel and their close family members*
Interest income on loans	12,467	19,016
Interest expense on deposits	99,945	118,678

Compensation of key management personnel was comprised of the following:

	2021	*2020*
Salaries and other short-term benefits	1,623,490	1,291,822
Share-based payments	1,576,855	–
Total key management personnel compensation	**3,200,345**	**1,291,822**

(thousands of Armenian Drams)

35. Investments in associates

The Group has an interest in Amundi-Acba Asset management CJSC where the Group owns 49% of shares (31 December 2020: 49%). The associate of the Group was incorporated in 2013 and is regulated by the legislation of the Republic of Armenia. The principal activity of the associate is the management of mandatory pension funds. The associate's activities are supervised by the Central Bank of Armenia. As at 31 December 2021 the carrying value of the investment comprised AMD 1,218,677 thousand (2020: AMD 984,442 thousand).

The summarised financial information of material associates is presented below

	2021	*2020*
Assets		
Cash and cash equivalents	282,054	76,471
Amounts due from financial institutions	872,939	605,281
Investments measured at FVOCI	1,430,007	1,387,790
Property, plant and equipment and right-of-use assets	35,506	58,351
Deferred tax asset	7,042	5,975
Other assets	245,761	182,110
Total assets	**2,873,309**	**2,315,978**
Liabilities		
Current income tax liability	221,910	118,001
Other liabilities	162,008	192,002
Total liabilities	**383,918**	**310,003**
Net assets	**2,489,391**	**2,005,975**
Group's share in net assets	1,218,677	984,442

	2021	*2020*
Fee and commission income	2,378,922	1,693,453
Interest and similar income	56,040	36,317
Income from financial advisory	13,023	7,535
Other income	1,515	3,254
Net loss from foreign currency transactions	(800)	(13,975)
Staff costs	(126,119)	(94,428)
Administrative and other expenses	(872,181)	(636,838)
Profit before income tax	**1,450,400**	**995,318**
Income tax expense	(268,718)	(179,078)
Profit for the year	**1,181,682**	**816,240**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Unrealised gains on investments measured at FVOCI	42,216	131,331
Other comprehensive income for the year, net of tax	**42,216**	**131,331**
Total comprehensive income for the year	**1,223,898**	**947,571**

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

	2021	*2020*
Profit for the year	**579,024**	**399,958**
Other comprehensive income	20,686	64,352
Total comprehensive income for the year	**599,710**	**464,310**

As at 31 December 2021, there were no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends. The Group received dividends in amount of AMD 365,475 thousand for the year ended 31 December 2021 (2020: AMD 229,310 thousand).

(thousands of Armenian Drams)

36. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2019 (unaudited)	18, 19, 20	**12,734,895**	**85,203,800**	**4,854,305**	**102,793,000**
Proceeds from issue		–	47,077,963	7,098,874	**54,176,837**
Redemption		(3,631,337)	(33,580,438)	(950,933)	**(38,162,708)**
Foreign currency translation		2,000	20,946	2,600	**25,546**
Non-cash transactions (IFRS 16)		–	172,968	–	**172,968**
Other		(666,498)	2,148,135	125,993	**1,607,630**
Carrying amount at 31 December 2020	18, 19, 20	**8,439,060**	**101,043,374**	**11,130,839**	**120,613,273**
Proceeds from issue		3,461,498	33,778,000	–	**37,239,498**
Redemption		(6,033,577)	(43,034,045)	–	**(49,067,622)**
Foreign currency translation		(780,329)	(2,095,668)	(1,227,040)	**(4,103,037)**
Non-cash transactions (IFRS 16)		–	1,531,839	–	**1,531,839**
Other		(17,744)	1,108,261	(109,799)	**980,718**
Carrying amount at 31 December 2021	18, 19, 20	**5,068,908**	**92,331,761**	**9,794,000**	**107,194,669**

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

37. Capital adequacy

To mitigate risks inherent in the Group's activities, the Group manages its capital in accordance with the Armenian legislation and requirements of the CBA at the level of Bank within the Group.

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

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2021 and 31 December 2020, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2021 and 31 December 2020.

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

	2021	*2020*
Tier 1 Capital	74,007,160	57,650,620
Tier 2 Capital	15,934,557	17,409,390
Total capital	**89,941,717**	**75,060,010**
Total risk weighted assets	**507,923,050**	**459,110,363**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**17.71%**	**16.35%**

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

(thousands of Armenian Drams)

38. Events after reporting date

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia. It is expected that the war will have a negative impact on the Armenian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment. The Group considers the war in Ukraine to be a non-adjusting post balance sheet event.