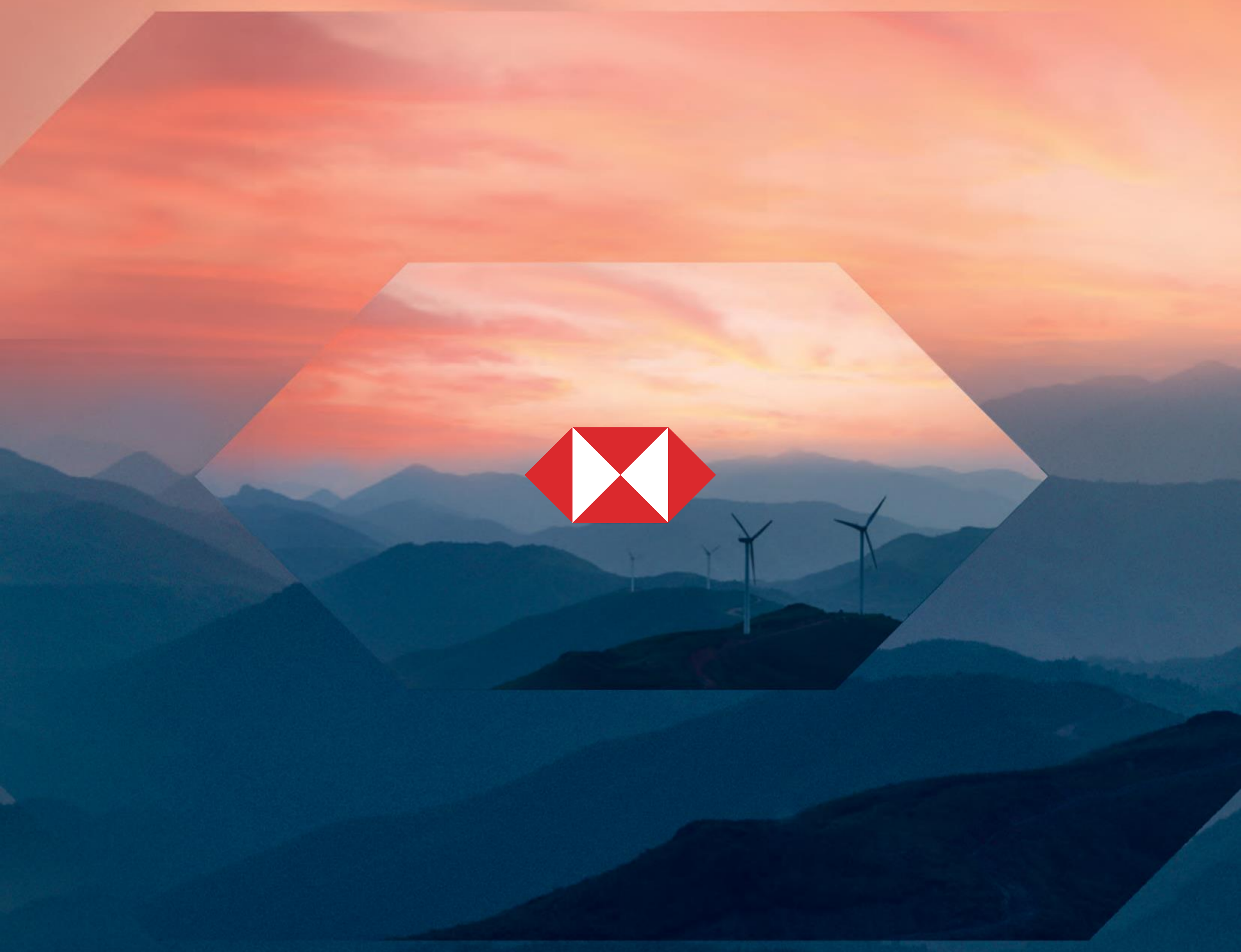
HSBC Bank Armenia CJSC

Annual Financial Statements 2021



HSBC | Opening up a world of opportunity

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Who we are

About HSBC

With assets of $3.0tn and operations in 64 countries and territories at 31 December 2021, HSBC is one of the largest banking and financial services organisations in the world. Approximately 40 million customers bank with us and we employ around 220,000 full-time equivalent staff. We have around 187,000 shareholders in 128 countries and territories.

Our values

Our values help define who we are as an organisation, and are key to our long-term success.

We value difference
Seeking out different perspectives

We succeed together
Collaborating across boundaries

We take responsibility
Holding ourselves accountable and taking the long view

We get it done
Moving at pace and making things happen

HSBC in Armenia

HSBC Bank Armenia CJSC is wholly owned subsidiary of HSBC Group. With 6 offices in Yerevan and around 300 employees, we serve around 30,000 customers through three Global Businesses: Wealth and Personal Banking, Wholesale Banking and Markets and Securities Services.

Wealth and Personal Banking
We help our customers look after their day-to-day finances and manage, protect and grow their wealth.

Wholesale Banking
Our global reach and expertise help domestic and international businesses around the world unlock their potential.

Markets and Securities Services
We provide a comprehensive range of financial services to corporates, institutions and individuals.

Highlights

Despite continued geopolitical challenges, Covid-19 outbreaks, high inflationary pressures and global supply chain problems, HSBC Bank Armenia CJSC demonstrated strong performance thanks to the recovering economy and our focus on strategic priorities.

Financial performance (vs 2020)

▲ 7%
AMD154bln
Loans

▲ 17.3%
AMD3.8bln
Profit before tax

▲ 1.3p.p
7.2%
Return on tangible equity

▲ 16.5%
AMD199bln
Deposits

▲ 14.3%
AMD15.4bln
Operating income

▲ 0.3p.p.
16.4%
Capital adequacy ratio

Reported profit before tax increased by 17.3% to AMD3.8bln. mainly driven by an increase in operating income, partially offset by increase of expected credit losses and operating expenses. All businesses were profitable.

Operating income increased by 14.3% to AMD15.4bln., mainly driven by an increase in net interest income, which was the reflection of the lending portfolio growth.

Operating expenses increased by 6.6% to AMD9.1bln. mainly attributable to investments and maintenance of the technology infrastructure.

Loans increased 7% year-on-year to AMD154bln, mainly thanks to to significant increase in the retail business. Retail loan portfolio increased by 44.4% over the 12 months.

Deposits increased by 16.5% on prior year to AMD 199.1bln. mainly thanks to significant increase in wholesale deposits.

Capital adequacy ratio was 16.4% and improved on prior year by 0.3p.p.

2021 Awards

We have won industry awards for the quality of service we provide to our customers.

Euromoney Trade Finance Survey 2021 - Market Leader for Trade Finance in Armenia

Euromoney Cash Management Survey 2021
- Number 1 Domestic Cash Manager for Corporates in Armenia

HSBC Bank Armenia CJSC Chairman’s statement

Andrew Beane
Chairman

2021 was another challenging year with continued geopolitical challenges, Covid-19 outbreaks, high inflationary pressures and global supply chain problems.

We still observed pandemic effect on our clients, our colleagues and the community we serve. With the vaccination levels being low in Armenia for most of the year, until internationally recognised vaccines became widely available in the country, we needed to deal with significant Covid-19 outbreaks, so the priority remained on dealing with the public health crisis on top of continued geopolitical challenges.

The banking sector has been at the forefront of helping businesses and individuals through the difficulties they have faced, working with the Government, Regulator and clients towards expected recovery and future growth. My colleagues, once again demonstrated their resilience, their professionalism, dedication and energy in serving our customers and supporting each other. On behalf of the Board, I would like to express deepest thanks to all of them for the exceptional way they have been responding to these most challenging circumstances.

Despite the challenges, good progress has been made in executing our strategic priorities. HSBC Bank Armenia CJSC (the “Bank”) delivered good financial performance in 2021 across all business lines. Reported profit before tax was AMD3.809million, 17.3% increase on 2020. Our funding, liquidity and capital position remained strong. We continued investing in technology with good progress achieved on a number of initiatives aimed at digitising our operations and making it more efficient for our colleagues and clients.

In line with the Group’s strategy, we are committed to making our operations in Armenia carbon neutral by 2030 and to focus on helping our clients to do the same. It is essential that we all strive to achieve the ambitious targets set in Glasgow last year, if we are to prevent the catastrophic climate changes for the benefit of future generations.

Board of Directors

During 2021 HSBC acquired 30% stake from our founding partner in Armenia, Wings Establishment, as a result of which HSBC Europe B.V. became 100% shareholder of the Bank. We would like to express our sincere thanks to Wings Establishment for our 25 years’ successful partnership, which allowed to make our business in Armenia a success.

Considering this change, Watche Manoukian, David Budd and Ara Alexanian stepped-down from the Board. During the year there were also other changes to the membership of the Board with Yulia Shadrina and Richard van der Meer resigning from the Board. I would like to thank all of them for their enormous contribution to the Bank over many years.

We welcomed Terecina Kwong, Aram Shoukourian and Niccolo Polli to the Board, who bring a wealth of skills and valuable expertise across a wide range of areas.

Future opportunities and challenges

The geopolitical environment remains challenging and we continue to be mindful of the potential impact that it could have on the economy, our clients and our strategy.

Given the uncertain external environment, it is vital we stay focused on what we can control, work closely with the management team on progressing with our priorities, ensuring robust control environment, seeking for safe growth opportunities and supporting our clients to overcome current challenges and develop business.

Finally, I would like to reiterate once again, how grateful I am to all our colleagues for their great dedication and tremendous efforts throughout the year. I would also like to thank our management team for their leadership in challenging times.

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Andrew Beane
Chairman

HSBC Bank Armenia CJSC Chief Executive’s review

Irina Seylanyan
Chief Executive Officer

As the Chairman stated, 2021 continued to be a challenging year due to continued Covid-19 pandemic, geopolitical challenges, inflationary pressures and global supply chain problems.

Despite those challenges, the Armenian economy started to recover, reporting GDP growth of 5.8% in 2021 after registering a decline of 7.6% in 2020. HSBC Bank Armenia CJSC (the “Bank”) demonstrated strong performance thanks to the recovering economy and our focus on strategic priorities. Reported profit before tax was AMD3.809million, 17.3% increase on 2020. Our loan portfolio, customer deposits and revenues grew faster than the market average, which improved key performance ratios and our position in the market compared to 2020. Our team delivered great level of support to our customers under difficult circumstances in Armenia, while our strong balance sheet and liquidity gave reassurance to rely on us.

The Bank celebrated its 25th anniversary of operation in Armenia. During the past 25 years, we have witnessed essential changes in Armenia’s financial sector, with the Bank playing an important role in contributing to its development by bringing best international banking practices at the early stages of the development of the modern banking system in Armenia and promotion of the standards of corporate governance, customer service and conduct.

We continue to actively play our part in the Armenian financial sector. We provide banking and financial services to around 30,000 customers through our three Global Businesses: Wealth and Personal Banking, Wholesale Banking and Markets & Security Services. We continuously strive to enhance the quality of the products and services that we offer in Armenia. In 2021, in line with the changing needs of our customers, we have continued investments in technology and accelerated shifting from physical to digital banking. We launched new online product and customer service journeys and continued to grow digital and self-service channels usage with over 90% of transactions now carried out via those channels. All these efforts enabled us to optimize our branch network footprint, while our product offering and number of customers increased. Our retail, especially mortgage portfolio, increased by 44% and we have increased our wholesale banking customer base by 15%.

As a member of HSBC Group we continued to closely cooperate with other banks and financial institutions within the Group aiming to provide various high quality services to customers. We have introduced HSBC’s award-winning intelligent and interactive platform, HSBC Evolve, to the Armenian market. By using HSBC Evolve, our corporate clients have access to international foreign exchange markets 24 hours a day, 5.5 days a week.

We are the country’s leading international bank for trade finance and international cash management and we were very proud to have won a number of prestigious awards. We were named “Market Leader” for trade finance by Euromoney’s 2021 Trade Finance Survey. We have also been ranked number one Domestic Cash Manager for Corporates by Euromoney magazine’s cash management survey. The Euromoney Cash Management Awards are voted for by cash managers, treasury professionals and financial officers around the world, allowing them to comment on the standard of the cash management services they receive, as well as rate the financial institution they bank with.

At HSBC, we recognise that how we do business is as important as what we do. We have a responsibility to our customers, employees and the communities in which we operate. In line with HSBC Group’s Sustainability strategy, we have given our best efforts to support and deliver projects which positively affect the lives of community residents, open up new opportunities, and bring hope to less advantaged groups of people. Throughout 2021, despite the challenges of the year we have continued our sustainability work, focusing on projects around the following priorities: employability skills, financial capability, climate solutions, community investment. We continued working with our charity partners to identify community needs and addressed them in the best possible way. I'm very proud of my colleagues, who spent hundreds of volunteering hours in the community to make a difference in people's lives.

As Chairman stated, we aim to minimise our impact on the environment by supporting the global transition to a carbon neutral economy. Sustainable development is a strategic priority for our business. We are uniquely positioned to use HSBC's global network and expertise and play a leading role in advising and financing our clients in Armenia on the way to the carbon neutral business. This will play a key role in building a more sustainable economy while reducing environmental risks.

Financial performance

Bank's reported profit before tax was AMD3.809million, an increase of 17.3% on 2020. The economic recovery and focus on our strategic priorities were the biggest drivers behind our improved profitability.

Revenues were up by 14% on 2020. Our investment plans remained essential to the future of our business. We continued to invest in technology, as a result our operating costs increased by 6.6% on last year, reflecting also these investments. Meanwhile, our cost efficiency ratio improved from previous year.

Total assets as of 31 December 2021 were AMD262 billion, a 9.7% increase over 2020. Our strategy assumed ambitious growth of lending balances and we observed double digit increase especially in retail loan portfolio, over the last 12 months by 44.4%. Total loans to customers amounted to AMD154 billion, a 7% increase over the last year.

The loan portfolio of HSBC Bank plc, UK to Armenian businesses as at 31 December 2021 amounted to AMD54 billion. This loan portfolio and related profit are not part of the financial statements of the Bank, however they are part of the management information used by HSBC Group for Armenian subsidiary business.

Total assets including loans to customers provided by HSBC Bank plc to Armenian businesses as at 31 December 2021 amounted to AMD316 billion versus AMD303 billion in 2020.

Our funding, liquidity and capital remained strong. We grew deposits by 16.5% to AMD 199.1 billion on a constant currency basis, with increases across all lines of business. Our capital adequacy ratio was 16.4% as at the end of 2021.

2022 outlook

We had good start of 2022, meanwhile, geopolitical situation remains tense and uncertain. We are hopeful that this will reduce over the course of 2022. Nonetheless, we remain reactive and prepared to take further steps to manage the economic impact where necessary by remaining focused on serving the needs of our customers, colleagues and communities.

On behalf of the Bank's Management, I would like to thank our 30,000 customers for their trust and commitment. None of our achievements would have been possible without their commercial success, loyalty and support. I also owe a huge thanks to our c. 300 colleagues, who have delivered all projects and financial results despite the personal and professional challenges they continue to face after two years of living with the pandemic and geopolitical tensions. I am proud of my colleagues, and the sense of duty and care they continue to show towards our customers and each other.

Irina Seylanyan
Chief Executive Officer

HSBC Bank Armenia CJSC
Financial Statements and
Independent Auditor's Report
31 December 2021

HSBC

The HSBC Group

HSBC Bank Armenia is a member of HSBC Group, one of the largest banking and financial services organisations in the world.

HSBC Group international network covers 64 countries and territories.

HSBC Bank Armenia CJSC
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Statement of management's responsibilities

The management of HSBC Bank Armenia CJSC (the "Bank") is responsible for the preparation of financial statements, which give a true and fair view of the financial position and financial performance of the Bank, in all material respects. In preparing these financial statements, the directors are required to:

- select appropriate accounting policies, present them for the Board's approval and apply them consistently;
- make reasonable judgments and estimates;
- keep proper accounting records;
- comply with the requirements of International Financial Reporting Standards and, in case discrepancies exist, disclose them in the notes to the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business;
- design, implement and maintain an effective and reliable internal control system relevant to the internal control minimum requirements specified by the Central Bank of the Republic of Armenia;
- set up an effective accounting system complying with the requirements of the Republic of Armenia legislation and International Financial Reporting Standards, as well providing timely and accurate information on the Bank's financial position;
- take such steps within its authorities to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Irina Seylanyan
Chief Executive Officer

HSBC
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№ 3

Sofya Sargsyan
Chief Accountant / Deputy CFO

Statement of compliance

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

The financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended.

Opinion on compliance with the requirements of the Central Bank of Armenia on internal controls

This opinion is prepared based on the results of internal audits and continuing monitoring completed by the Internal Audit function during 2021. It is confirmed that the function had appropriate resources for this activity.

Based on the above, in our opinion, the Bank's activity during 2021 was generally in compliance with legislative and regulatory requirements. Any identified issues with this regard have been escalated to the Board and management through internal audit reports. Appropriate management remediating actions have been agreed and either completed or are in progress.

Internal Audit Department

Independent Auditor's Report

To the Shareholders and Management of HSBC Bank Armenia CJSC:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Armenia CJSC (the "Bank") as at 31 December 2021, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Accounting Standards ("IFRS").

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in Republic of Armenia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

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

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Alexey Rusanov
Director

PricewaterhouseCoopers Armenia LLC

1 April 2022
Yerevan, Republic of Armenia

In thousands of Armenian Drams	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	7	59,755,872	38,918,509
Loans and advances to banks	8	2,638,161	9,666,154
Investments in debt securities	9	35,103,522	31,417,813
Investments in equity securities	10	32,077	32,221
Loans and advances to customers	11	153,634,134	143,745,937
Other assets	12	7,405,647	10,985,673
Right of use assets	14	42,944	474,269
Property, equipment and intangible assets	13	3,404,677	3,709,047
TOTAL ASSETS		**262,017,034**	**238,949,623**
LIABILITIES			
Due to other banks	15	6,315,952	13,591,168
Current accounts and deposits from customers	16	199,077,576	170,863,821
Current tax liabilities		129,698	-
Deferred income tax liabilities	25	896,028	447,107
Other liabilities	17	8,622,610	10,279,830
TOTAL LIABILITIES		**215,041,864**	**195,181,926**
EQUITY			
Share capital	18	18,434,350	18,434,350
Share-based payments reserve		117,315	117,315
Revaluation reserve for financial assets at fair value through other comprehensive income	19	(28,498)	(10,921)
Revaluation reserve for land and buildings	19	322,292	322,292
Retained earnings		28,129,711	24,904,661
TOTAL EQUITY		**46,975,170**	**43,767,697**
TOTAL LIABILITIES AND EQUITY		**262,017,034**	**238,949,623**

Approved to be issued for the Board of the Bank and signed by the Management of the Bank on 1 April 2022.

Irina Seylanyan
Chief Executive Officer

Sofya Sargsyan
Chief Accountant/Deputy CFO

In thousands of Armenian Drams	**Note**	**2021**	**2020**
Interest income calculated using the effective interest method	20	15,121,480	12,737,205
Other similar income	20	31,266	34,562
Interest expense	20	(2,915,614)	(2,721,548)
Other similar expense	20	(103,950)	(65,850)
Net margin on interest and similar income		**12,133,182**	**9,984,369**
Credit loss allowance		(2,557,307)	(1,750,402)
Net margin on interest and similar income after credit loss allowance		**9,575,875**	**8,233,967**
Fee and commission income	21	2,281,318	2,479,004
Fee and commission expense	21	(554,525)	(636,959)
Gains less losses from financial derivatives		(771,278)	1,247,582
Gains less losses from investments		(20,475)	(13,610)
Gains less losses from trading in foreign currencies	22	2,145,339	420,932
Other operating income	24	230,384	28,252
Staff costs		(3,553,176)	(3,894,026)
Other general administrative expenses	23	(5,524,447)	(4,617,945)
Profit before tax		**3,809,015**	**3,247,197**
Income tax expense	25	(583,965)	(970,169)
PROFIT FOR THE YEAR		**3,225,050**	**2,277,028**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
- Losses less gains arising during the year, net of tax	19	(17,577)	(65,707)
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings:		-	7,861
Other comprehensive loss for the year		**(17,577)**	**(57,846)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,207,473**	**2,219,182**

In thousands of Armenian Drams	Note	Share capital	Share-based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for land and buildings	Retained earnings	Total
Balance at 1 January 2020		**18,434,350**	**111,003**	**54,786**	**314,431**	**22,627,633**	**41,542,203**
Profit for the year		-	-	-	-	2,277,028	2,277,028
Other comprehensive income	19	-	-	(65,707)	7,861	-	(57,846)
Total comprehensive income for 2020		-	-	(65,707)	7,861	2,277,028	2,219,182
Share-based payments		-	6,312	-	-	-	6,312
Balance at 31 December 2020		**18,434,350**	**117,315**	**(10,921)**	**322,292**	**24,904,661**	**43,767,697**
Balance at 1 January 2021		**18,434,350**	**117,315**	**(10,921)**	**322,292**	**24,904,661**	**43,767,697**
Profit for the year		-	-	-	-	3,225,050	3,225,050
Other comprehensive income	19	-	-	(17,577)	-	-	(17,577)
Total comprehensive income for 2021		-	-	(17,577)	-	3,225,050	3,207,473
Share-based payments		-	-	-	-	-	-
Balance at 31 December 2021		**18,434,350**	**117,315**	**(28,498)**	**322,292**	**28,129,711**	**46,975,170**

In thousands of Armenian Drams	Note	2021	2020
Cash flows from operating activities			
Interest income calculated using the effective interest method received		13,998,231	11,876,543
Interest paid		(2,945,079)	(2,784,069)
Fees and commissions received		2,425,354	2,248,132
Fees and commissions paid		(540,241)	(662,141)
Income received from financial derivatives		364,423	438,805
Income received from trading in foreign currencies		1,833,811	1,707,083
Net other operating income received		239,184	92,416
Staff costs paid		(3,562,379)	(4,130,358)
Administrative expenses paid		(3,866,770)	(3,326,179)
Cash flows from operating activities before changes in operating assets and liabilities		**7,946,534**	**5,460,232**
Net (increase)/decrease in:			
- investments in debt securities at fair value through profit or loss		(1,991)	132,174
- loans and advances to banks		6,624,273	8,203,492
- loans and advances to customers		(20,756,223)	(17,482,957)
- other assets		775,964	32,973
Net increase/(decrease) in:			
- due to other banks		(5,700,276)	12,012,383
- current accounts and deposits from customers		39,611,803	(3,537,958)
- other liabilities		180,286	(184,804)
Net cash from operating activities		**28,680,370**	**4,635,535**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	13	(461,117)	(507,831)
Proceeds from disposal of property, equipment and intangible assets	13	17,837	1,268
Acquisition of debt securities at fair value through other comprehensive income		(31,708,266)	(27,671,382)
Proceeds from redemption of debt securities at fair value through other comprehensive income		24,240,779	21,974,264
Acquisition of debt securities carried at amortised cost		(4,775,414)	(10,373,381)
Proceeds from redemption of debt securities carried at amortised cost		8,785,801	9,184,315
Net cash used in investing activities		**(3,900,380)**	**(7,392,747)**
Cash flows from financing activities			
Repayment of principal of lease liabilities		(450,947)	(456,817)
Net cash used in financing activities		**(450,947)**	**(456,817)**
Effect of exchange rate changes on cash and cash equivalents		**(3,776,838)**	**2,683,716**
Net increase / (decrease) in cash and cash equivalents		**20,552,205**	**(530,313)**
Cash and cash equivalents at the beginning of the year		38,461,273	38,991,586
Cash and cash equivalents at the end of the year	7	**59,013,478**	**38,461,273**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for HSBC Bank Armenia CJSC (the “Bank”).

The Bank was incorporated and is domiciled in the Republic of Armenia. The Bank is a closed joint stock company and was set up in accordance with Armenian regulations.

The Bank was owned by HSBC Europe B.V. (70%) and Wings Establishment (30%) as at 31 December 2020. On 17 September 2021 HSBC Europe B.V acquired 30% shareholding and became 100% shareholder of the Bank. As at 31 December 2021 and 2020 the Bank’s immediate and ultimate parent company was HSBC Europe B.V., and the Bank was ultimately controlled by HSBC Holdings PLC.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Armenia. The Bank has operated under a full banking licence issued by the Central Bank of Armenia (“CBA”) since 1995.

The Bank has 6 branches and a National Service Center (2020: 8 branches and a National Service Center) within the Republic of Armenia. The Bank had 313 average number of employees during the year 2021 (2020: 352 employees).

Registered address and place of business. The Bank’s registered address is: 66 Teryan Street, Yerevan 0009, Republic of Armenia.

Presentation currency. These financial statements are presented in Armenian Drams ("AMD"), unless otherwise stated.

2 Operating Environment of the Bank

Republic of Armenia. The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 28). The economic environment of the Republic of Armenia is significantly influenced by the level of business activity in the Russian Federation and significant cash movements flow from the Russian Federation to the Republic of Armenia. Therefore, ongoing political tension in the region, international sanctions, stock market volatility and other risks experienced in the Russian Federation could have a negative effect on the financial and corporate sectors of the Republic of Armenia.

COVID-19. While Covid-19 vaccines were rolled out globally, some countries dealt with very significant outbreaks and many more operated under various restrictions at different points. With the vaccination levels being low in Armenia for most of the year, until internationally recognised vaccines became widely available in the country, Armenia faced significant Covid-19 outbreaks and the priority remained on dealing with the public health.

In 2021 Armenian economy started to recover from the pandemic largely thanks to an increase in households spending and public investments. Recovery of the economy was also supported by the global economic recovery, however, the prices on certain products in Armenia and globally were also growing in response to the economic recovery and prior monetary stimulus, contributing to the high inflationary pressures.

Management was taking necessary measures to ensure sustainability of the Bank’s operations and support its customers and employees.

Geopolitical environment. 2021 was another challenging year with continued geopolitical tension both in international and local landscape. We still observed tension in Armenia-Azerbaijan border, as following ceasefire agreement of 9 November 2020 there is still a number of unresolved issues. Tensions across the geopolitical landscape remain highly uncertain, and the Bank continues to be mindful of the potential impact that it could have on its strategy and performance.

2 Operating Environment of the Bank (Continued)

Activities of the Bank were not affected significantly by the mentioned events. The results of our analysis of liquidity and capital positions under a number of possible risk scenarios, including a sufficiently long stalemate in the economic environment and a reasonably severe depreciation of the local currency, make us confident that the Bank is in a comfortable position to withstand potential shocks.

The future effects of the current economic situation and the measures taken by the Government are difficult to predict and management's current expectations and estimates could differ from actual results.

Expected credit losses. For the purpose of measurement of expected credit losses ("ECL") on the Bank's loans, receivables and similar assets the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 26 provides more information of how the Bank incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of land and buildings, financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments, for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 31.

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

3 Significant Accounting Policies (Continued)

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e., it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date, on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

3 Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 26 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Expected credit loss model is used to calculate impairment allowance for wholesale book and retail book. Under this model, the financial instruments are subdivided into three sub-portfolios, called stages henceforth, depending on the instruments' increase in credit risk since their origination. ECL allowances on Wholesale portfolios are calculated on a collectively modelled basis for Stage 1 and Stage 2 financial instruments and on an individually assessed basis for Stage 3 credit-impaired financial instruments and POCIs. The impairment calculation is made at instrument level.

Retail ECL methodology is undertaken on a collectively modelled basis for all stages.

There are three stages to the proposed model to reflect the general pattern of deterioration of a financial instrument that ultimate defaults.

- Stage 1: non-impaired instruments where there is no significant increase in credit risk since initial recognition (Good book).

3 Significant Accounting Policies (Continued)

- Stage 2: non-impaired instruments where there is a significant increase in credit risk since initial recognition (Deteriorated book).
- Stage 3: impaired instruments, where an actual default event (or events) has occurred (Defaulted book).

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

Expected Credit Losses should be calculated using a small portfolio approach for all retail portfolios, except Credit Cards portfolio. Aggregated Risk-Based (Segment level) approach is applied for Credit Cards portfolio.

Three modelling approaches are adopted for forecasting PIT PDs (Point in Time Probability of Default) and PIT LGDs (Point in Time Loss Given Default) for wholesale book ECL calculation: Sovereign, Banks and Corporate.

The impairment allowance should reflect 12-month ECLs or lifetime ECLs, depending on whether the credit risk of the asset has significantly increased since initial recognition.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets) and recognises a modification gain or loss in profit or loss. No loan was derecognized following the payment holidays granted by the Bank in response to COVID-19 pandemic.

3 Significant Accounting Policies (Continued)

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch-up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include notes and coins on hand, mandatory reserve deposits with the CBA, unrestricted balances (nostro accounts, overnight deposits and placements with original maturities of less than three months) held with the CBA and other banks. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBA. Mandatory cash balances in the Central Bank of Armenia include the settlement limit - the mandatory minimum amount calculated in accordance with the agreement on the final settlement of transactions carried out through the Armenian Card payment system. Withdrawal of such funds is restricted, and the Bank should not carry out card transactions exceeding that limit.

Loans and advances to banks. Amounts of loans and advances to banks are recorded when the Bank advances money to counterparty banks. Amounts of loans and advances to banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

3 Significant Accounting Policies (Continued)

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

3 Significant Accounting Policies (Continued)

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or repledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Property, equipment and intangible assets. Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation. Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Management uses independent valuation firms to estimate the fair value of land and buildings. The valuation firms use the income approach and the comparable sales approach depending on availability and reliability of information.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Significant Accounting Policies (Continued)

Depreciation. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leasehold improvements are depreciated over the shorter of the asset useful life and lease term. Land is not depreciated. The estimated useful lives are as follows.

- buildings	20 years
- leasehold improvements	up to 10 years
- equipment fixtures and fittings	4 to 7 years
- right-of-use assets	Shorter of useful life and the term of the underlying lease

Intangible assets. Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset, to which it relates.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- computer software	3 to 5 years
- other	10 years

Accounting for leases by the Bank as a lessee. The Bank leases office premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date, at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

3 Significant Accounting Policies (Continued)

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight-line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks.

Current accounts and deposits from customers. Current accounts and deposits from customers are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Financial liabilities designated at FVTPL. The Bank may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forwards and spots, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives).

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends. The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on debt instruments calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight-line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

Fiduciary assets and custody services. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. The amount of the fee received or receivable represents the consideration for the services.

These fees are recognised over time, on a straight-line basis, when the services are rendered because the customer simultaneously receives and consumes the benefits as the Bank performs. Fees from fiduciary activities are presented within fee and commission income.

3 Significant Accounting Policies (Continued)

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of the Bank's is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Armenia, Armenian Dram ("AMD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBA at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBA, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

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

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2021, the principal rate of exchange used for translating foreign currency balances was USD 1 = AMD 480.14 (2020: USD 1 = AMD 522.59), EUR 1 = AMD 542.61 (2020: EUR 1=AMD 641.11), GBP 1 = 646.17 (2020: GBP 1 = AMD 709.47).

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

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Armenin state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and, therefore, does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 26 for analysis of financial instruments by expected maturity.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 26. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

As part of HBEU international sites approach for IFRS 9, the following changes were implemented in the year 2021.

- Change of the PIT PD calculation for the international sites to ensure better alignment of the PIT PD with the characteristics of the local portfolios. The formula used to calculate CPD for international sites have been updated.
- Scalar set to 1 for all sites to account for the current economic environment and the uncertainty in the rapport between proxy and target sites going forward.

HSBC uses multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where the consensus forecast distribution does not adequately capture the relevant risks. The methodology in relation to the generation of economic scenarios has not changed significantly since the onset of the Covid-19 pandemic. However, the exceptional nature of the current economic environment has led to extensive application of management's judgement in determining the number and severity of scenarios selected and the probability weights assigned.

The management judgement on probability-weights is based on 3 critical factors: External benchmark scenarios, Early Warning Indicators and any material changes in June consensus forecast. The key judgement in setting weights is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery.

Significant increase in credit risk ("SICR"). Financial instruments are allocated into appropriate stages before ECL calculations are performed. Stage allocation reflects whether the instrument constitutes part of the 'Good', 'Deteriorated' or 'Credit-Impaired' book based on approved stage allocation/transfer criteria. Stage allocation comprises a series of quantitative and qualitative criteria that are applied to identify significant increase in credit risk since initial recognition and determine whether an instrument is to be allocated to Stage 1 or Stage 2 for up to 12 months or lifetime ECL calculation respectively.

The below listed indicators are considered to determine whether an instrument is allocated to Stage 1 or Stage 2.

- Residual average forward looking point in time PD (primary indicator)
- CRR deterioration
- Watch / Worry list (backstop/secondary indicator)
- 30+DPD (backstop/secondary indicator)

Under IFRS 9, when assessing whether credit risk has significantly increased on a financial instrument since initial recognition the change in the risk of a default occurring over the expected life of the instrument is considered, particularly, a comparison is made between a Residual Average Term Forward Probability of Default (RAT FPD) projected (i) at point of origination and (ii) at the reporting date.

RAT FPD represents the average of 1 year forward PDs calculated over the residual life of the instrument. The change in RAT FPD indicates whether 'significant increase in credit risk' thresholds have been exceeded and determines whether the instrument must be allocated into Stage 1 or Stage 2, for calculation of up to 12 months or lifetime ECL respectively.

The quantitative comparison above is the primary stage allocation trigger. In addition, the CRR deterioration between origination date and reporting date is a further quantitative criterion.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The ‘Watch/Worry’ and ‘30+ DPD’ indicators are the secondary/qualitative measures that must be applied for stage allocation. Once the RAT FPD has been applied, and Stage 2 cases identified, the measures of Watch/Worry and 30+ DPD must be used to further identify cases which, whilst they have not met the primary test of significant credit deterioration, are nevertheless regarded as having deteriorated and must be reported in Stage 2.

All instruments that are 30+ days in arrears at the end of the reporting period must be allocated to Stage 2 in order to receive a lifetime ECL calculation, irrespective of whether or not the primary indicator has breached the significant increase in credit risk threshold, or the obligor has been placed on the Worry or Watch list.

Where primary or secondary stage allocation measures outlined above are no longer present at the reporting date, the financial instrument must be reported as Stage 1 for appropriate ECL calculation (excludes POCI assets, which are not subject to the normal staging model given ECL will always be measured on a lifetime basis).

In case of Retail portfolio, Stage allocation is determined for all accounts as follows:

- Exposures 90+ Days Past Due are assigned to Stage 3
- Exposures 1+ Days Past Due are assigned to Stage 2
- Up-to-Date exposures are assigned to Stage 1

Write-off policy. Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Write-off (or, synonymously, charge-off) is defined as the removal from the books of all or part of the value of a financial instrument, and of any related ECL allowances.

Financial instruments are to be fully written off when, after realisation of any available security, there is no realistic prospect of further recoveries. Partial write-offs may be made where appropriate.

Any portion of an instrument that is not covered by security should be written off when there is no realistic prospect of further recovery, and final write - off should occur upon receipt of proceeds following the realisation of security. Recovery activity may continue after write-off.

Unsecured retail accounts should normally be fully written off at 180 days past due. In the case of some products, e.g., credit cards, it is common for accounts to be written off at the end of the month in which they fall six months past due, or for some other technical feature of a product to give rise to a similar short excess over the 180-day ‘norm’.

In the case of secured retail facilities, any portion of the balance not covered by security should be written off when there is no realistic prospect of further recovery, and final write-off should occur upon:

- Repossession of collateral, or
- Receipt of proceeds via settlement; or
- Determination that recovery of the collateral will not be pursued; or
- Within 60 months of the default at the latest (i.e., 90 + 1825 = 1915 days past due).

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2021, but did not have any material impact on the Bank:

5 Adoption of New or Revised Standards and Interpretations (Continued)

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. On 31 March 2021, considering the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June 2022 (effective for annual periods beginning on or after 1 April 2021).

The Bank negotiated various rent concessions with lessors for leases of properties and concluded that some of these concessions qualified for applying the practical expedient in the IFRS 16 amendment. As a result, the Bank reduced the lease liability as of 31 December 2021 by nil (AMD 7,428 as of 31 December 2020) and recognised the following amounts in the income statement:

i) forgiveness of rent payments in the amount of nil recognised as a gain on partial derecognition of the lease liability in Other operating income (AMD 7,428 in 2020).

The application of the amendments did not have any impact on the right-of-use asset.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Bank has elected to early adopt Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16. The amendments have been applied retrospectively, with effect of adoption, if any, recognised in opening retained earnings on 1 January 2020. Comparative amounts have not been restated.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Under these amendments, changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate. No immediate gain or loss is recognised. The same practical expedient exists for lease liabilities. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. Where some or all a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes result in a modification or derecognition gain or loss. If lease modifications are made in addition to those required by the IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including the changes required by the IBOR reform.

***Effect of IBOR reform*.** Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023. As at 31 December 2021 there are no such instruments.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Bank has not early adopted.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

The standard is not expected to have a material impact on the Bank.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

6 New Accounting Pronouncements (Continued)

- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The standard is not expected to have a material impact on the Bank.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The standard is not expected to have a material impact on the Bank.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The standard is not expected to have a material impact on the Bank.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The standard is not expected to have a material impact on the Bank.

6 New Accounting Pronouncements (Continued)

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might, therefore, be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The standard is not expected to have a material impact on the Bank.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The standard is not expected to have a material impact on the Bank.

6 New Accounting Pronouncements (Continued)

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The standard is not expected to have a material impact on the Bank.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7 Cash and Cash Equivalents

In thousands of Armenian Drams	**2021**	**2020**
Cash on hand	5,123,602	5,623,736
Cash balances with the CBA (other than mandatory reserve deposits)	35,344,427	24,087,351
Mandatory reserve deposits with CBA	825,000	545,000
Correspondent accounts and overnight placements with other banks	18,545,449	8,750,186
Less credit loss allowance	(82,606)	(87,764)
Total cash and cash equivalents	**59,755,872**	**38,918,509**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2021. Refer to Note 26 for the description of the Bank's credit risk grading system.

In thousands of Armenian Drams	**Cash balances with the CBA, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Total**
- Strong	36,169,427	17,144,823	53,314,250
- Satisfactory	-	-	-
- Sub-standard	-	1,400,626	1,400,626
Less credit loss allowance	(82,501)	(105)	(82,606)
Total cash and cash equivalents, excluding cash on hand	**36,086,926**	**18,545,344**	**54,632,270**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 26 for the ECL measurement approach.

The credit quality of cash and cash equivalents balances at 31 December 2020, was as follows:

In thousands of Armenian Drams	**Cash balances with the CBA, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Total**
- Strong	24,632,351	7,249,736	31,882,087
- Satisfactory	-	-	-
- Sub-standard	-	1,500,450	1,500,450
Less credit loss allowance	(87,637)	(127)	(87,764)
Total cash and cash equivalents, excluding cash on hand	**24,544,714**	**8,750,059**	**33,294,773**

7 Cash and Cash Equivalents (Continued)

Amounts of cash and cash equivalents are not collateralised.

Mandatory cash balances in the Central Bank of Armenia include the settlement limit - the mandatory minimum amount calculated in accordance with the agreement on the final settlement of transactions carried out through the Armenian Card payment system. Withdrawal of such funds is restricted and the Bank should not carry out card transactions exceeding that limit.

As at 31 December 2021 the Bank had two counterparty banks (2020: no bank) whose balance exceeded 10% of equity. The total aggregate amount of this balance was AMD 13,028,314 thousand (2020: nill).

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on related party balances is disclosed in Note 33.

8 Loans and Advances to Banks

In thousands of Armenian Drams	**2021**	**2020**
Placements with other banks with original maturities of less than three months	2,638,161	9,666,538
Less credit loss allowance	0	(384)
Total loans and advances to banks	**2,638,161**	**9,666,154**

The following table contains an analysis of loans and advances to banks balances by credit quality as at 31 December 2021 based on credit risk grades and discloses loans and advances to banks balances by three stages for the purpose of ECL measurement. Refer to Note 26 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to loans and advances to banks balances. The carrying amount of loans and advances to banks balances as at 31 December 2021 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Placements with other banks		
- Strong	2,638,161	2,638,161
- Satisfactory	-	-
Total loans and advances to banks (gross carrying amount)	**2,638,161**	**2,638,161**
Credit loss allowance	-	-
Total loans and advances to banks (carrying amount)	**2,638,161**	**2,638,161**

8 Loans and Advances to Banks (Continued)

Analysis by credit quality of loans and advances to banks outstanding as at 31 December 2020, is as follows:

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Total
Placements with other banks		
- Strong	48,333	48,333
- Satisfactory	9,618,205	9,618,205
Total loans and advances to banks (gross carrying amount)	**9,666,538**	**9,666,538**
Credit loss allowance	(384)	(384)
Total loans and advances to banks (carrying amount)	**9,666,154**	**9,666,154**

As at 31 December 2021 the Bank had no bank (2020: two banks) whose balances exceeded 10% of equity. These balances as at 31 December 2021 were nil (2020: AMD 9,618,205 thousand).

The loans and advances to local banks as at 31 December 2021 have been repaid by 31 January 2022 and 31 December 2020 were repaid by 31 January 2021.

The Bank had no loans and advances to local banks secured by Armenian government treasury bonds as at 31 December 2021 and 31 December 2020. As at 31 December 2021 and 31 December 2020 due from other banks balances are not collateralised.

Refer to Note 31 for the estimated fair value of each class of amounts loans and advances to banks. Interest rate analysis of loans and advances to is disclosed in Note 26. Information on related party balances is disclosed in Note 33.

9 Investments in Debt Securities

In thousands of Armenian Drams	2021	2020
Debt securities mandatorily measured at FVTPL	290,739	309,215
Debt securities at FVOCI	33,596,891	25,830,934
Debt securities at AC	1,215,892	5,277,664
Total investments in debt securities	**35,103,522**	**31,417,813**

The table below discloses investments in debt securities as at 31 December 2021 by measurement categories and classes:

In thousands of Armenian Drams	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Armenian government bonds	290,739	33,596,891	1,216,375	35,104,005
Total investments in debt securities as at 31 December 2021 (fair value or gross carrying value)	290,739	33,596,891	1,216,375	35,104,005
Credit loss allowance	-	-	(483)	(483)
Total investments in debt securities as at 31 December 2021 (carrying value)	**290,739**	**33,596,891**	**1,215,892**	**35,103,522**

9 Investments in Debt Securities (Continued)

The table below discloses investments in debt securities as at 31 December 2020 by measurement categories and classes:

In thousands of Armenian Drams	**Debt securities mandatorily measured at FVTPL**	**Debt securities at FVOCI**	**Debt securities at AC**	**Total**
Armenian government bonds	309,215	25,830,934	5,279,586	31,419,735
Total investments in debt securities as at 31 December 2020 (fair value or gross carrying value)	309,215	25,830,934	5,279,586	31,419,735
Credit loss allowance	-	-	(1,922)	(1,922)
Total investments in debt securities as at 31 December 2020 (carrying value)	**309,215**	**25,830,934**	**5,277,664**	**31,417,813**

(a) Investments in debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Bank represent securities held for trading and securities in a 'held to sell' business model.

Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Bank's maximum exposure to credit risk.

The debt securities at FVTPL are not collateralised.

(b) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI as at 31 December 2021, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 26 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Armenian government bonds		
- Strong	33,668,062	33,668,062
Total AC gross carrying amount	33,668,062	33,668,062
Plus fair value adjustment from AC to FV	(71,171)	(71,171)
Carrying value (fair value)	33,596,891	33,596,891
Total investments in debt securities measured at FVOCI (fair value)	**33,596,891**	**33,596,891**

9 Investments in Debt Securities (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI as at 31 December 2020, for which an ECL allowance is recognised, based on credit risk grades.

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Armenian government bonds		
- Strong	25,889,600	25,889,600
Total AC gross carrying amount	25,889,600	25,889,600
Plus fair value adjustment from AC to FV	(58,666)	(58,666)
Carrying value (fair value)	25,830,934	25,830,934
Total investments in debt securities measured at FVOCI (fair value)	**25,830,934**	**25,830,934**

The debt securities at FVOCI are not collateralised.

(c) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality as at 31 December 2021 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 26 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC as at 31 December 2021 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Armenian government bonds		
- Strong	1,216,375	1,216,375
Total investments in debt securities measured at AC (gross carrying amount)	**1,216,375**	**1,216,375**
Credit loss allowance	(483)	(483)
Total investments in debt securities measured at AC (carrying amount)	**1,215,892**	**1,215,892**

The following table contains an analysis of debt securities at AC by credit quality as at 31 December 2020 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. The carrying amount of debt securities at AC as at 31 December 2020 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Armenian government bonds		
- Strong	5,279,586	5,279,586
Total investments in debt securities measured at AC (gross carrying amount)	**5,279,586**	**5,279,586**
Credit loss allowance	(1,922)	(1,922)
Total investments in debt securities measured at AC (carrying amount)	**5,277,664**	**5,277,664**

The debt securities at AC are not collateralised.

10 Investments in Equity Securities

In thousands of Armenian Drams	**2021**	**2020**
Equity securities at FVOCI	32,077	32,221
Total investments in equity securities	**32,077**	**32,221**

The table below discloses investments in equity securities as at 31 December 2021 by measurement categories and classes:

In thousands of Armenian Drams	**Equity securities at FVOCI**	**Total**
Corporate shares		
ACRA credit bureau	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	794	794
Total investments in equity securities as at 31 December 2021	**32,077**	**32,077**

The table below discloses investments in equity securities as at 31 December 2020 by measurement categories and classes:

In thousands of Armenian Drams	**Equity securities at FVOCI**	**Total**
Corporate shares		
ACRA credit bureau	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	938	938
Total investments in equity securities as at 31 December 2020	**32,221**	**32,221**

Investments in equity securities at FVOCI

Aa at 31 December 2021 securities at FVOCI include equity securities with a carrying value of AMD 32,077 thousand (2020: AMD 32,221 thousand) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee, the earnings of the investee, the investee's net asset value. Refer to Note 31.

None of these strategic investments was disposed of during 2021 and 2020, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

11 Loans and Advances to Customers

In thousands of Armenian Drams	**31 December 2021**	**31 December 2020**
Gross carrying amount of loans and advances to customers	161,689,468	150,664,219
Less credit loss allowance	(8,055,334)	(6,918,282)
Total loans and advances to customers	**153,634,134**	**143,745,937**

11 Loans and Advances to Customers (Continued)

The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers by classes at 31 December 2021 and 31 December 2020 are disclosed in the table below:

	31 December 2021			31 December 2020		
In thousands of Armenian Drams	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Loans to corporate customers						
Loans to large corporates	87,151,747	(2,351,369)	84,800,378	89,081,669	(2,747,010)	86,334,659
Loans to SME	28,423,993	(5,439,925)	22,984,068	29,657,467	(3,954,941)	25,702,526
Loans to individuals						
Mortgage loans	32,797,485	(130,271)	32,667,214	21,460,017	(115,288)	21,344,729
Consumer loans	4,990,650	(46,945)	4,943,705	4,324,439	(29,071)	4,295,368
Construction loans	3,474,746	(47,293)	3,427,453	1,704,077	(28,859)	1,675,218
Other secured by real estate	3,118,371	(23,390)	3,094,981	2,792,250	(17,695)	2,774,555
Credit cards	1,604,758	(15,426)	1,589,332	1,523,743	(25,055)	1,498,688
Car loans	127,718	(715)	127,003	120,557	(363)	120,194
Total loans and advances to customers	**161,689,468**	**(8,055,334)**	**153,634,134**	**150,664,219**	**(6,918,282)**	**143,745,937**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to large corporates – loans issued to large commercial entities under the standard terms, mainly for working capital financing;
- Loans to SME – loans issued to small and medium-sized enterprises, where the Bank defines such as average number of employees no greater than 250, prior year profit no greater than AMD 1,500,000 thousand or total assets at prior year end no greater than AMD 1,000,000 thousand.

The Bank has a right to sell or repledge securities with a fair value of AMD 3,062,054 thousand (2020: AMD 3,540,427 thousand) received under reverse sale and repurchase agreements. The amount of reverse sale and repurchase agreements included in loans and advances to customers is AMD 2,838,150 (2020: AMD 3,366,277).

11 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to corporate customers								
As at 1 January 2021	**(553,726)**	**(905,275)**	**(5,242,950)**	**(6,701,951)**	**79,488,653**	**21,264,296**	**17,490,092**	**118,243,041**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	96,106	(96,106)	-	-	(11,082,482)	11,082,482	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	92,110	(92,110)	-	-	(3,779,984)	3,779,984	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(61,824)	61,824	-	-	4,541,788	(4,541,788)	-	-
New originated or purchased	(230,878)	-	-	(230,878)	29,008,648	-	-	29,008,648
Derecognised during the period	3,411	71	13,196	16,678	(5,319,429)	(35,838)	(329,003)	(5,684,270)
Changes to ECL measurement model assumptions	108,957	462,231	(2,810,789)	(2,239,601)	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	3,585	(74,016)	-	(70,431)	-	-	-	-
Impact of other changes in gross carrying amount	(7,480)	(31,989)	35,769	(3,700)	(11,775,779)	(8,019,376)	(2,019,650)	(21,814,805)
Total movements with impact on credit loss allowance charge for the period	**(88,123)**	**414,125**	**(2,853,934)**	**(2,527,932)**	**5,372,746**	**(5,294,504)**	**1,431,331**	**1,509,573**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange and other movements	35,497	58,830	497,897	592,224	(2,356,838)	(1,493,339)	(749,041)	(4,599,218)
Unwinding of discount (for Stage 3)	-	-	846,364	846,364	-	-	-	-
-								
As at 31 December 2021	**(606,352)**	**(432,320)**	**(6,752,623)**	**(7,791,295)**	**82,504,561**	**14,476,453**	**18,172,382**	**115,153,396**

The movements in gross carrying amount do not include movements of the accrued interests of the loans to corporates. As at 31 December 2021 this amount was AMD 422,344 thousand.

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to Individuals								
As at 1 January 2021	**(43,634)**	**(24,148)**	**(148,549)**	**(216,331)**	**30,660,496**	**365,820**	**659,740**	**31,686,056**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	1,024	(1,024)	-	-	(509,667)	509,667	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	9	16,740	(16,749)	-	(2,357)	(343,995)	346,350	(2)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(60,929)	27,038	33,891	-	570,923	(456,871)	(114,051)	1
New originated or purchased	(28,644)	-	-	(28,644)	20,350,811	-	-	20,350,811
Derecognised during the period	3,509	1,884	33,076	38,469	(1,805,668)	(22,527)	(93,827)	(1,922,022)
Changes to ECL measurement model assumptions	(47,921)	25,835	(98,784)	(120,870)	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	50,584	(23,349)	(149)	27,086	-	-	-	-
Impact of other changes in gross carrying amount	46,323	(32,756)	(37,493)	(23,926)	(4,171,995)	20,772	50,545	(4,100,678)
Total movements with impact on credit loss allowance charge for the period	**(36,045)**	**14,368**	**(86,208)**	**(107,885)**	**14,432,047**	**(292,954)**	**189,017**	**14,328,110**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	59,954	59,954	-	-	(59,954)	(59,954)
Foreign exchange and other movements	226	(3)	-	223	(149,466)	841	-	(148,625)
As at 31 December 2021	**(79,453)**	**(9,783)**	**(174,803)**	**(264,039)**	**44,943,077**	**73,707**	**788,803**	**45,805,587**

The movements in gross carrying amount do not include movements of the accrued interests of the loans to individuals. As at 31 December 2021 this amount was AMD 308,140 thousand.

11 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to corporate customers								
As at 1 January 2020	**(1,087,379)**	**(6,781)**	**(3,779,082)**	**(4,873,242)**	**76,326,304**	**299,606**	**16,805,551**	**93,431,461**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	270,502	(270,502)	-	-	(24,514,923)	24,514,923	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(5,724)	5,724	-	-	1,580,407	(1,580,407)	-	-
New originated or purchased	(150,980)	-	-	(150,980)	18,110,322	-	-	18,110,322
Derecognised during the period	5,930	902	7,350	14,182	(6,011,682)	(183,859)	(567,999)	(6,763,540)
Changes to ECL measurement model assumptions	729,145	(715,052)	(1,699,471)	(1,685,378)	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	1,099	(139,514)	-	(138,415)	-	-	-	-
Impact of other changes in gross carrying amount	(264,830)	268,178	97,244	100,592	9,639,407	(2,631,018)	109,046	7,117,435
Total movements with impact on credit loss allowance charge for the period	**585,142**	**(850,264)**	**(1,594,877)**	**(1,859,999)**	**(1,196,469)**	**20,119,639**	**(458,953)**	**18,464,217**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange and other movements	(51,489)	(48,230)	(454,389)	(554,108)	4,358,818	845,051	1,143,494	6,347,363
Unwinding of discount (for Stage 3)	-	-	585,398	585,398	-	-	-	-
As at 31 December 2020	**(553,726)**	**(905,275)**	**(5,242,950)**	**(6,701,951)**	**79,488,653**	**21,264,296**	**17,490,092**	**118,243,041**

The movements in gross carrying amount do not include movements of the accrued interests of the loans to corporates. As at 31 December 2020 this amount was AMD 496,094 thousand.

11 Loans and Advances to Customers (Continued)

In thousands of Armenian Drams	**Credit loss allowance** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	**Gross carrying amount** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Individuals								
As at 1 January 2020	**(56,043)**	**(7,830)**	**(168,492)**	**(232,365)**	**29,078,536**	**106,329**	**717,280**	**29,902,145**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	2,010	(2,010)	-	-	(932,686)	932,686	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	14,908	(14,908)	-	(41)	(277,128)	277,169	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(89,587)	11,262	78,325	-	698,608	(364,804)	(333,804)	-
New originated or purchased	(15,468)	-	-	(15,468)	10,995,125	-	-	10,995,125
Derecognised during the period	8,977	2,585	3,305	14,867	(3,164,498)	(17,591)	(11,725)	(3,193,814)
Changes to ECL measurement model assumptions	(64,149)	20,439	(50,802)	(94,512)	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	83,662	(39,333)	(4)	44,325	-	-	-	-
Impact of other changes in gross carrying amount	87,492	(24,133)	(61,150)	2,209	(6,342,778)	(13,875)	74,483	(6,282,170)
Total movements with impact on credit loss allowance charge for the period	**12,937**	**(16,282)**	**(45,234)**	**(48,579)**	**1,253,730**	**259,288**	**6,123**	**1,519,141**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	65,492	65,492	-	-	(65,492)	**(65,492)**
Foreign exchange and other movements	(528)	(36)	(315)	(879)	328,230	203	1,829	**330,262**
As at 31 December 2020	**(43,634)**	**(24,148)**	**(148,549)**	**(216,331)**	**30,660,496**	**365,820**	**659,740**	**31,686,056**

The movements in gross carrying amount do not include movements of the accrued interests of the loans to individuals. As at 31 December 2020 this amount was AMD 239,028 thousand.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 26. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

The following table contains an analysis of the credit risk exposure of loans and advances to customers and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

11 Loans and Advances to Customers (Continued)

The credit quality of loans to corporate customers is as follows as at 31 December 2021:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to large corporates				
- Strong	1,942,683	-	-	1,942,683
- Good	-	-		-
- Satisfactory	66,497,825	6,916,298	-	73,414,123
- Sub-standard	525,683	5,445,964	-	5,971,647
- Credit impaired	-	-	5,823,294	5,823,294
Gross carrying amount	**68,966,191**	**12,362,262**	**5,823,294**	**87,151,747**
Credit loss allowance	(500,162)	(329,770)	(1,521,437)	(2,351,369)
Carrying amount	**68,466,029**	**12,032,492**	**4,301,857**	**84,800,378**
Loans to SME				
- Strong	951	-	-	951
- Good	14	-	-	14
- Satisfactory	13,281,247	419,328	-	13,700,575
- Sub-standard	479,039	1,714,476	-	2,193,515
- Credit impaired	-	-	12,528,938	12,528,938
Gross carrying amount	**13,761,251**	**2,133,804**	**12,528,938**	**28,423,993**
Credit loss allowance	(106,194)	(102,549)	(5,231,182)	(5,439,925)
Carrying amount	**13,655,057**	**2,031,255**	**7,297,756**	**22,984,068**

11 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals is as follows as at 31 December 2021:

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Strong	32,287,617	-	-	32,287,617
- Satisfactory	-	17,438	-	17,438
- Credit impaired	-	-	492,430	492,430
Gross carrying amount	**32,287,617**	**17,438**	**492,430**	**32,797,485**
Credit loss allowance	(29,437)	(1,211)	(99,623)	(130,271)
Carrying amount	**32,258,180**	**16,227**	**392,807**	**32,667,214**
Credit cards				
- Strong	252	-	-	252
- Good	1,587,548	7,169	-	1,594,717
- Satisfactory	-	-	-	-
- Sub-standard	-	8,001	-	8,001
- Credit impaired	-	-	1,788	1,788
Gross carrying amount	**1,587,800**	**15,170**	**1,788**	**1,604,758**
Credit loss allowance	(10,798)	(2,876)	(1,752)	(15,426)
Carrying amount	**1,577,002**	**12,294**	**36**	**1,589,332**
Construction loans				
- Strong	3,263,393	-	-	3,263,393
- Credit impaired	-	-	211,353	211,353
Gross carrying amount	**3,263,393**	**-**	**211,353**	**3,474,746**
Credit loss allowance	(3,054)	-	(44,239)	(47,293)
Carrying amount	**3,260,339**	**-**	**167,114**	**3,427,453**

11 Loans and Advances to Customers (Continued)

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Car loans				
- Strong	127,718	-	-	127,718
Gross carrying amount	**127,718**	**-**	**-**	**127,718**
Credit loss allowance	(715)	-	-	(715)
Carrying amount	**127,003**	**-**	**-**	**127,003**
Consumer loans				
- Strong	4,445,565	-	-	4,445,565
- Good	503,673	3,870	-	507,543
- Satisfactory	-	28,773	-	28,773
- Sub-standard	-	576	-	576
- Credit impaired	-	-	8,193	8,193
Gross carrying amount	**4,949,238**	**33,219**	**8,193**	**4,990,650**
Credit loss allowance	(32,996)	(5,756)	(8,193)	(46,945)
Carrying amount	**4,916,242**	**27,463**	**-**	**4,943,705**
Other loans secured by real estate				
- Strong	3,003,226	-	-	3,003,226
- Satisfactory	-	9,054	-	9,054
- Credit impaired	-	-	106,091	106,091
Gross carrying amount	**3,003,226**	**9,054**	**106,091**	**3,118,371**
Credit loss allowance	(2,453)	(627)	(20,310)	(23,390)
Carrying amount	**3,000,773**	**8,427**	**85,781**	**3,094,981**

For description of the credit risk grading used in the tables above refer to Note 26.

11 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality as at 31 December 2020 is disclosed as follows:

The credit quality of loans to corporate customers is as follows as at 31 December 2020:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to large corporates				
- Strong	2,387,075	-	-	2,387,075
- Satisfactory	64,709,786	5,631,177	-	70,340,963
- Sub-standard	925,044	8,555,134	-	9,480,178
- Credit impaired	-	-	6,873,453	6,873,453
Gross carrying amount	**68,021,905**	**14,186,311**	**6,873,453**	**89,081,669**
Credit loss allowance	(487,067)	(618,997)	(1,640,946)	(2,747,010)
Carrying amount	**67,534,838**	**13,567,314**	**5,232,507**	**86,334,659**
Loans to SME				
- Strong	1,104	-	-	1,104
- Good	43	-	-	43
- Satisfactory	11,209,791	626,887	-	11,836,678
- Sub-standard	1,940	6,989,997	-	6,991,937
- Credit impaired	-	-	10,827,705	10,827,705
Gross carrying amount	**11,212,878**	**7,616,884**	**10,827,705**	**29,657,467**
Credit loss allowance	(66,663)	(286,278)	(3,602,000)	(3,954,941)
Carrying amount	**11,146,215**	**7,330,606**	**7,225,705**	**25,702,526**

The credit quality of loans to individuals is as follows as at 31 December 2020:

11 Loans and Advances to Customers (Continued)

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Strong	20,797,736	-	-	20,797,736
- Satisfactory	-	202,562	-	202,562
- Credit impaired	-	-	459,719	459,719
Gross carrying amount	**20,797,736**	**202,562**	**459,719**	**21,460,017**
Credit loss allowance	(15,036)	(7,330)	(92,922)	(115,288)
Carrying amount	**20,782,700**	**195,232**	**366,797**	**21,344,729**
Credit cards				
- Strong	9,268	-	-	9,268
- Good	1,466,450	28,247	-	1,494,697
- Satisfactory	-	4	-	4
- Sub-standard	-	19,470	-	19,470
- Credit impaired	-	-	304	304
Gross carrying amount	**1,475,718**	**47,721**	**304**	**1,523,743**
Credit loss allowance	(7,562)	(17,353)	(140)	(25,055)
Carrying amount	**1,468,156**	**30,368**	**164**	**1,498,688**
Construction loans				
- Strong	1,547,921	-	-	1,547,921
- Credit impaired	-	-	156,156	156,156
Gross carrying amount	**1,547,921**	**-**	**156,156**	**1,704,077**
Credit loss allowance	(1,140)	-	(27,719)	(28,859)
Carrying amount	**1,546,781**	**-**	**128,437**	**1,675,218**

11 Loans and Advances to Customers (Continued)

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Car loans				
- Strong	120,557	-	-	120,557
Gross carrying amount	**120,557**	**-**	**-**	**120,557**
Credit loss allowance	(363)	-	-	(363)
Carrying amount	**120,194**	**-**	**-**	**120,194**
Consumer loans				
- Strong	3,795,002	-	-	3,795,002
- Good	469,165	4,869	-	474,034
- Satisfactory	-	49,600	-	49,600
- Sub-standard	-	1,248	-	1,248
- Credit impaired	-	-	4,555	4,555
Gross carrying amount	**4,264,167**	**55,717**	**4,555**	**4,324,439**
Credit loss allowance	(17,534)	(7,223)	(4,314)	(29,071)
Carrying amount	**4,246,633**	**48,494**	**241**	**4,295,368**
Other loans secured by real estate				
- Strong	2,657,794	-	-	2,657,794
- Satisfactory	-	64,701	-	64,701
- Credit impaired	-	-	69,755	69,755
Gross carrying amount	**2,657,794**	**64,701**	**69,755**	**2,792,250**
Credit loss allowance	(2,003)	(2,198)	(13,494)	(17,695)
Carrying amount	**2,655,791**	**62,503**	**56,261**	**2,774,555**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2021		**2020**	
In thousands of Armenian Drams	**Amount**	**%**	**Amount**	**%**
Trade	42,910,451	27	45,987,113	31
Food and beverages	19,328,730	12	22,115,617	15
Services	17,510,233	11	15,724,174	10
Manufacturing	10,999,770	7	14,523,161	10
Energy	8,309,647	5	8,631,050	6
Construction	5,911,197	4	3,471,130	2
Agriculture	4,035,427	2	3,238,350	2
Finance	2,838,300	2	3,366,294	2
Other	3,731,985	2	1,682,246	1
Loans to individuals	46,113,728	28	31,925,084	21
Total gross loans and advances to customers	**161,689,468**	**100**	**150,664,219**	**100**

As at 31 December 2021 the Bank had four borrowers or groups of connected borrowers (2020: six) with loan balances of each exceeding 10% of equity. The gross value of these loans as at 31 December 2021 was AMD 21,158,662 thousand (2020: AMD 32,978,459 thousand).

11 Loans and Advances to Customers (Continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate customers is as follows as at 31 December 2021:

In thousands of Armenian Drams	Loans and advances to customers, carrying amount	Fair value of collateral assessed in the reporting period
Real estate	86,783,427	86,783,427
Corporate guarantees (unrated)	7,214,025	7,214,025
Armenian Government treasury bills	2,838,149	2,838,149
Motor vehicles	1,798,260	1,798,260
Equipment	1,609,323	1,609,323
Stock	1,523,462	1,523,462
Bank guarantees	534,981	534,981
State guarantees	135,892	135,892
Cash and deposits	121,157	121,157
Other collateral	115,326	115,326
No collateral or other credit enhancement – personal guarantees	5,110,444	-
Total loans and advances to corporate customers	**107,784,446**	**102,674,002**

The following table provides fair value information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2020.

In thousands of Armenian Drams	Loans and advances to customers, carrying amount	Fair value of collateral assessed in the reporting period
Real estate	80,528,259	80,528,259
Stock	7,654,816	7,654,816
Corporate guarantees (unrated)	5,999,350	5,999,350
Armenian Government treasury bills	3,366,277	3,366,277
Motor vehicles	2,154,979	2,154,979
Equipment	1,404,350	1,404,350
Bank guarantees	873,747	873,747
Cash and deposits	27,048	27,048
Other collateral	358,119	358,119
No collateral or other credit enhancement – personal guarantees	9,670,240	-
Total loans and advances to corporate customers	**112,037,185**	**102,366,945**

The tables above exclude overcollateralisation. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

No collateral or other credit enhancement – personal guarantees line includes undercollateralised loans.

Loans secured with borrower settlement accounts also have other collateral pledged to the Bank.

The Bank can not reliably estimate the fair value of personal guarantees.

Loans to retail customers

Mortgage, construction and other loans to retail customers are secured by real estate. The Bank's policy is to issue mortgage and construction loans with a loan-to-value ratio of a maximum of 90%.

11 Loans and Advances to Customers (Continued)

The fair value of collateral is at least equal to carrying amounts of individual mortgage and construction loans as at 31 December 2021 and 31 December 2020.

For mortgage and construction loans past due more than 90 days the Bank updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Bank also obtains specific individual valuation of collateral at each reporting date for significant secured loans.

Credit card loans are not secured.

Auto loans are secured by the underlying cars. The Bank's policy is to issue auto loans with a loan-to-value ratio of a maximum of 70%.

Consumer loans represent unsecured personal loans.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows as at 31 December 2021 and at 31 December 2020:

In thousands of Armenian Drams	31 December 2021	31 December 2020
Loans to corporate customers	22,369,359	26,028,768
Loans to individuals	1,708,949	249,507
Total	**24,078,308**	**26,278,275**

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

Refer to Note 31 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 33.

12 Other Assets

In thousands of Armenian Drams	Note	2021	2020
Other financial assets at AC			
Receivables for letters of credit		5,457,849	7,438,115
Accrued commissions		283,314	437,648
Receivables from HSBC Group		6,599	444,656
Other		707,652	462,416
Less credit loss allowance		(25,038)	(62,763)
Total other financial assets at AC		**6,430,376**	**8,720,072**
Other financial assets at FVTPL			
Foreign exchange forward contracts	30	16,991	961,108
Total other financial assets at FVTPL		**16,991**	**961,108**
Other non-financial assets			
Repossessed collateral		830,094	1,184,851
Prepayments		94,271	84,655
Materials and supplies		30,105	33,665
Unified tax account		3,810	1,322
Total non-financial assets		**958,280**	**1,304,493**
Total other assets		**7,405,647**	**10,985,673**

12 Other Assets (Continued)

The table below contains an analysis of the credit risk exposure of other financial assets at AC as at 31 December 2021:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Receivables for letters of credit		
- Satisfactory	5,457,849	5,457,849
Gross carrying amount	**5,457,849**	**5,457,849**
Credit loss allowance	(25,038)	(25,038)
Carrying amount	**5,432,811**	**5,432,811**

The table below contains an analysis of the credit risk exposure of other financial assets at AC as at 31 December 2020:

In thousands of Armenian Drams	**Stage 1 (12-months ECL)**	**Total**
Receivables for letters of credit		
- Satisfactory	7,438,115	7,438,115
Gross carrying amount	**7,438,115**	**7,438,115**
Credit loss allowance	(62,763)	(62,763)
Carrying amount	**7,375,352**	**7,375,352**

For the purpose of ECL measurement all other assets are included in Stage 1 and except for receivables for letters of credit the Bank did not recognise any credit loss allowance for other assets.

Other financial assets are not collateralised. Settlements of receivables for letters of credit did not require the use of cash and cash equivalents and was excluded from the statement of cash flows.

Unified tax account represents off-budget deposit account operated by State Treasury the purpose of which is the settlement of tax payers' tax liability according to regulation defined by Armenian Tax code.

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future.

There are no counterparties in receivables for letters of credit whose balances exceed 10% of equity.

Receivables for letters of credit are represented by receivables from local Armenian companies.

13 Property, Equipment and Intangible Assets

In thousands of Armenian Drams	Note	Land and buildings	Leasehold improvements	Equipment fixtures and fittings	Intangible assets	Total
Cost at 1 January 2020		1,600,741	2,827,993	3,462,362	4,755,744	12,646,840
Accumulated depreciation		(405,648)	(2,704,861)	(2,645,684)	(2,826,216)	(8,582,409)
Carrying amount as at 1 January 2020		**1,195,093**	**123,132**	**816,678**	**1,929,528**	**4,064,431**
Additions		-	500	102,878	404,453	507,831
Disposals / write-offs		-	-	(93,008)	-	(93,008)
Depreciation and amortisation charge	23	(113,165)	(61,024)	(244,540)	(444,478)	(863,207)
Disposals / write-offs of depreciation		-	-	93,000	-	93,000
Carrying amount as at 31 December 2020		**1,081,928**	**62,608**	**675,008**	**1,889,503**	**3,709,047**
Cost at 31 December 2020		1,600,741	2,828,493	3,472,232	5,160,197	13,061,663
Accumulated depreciation		(518,813)	(2,765,885)	(2,797,224)	(3,270,694)	(9,352,616)
Carrying amount as at 31 December 2020		**1,081,928**	**62,608**	**675,008**	**1,889,503**	**3,709,047**
Additions		-	-	43,769	757,576	801,345
Disposals / write-offs		-	(101,046)	(241,223)	-	(342,269)
Depreciation and amortisation charge	23	(113,164)	(60,590)	(226,746)	(704,636)	(1,105,136)
Disposals / write-offs of depreciation		-	100,578	241,112	-	341,690
Carrying amount as at 31 December 2021		**968,764**	**1,550**	**491,920**	**1,942,443**	**3,404,677**
Cost at 31 December 2021		1,600,741	2,727,447	3,274,778	5,917,773	13,520,739
Accumulated depreciation		(631,977)	(2,725,897)	(2,782,858)	(3,975,330)	(10,116,062)
Carrying amount as at 31 December 2021		**968,764**	**1,550**	**491,920**	**1,942,443**	**3,404,677**

As at 31 December 2021 and 31 December 2020 land and buildings were revalued based on the results of an independent appraisal performed by an independent valuator. The principal assumptions underlying the estimation of the fair value as at 31 December 2021 and 31 December 2020 were the same as those for 31 December 2020 and 31 December 2019 respecitvely. The resulting fair values were not materially different from the carrying value of the land and buildings and no revaluation impact was recorded in the financial statements.

The carrying value of land and buildings as of 31 December 2021, if the land and buildings would not have been revalued would be AMD 793,968 thousand (31 December 2020: AMD 865,664 thousand).

14 Right of Use Assets and Lease Liabilities

The Bank leases various office premises. Rental contracts are typically made for fixed periods of 3 to 5 years, but may have extension options as described below.

All leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Armenian Drams	Note	Buildings	Total
Carrying amount as at 1 January 2020		**874,025**	**874,025**
Depreciation charge	**23**	(399,756)	(399,756)
Carrying amount as at 31 December 2020		**474,269**	**474,269**

In thousands of Armenian Drams	Note	Buildings	Total
Carrying amount as at 1 January 2021		**474,269**	**474,269**
Depreciation charge	**23**	(391,316)	(391,316)
Closure of branches		(40,009)	(40,009)
Carrying amount as at 31 December 2021		**42,944**	**42,944**

Interest expense on lease liabilities in 2021 was AMD 23,729 thousand (2020: AMD 62,452 thousand).

Expenses relating to leases of low-value assets are included in general and administrative expenses:

In thousands of Armenian Drams	2021	2020
Expense relating to leases of low-value assets	43,206	43,206

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

15 Due to Other Banks

In thousands of Armenian Drams	2021	2020
Correspondent accounts and overnight placements of other banks	114,892	187,280
Due to financial institutions	5,968,710	12,822,200
Government support programs	232,350	581,688
Total due to other banks	**6,315,952**	**13,591,168**

15 Due to Other Banks (Continued)

As at 31 December 2021 the Bank had one bank (31 December 2020: one bank), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2021 was AMD 5,968,710 thousand (2020: 12,822,200).

Refer to Note 31 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 26. Information on related party balances is disclosed in Note 33.

16 Current Accounts and Deposits from Customers

In thousands of Armenian Drams	2021	2020
Current accounts		
- Retail	60,090,022	56,088,605
- Corporate	56,298,767	39,681,957
Term deposits		
- Retail	60,083,580	62,089,517
- Corporate	22,605,207	13,003,742
Total current accounts and deposits from customers	**199,077,576**	**170,863,821**

As at 31 December 2021, the Bank maintained customer deposit balances of AMD 16,634,190 thousand (31 December 2020: AMD 9,001,446 thousand) that served as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2021, the Bank had four customers (31 December 2020: one customer), whose balances exceeded 10% of equity. These balances as at 31 December 2021 were AMD 23,100,772 thousand (2020: AMD 5,863,159 thousand).

Refer to Note 31 for the disclosure of the fair value of each class of current accounts and deposits from customers. Interest rate analysis of current accounts and deposits from customers is disclosed in Note 26. Information on related party balances is disclosed in Note 33.

17 Other Liabilities

Other liabilities comprise the following:

In thousands of Armenian Drams	Note	2021	2020
Other financial liabilities at AC			
Payables for letters of credit		5,457,849	7,438,115
Payables to HSBC Group		1,597,197	1,080,803
Accrued expenses		131,225	97,582
Lease liability		49,254	516,484
Credit loss allowance		45,088	62,155
Other		73,090	19,704
Total other financial liabilities at AC		**7,353,703**	**9,214,843**
Other financial liabilities mandatorily measured at FVTPL			
Foreign exchange forward contracts	30	194,434	2,776
Total other financial liabilities at FVTPL		**194,434**	**2,776**
Other non-financial liabilities			
Accrued staff costs		738,000	743,573
Contract liability - deferred income		174,071	155,796
Prepayments received		103,334	105,110
Payable to Deposit Guarantee Fund		59,068	57,732
Total non-financial liabilities		**1,074,473**	**1,062,211**
Total other liabilities		**8,622,610**	**10,279,830**

17 Other Liabilities (Continued)

Refer to Note 28 for analysis of exposure from financial guarantees and loan commitments by credit risk grades.

Refer to Note 31 for disclosure of the fair value of each class of other financial liabilities.

18 Share Capital

Issued capital

The authorised, issued and outstanding share capital comprises 609,400 ordinary shares of AMD 30.25 thousand each (2020: 609,400 of AMD 30.25 thousand 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 Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank determined according to legislation of the Republic of Armenia.

No dividends were declared and paid during 2021 (2020: nil).

19 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Armenian Drams	**Revaluation reserve for land and buildings**	**Revaluation reserve for investment securities at FVOCI**	**Total**
Year ended 31 December 2021			
Securities as FVOCI:			
- Losses less gains arising during the year	-	(17,577)	(17,577)
Revaluation of land and buildings:	-	-	-
Total other comprehensive income	**-**	**(17,577)**	**(17,577)**

In thousands of Armenian Drams	**Revaluation reserve for land and buildings**	**Revaluation reserve for investment securities at FVOCI**	**Total**
Year ended 31 December 2020			
Securities as FVOCI:			
- Losses less gains arising during the year	-	(65,707)	(65,707)
Revaluation of land and buildings:	7,861	-	7,861
Total other comprehensive income	**7,861**	**(65,707)**	**(57,846)**

20 Interest Income and Expense

In thousands of Armenian Drams	2021	2020
Interest income calculated using the effective interest method		
Loans and advances to customers	12,718,084	10,555,625
Debt securities at FVOCI	1,719,910	1,360,501
Debt securities at AC	243,076	200,155
Loans and advances to banks	414,691	584,483
Cash and cash equivalents	25,719	36,441
Total interest income calculated using the effective interest method	**15,121,480**	**12,737,205**
Other similar income		
Debt securities at FVTPL	31,266	34,562
Total other similar income	**31,266**	**34,562**
Total interest income	**15,152,746**	**12,771,767**
Interest expense		
Current accounts and deposits from customers	2,888,506	2,705,218
Due to other banks	27,108	16,330
Total interest expense	**2,915,614**	**2,721,548**
Other similar expense		
Reverse repurchase agreements	80,221	3,397
Lease expense	23,729	62,453
Total other similar expense	**103,950**	**65,850**
Total interest and other similar expense	**3,019,564**	**2,787,398**
Net interest income	**12,133,182**	**9,984,369**

21 Fee and Commission Income and Expense

	2021			2020		
In thousands of Armenian Drams	Retail banking	Corporate banking	Total	Retail banking	Corporate banking	Total
Fee and commission income						
- Cards	627,234	217,709	844,943	627,406	132,593	759,999
- Credit facilities	5,100	697,740	702,840	3,176	994,143	997,319
- Remittances	116,856	193,961	310,817	113,209	179,251	292,460
- Letters of credit and guarantees (Note 28)	-	253,831	253,831	-	288,180	288,180
- Account services	87,858	18,400	106,258	78,287	12,418	90,705
- Insurance agency	10,827	-	10,827	10,520	-	10,520
- Other	43,632	8,170	51,802	37,034	2,787	39,821
Total fee and commission income	**891,507**	**1,389,811**	**2,281,318**	**869,632**	**1,609,372**	**2,479,004**
Fee and commission expense						
- Card transactions fees	277,195	146,504	423,699	328,749	96,274	425,023
- Settlement transactions	-	113,867	113,867	-	117,270	117,270
- Concierge services	15,285	-	15,285	-	17,426	17,426
- Loans and borrowings	-	167	167	-	74,514	74,514
- Other	-	1,507	1,507	16	2,710	2,726
Total fee and commission expense	**292,480**	**262,045**	**554,525**	**328,765**	**308,194**	**636,959**
Net fee and commission income	**599,027**	**1,127,766**	**1,726,793**	**540,867**	**1,301,178**	**1,842,045**

22 Gains Less Losses from Trading in Foreign Currencies

In thousands of Armenian Drams	2021	2020
Gain on foreign exchange transactions	1,833,811	1,707,083
Net gain /(loss) from revaluation of financial assets and liabilities	311,528	(1,286,151)
Total gains less losses from trading in foreign currencies	**2,145,339**	**420,932**

23 Other General Administrative Expenses

In thousands of Armenian Drams	Note	2021	2020
HSBC Group IT support costs and other charges		2,764,468	2,068,915
Depreciation and amortisation of property, equipment and intangibles	13	1,105,136	863,207
Depreciation of Right of Use assets	14	391,316	399,756
Payments to Deposit Guarantee Fund		237,163	234,402
IT related costs		103,615	71,607
Security		100,443	102,866
Communication and information services		95,404	106,507
Insurance		78,139	72,840
Professional services		60,277	54,775
Advertising and marketing		58,760	55,142
Utilities		51,672	47,026
Repair and maintenance		49,740	37,586
Rent of property		49,703	52,159
Currency shipment charges		30,446	18,769
Travel and entertainment expenses		26,751	22,577
Office supplies		21,265	23,625
Charity and sponsorship		20,325	64,908
Training costs		10,445	16,506
Other		269,379	304,772
Total other general administrative expenses		**5,524,447**	**4,617,945**

24 Other operating income

In thousands of Armenian Drams	Note	2021	2020
Reimbursement from HSBC Group		103,927	27,904
Gain on disposal of repossessed collaterals		87,432	37,623
Impairment on repossessed collateral		-	(64,791)
Other		39,025	27,516
Total other operating income		**230,384**	**28,252**

25 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Armenian Drams	2021	2020
Withholding tax	1,490	1,044
Current tax	129,698	-
Deferred tax	452,777	969,125
Income tax expense for the year	**583,965**	**970,169**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's 2021 income is 18% (2020: 18%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Armenian Drams	2021	2020
Profit before tax	**3,809,015**	**3,247,197**
Theoretical tax charge at statutory rate (2021: 18%; 2020: 18%)	685,623	584,495
Tax effect of items, which are not deductible or assessable for taxation purposes:		
(Non-taxable income)/Non-deductible expenses, net	(83,059)	372,939
Over provided in prior years	(18,599)	12,735
Income tax expense for the year	**583,965**	**970,169**

(c) Tax loss carry forwards

According to Armenian tax legislation the maximum term for recovery of tax losses is 5 years. Based on the above, tax loss carry forwards expire as follows:

In thousands of Armenian Drams	2021	2020
Tax loss carry-forwards expiring by the end of:		
- 31 December 2021	-	61,703
- 31 December 2022	-	180,000
Total tax loss carry forwards	**-**	**241,703**

25 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Armenia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 18% (2020: 18%).

In thousands of Armenian Drams	**1 January 2021**	**Credited / (charged) to profit or loss**	**Credited / (charged) to other compre-hensive income**	**31 December 2021**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Cash and cash equivalents	992	(18,328)	-	(17,336)
Fair valuation of securities at FVTPL	(10,314)	3,685	-	(6,629)
Fair valuation of securities at FVOCI	2,396	-	3,857	6,253
Securities at AC	346	(259)	-	87
Loans and advances to banks	(20,147)	15,573	-	(4,574)
Loans and advances to customers	(785,306)	(433,350)	-	(1,218,656)
Property and equipment	147,847	40,130	-	187,977
Right of Use assets	(85,368)	77,638	-	(7,730)
Other assets	(139,342)	131,025	-	(8,317)
Other liabilities	200,086	(27,189)	-	172,897
Relief of tax loss carried forward	241,703	(241,703)	-	-
Net deferred tax asset/(liability)	**(447,107)**	**(452,778)**	**3,857**	**(896,028)**

In thousands of Armenian Drams	**1 January 2020**	**Credited / (charged) to profit or loss**	**Credited / (charged) to other compre-hensive income**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Cash and cash equivalents	(2,371)	3,363	-	992
Fair valuation of securities at FVTPL	(14,182)	3,868	-	(10,314)
Fair valuation of securities at FVOCI	(13,694)	-	16,090	2,396
Securities at AC	413	(67)	-	346
Loans and advances to banks	(24,904)	4,757	-	(20,147)
Loans and advances to customers	(430,704)	(354,602)	-	(785,306)
Property and equipment	142,344	(2,358)	7,861	147,847
Right of Use assets	(174,805)	89,437	-	(85,368)
Other assets	5,038	(144,380)	-	(139,342)
Other liabilities	376,972	(176,886)	-	200,086
Tax loss carry forwards	633,960	(392,257)	-	241,703
Net deferred tax asset/(liability)	**498,067**	**(969,125)**	**23,951**	**(447,107)**

(e) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are, as follows:

	2021			**2020**		
In thousands of Armenian Drams	**Before-tax amount**	**Income tax (expense) / benefit**	**Net-of-tax amount**	**Before-tax amount**	**Income tax (expense) / benefit**	**Net-of-tax amount**
Debt securities at FVOCI:						
- Gains arising during the year	(21,435)	3,858	(17,577)	(80,130)	14,423	(65,707)
Revaluation of fixed assets:	-	-	-	-	7,861	7,861
Other comprehensive income	**(21,435)**	**3,858**	**(17,577)**	**(80,130)**	**22,284**	**(57,846)**

26 Financial Risk Management

The risk management function within the Bank is carried out with respect to financial risks and non-financial risks. Financial risk comprises market risk, treasury risk, retail credit risk, wholesale credit risk and strategic risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The non-financial risks management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment. *Credit risk management.* Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit approving authorities for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by Finance, Risk and Commercial Banking departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by Risk Management and Commercial Banking senior executives, Regional Risk teams, Country Risk Management Meetings and any other not formal committees created for the management of such accounts.

Credit risk grading system**.** The bank's credit risk rating systems are an integral part of our sound management of risk and form a fundamental component of our capital management and business planning activities. Credit assessment via rating systems depends crucially on the right type of rating system being applied to the right borrower category.

Customer Risk Ratings (hereinafter - CRR) provide a summary indicator of risk, based on information about a borrower's financial condition including their cash flow, profitability and debt profile, market indicators, industry and operational background, management capabilities, and other indicators that help to assess the customer's repayment ability.

The assignment of the CRR is an independent and objective exercise, taking into account all aspects of the borrower's risk profile. CRRs are re-assessed each time that a credit proposal is formally reviewed, but at a minimum annually.

Wholesale lending and derivatives-12-month Basel probability of default % Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss;
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk;

26 Financial Risk Management (Continued)

- 'Satisfactory' exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk;
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern;
- 'Credit-impaired' exposures have been assessed as described in Note 3.

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime *period.* The lifetime *period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for POCI financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- Known cash flow difficulties experienced by the borrower;
- Contractual payments of either principal or interest being past due for more than 90 days;
- The probability that the borrower will enter bankruptcy or other forms of creditor protection;
- A significant concession granted to the borrower for economic or legal reasons relating to the borrower's

26 Financial Risk Management (Continued)

- The Bank has sold the borrower’s debt or its portion at a loss due to credit deterioration;
- The borrower meets the unlikeliness-to-pay criteria listed below:
  - the bank was forced to restructure the debt;
  - the borrower is deceased;
  - the borrower is insolvent;
  - the borrower is in breach of financial covenant(s);

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

Financial instruments are allocated into appropriate stages before ECL calculations are performed. Stage allocation reflects whether the instrument constitutes part of the ‘Good’, ‘Deteriorated’ or ‘Credit-Impaired’ book based on Global Wholesale Credit Risk’s approved stage allocation/transfer criteria. Stage allocation comprises a series of quantitative and qualitative criteria that are applied to identify significant increase in credit risk since initial recognition, and determine whether an instrument is to be allocated to Stage 1 or Stage 2 for up to 12 months or lifetime ECL calculation respectively.

The below listed indicators are considered to determine whether an instrument is allocated to Stage 1 or Stage 2.

- Residual average forward looking point in time PD (primary indicator)
- CRR deterioration
- Watch/Worry list (backstop/secondary indicator)
- 30+ days past due (backstop/secondary indicator)

For loans to Individuals:

Stage allocation is determined for all accounts, particularly,

- Exposures 90+ Days Past Due are assigned to Stage 3
- Exposures 1+ Days Past Due are assigned to Stage 2
- Up-to-Date exposures are assigned to Stage 1

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. The Bank performs an assessment on an individual basis for defaulted corporate portfolio/accounts only.

ECL assessment on an individual basis is measured on a lifetime ECL basis using a Discounted Cash Flow ("DCF") methodology. For Stage 3 credit-impaired financial instruments, an event must have occurred for an instrument to be identified as being in default/impaired (i.e. CRR 9 or 10). Under IFRS 9, a financial instrument or group of financial instruments are credit-impaired and Stage 3 individual ECL allowances are to be determined if there is evidence of impairment as a result of one or more events that occurred after initial recognition of the instrument, and this event(s) has a detrimental effect on the estimated future cash flows of that instrument and the contractual cash flows are not anticipated to be collected as originally expected.

26 Financial Risk Management (Continued)

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, credit risk rating, term to maturity. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department and Regional Model team.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, which is then discounted back to the reporting date and summed up.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, which varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. For revolving products, the EAD is predicted by taking the current drawn balance and adding a CCF that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

Simplified approach is used to calculate ECL for Stage 1 and Stage 2. Under this approach, PIT PDs is defined as a function of the TTC PD of each obligor, with the dynamic (PIT) part added as the difference PIT_PD-TTC_PD of the main sites. Scalar denotes the magnitude of the relationship existing between the risk parameters of the target portfolio and proxy country.

The scalar is used to shift the main site cumulative probability of default ("CPD") curve and derive the international site CPD and is typically around 1. The PIT CPD of the Armenia is calculated as the TTC PD plus the difference of the PIT CPD and the TTC PD of the proxy site.

The proxy country to be used for Armenia Portfolio is France.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Forward-looking information incorporated in the ECL models. The Bank in general applies three forward-looking global economic scenarios determined with reference to external forecast distributions representative of the Bank's view of forecast economic conditions, the consensus economic scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a most likely outcome (the Central scenario) and two, less likely, outer scenarios referred to as the Upside and Downside scenarios. The Central scenario is the basis for the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside scenarios are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries and territories, in which HSBC operates.

26 Financial Risk Management (Continued)

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Bank recognises that the consensus economic scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in alternative scenarios and probability weightings being applied in arriving at the ECL.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Bank's Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Cash and cash equivalents, excluding cash on hand	54,632,270	-	-	**54,632,270**
Debt securities at FVOCI	33,596,891	-	-	**33,596,891**
Debt securities at AC	1,215,892	-	-	**1,215,892**
Loans and advances to banks	2,638,161	-	-	**2,638,161**
Loans and advances to customers				
- Strong	45,003,930	-	-	**45,003,930**
- Good	2,078,791	8,875	-	**2,087,666**
- Satisfactory	79,178,316	7,262,878	-	**86,441,194**
- Sub-standard	999,591	6,856,401	-	**7,855,992**
- Credit impaired	-	-	12,245,352	**12,245,352**
Other financial assets	6,430,376	-	-	**6,430,376**
Credit related commitments and guarantees	50,382,695	602,192	9,613	**50,994,500**
Debt securities at FVTPL	290,739	-	-	**290,739**
Derivative financial assets	16,991	-	-	**16,991**
Total maximum exposure	**276,464,643**	**14,730,346**	**12,254,965**	**303,449,954**

26 Financial Risk Management (Continued)

The maximum exposure to credit risk from financial assets as at 31 December 2020 is, as follows:

In thousands of Armenian Drams	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Cash and cash equivalents, excluding cash on hand	33,294,773	-	-	**33,294,773**
Debt securities at FVOCI	25,830,934	-	-	**25,830,934**
Debt securities at AC	5,277,664	-	-	**5,277,664**
Loans and advances to banks	9,666,154	-	-	**9,666,154**
Loans and advances to customers				
- Strong	31,280,712	-	-	**31,280,712**
- Good	1,926,802	28,156	-	**1,954,958**
- Satisfactory	75,383,517	6,367,384	-	**81,750,901**
- Sub-standard	910,283	14,848,936	-	**15,759,219**
- Credit impaired	-	-	13,000,147	**13,000,147**
Other financial assets	8,720,072	-	-	**8,720,072**
Credit related commitments and guarantees	39,114,632	4,078,755	-	**43,193,387**
Debt securities at FVTPL	309,215	-	-	**309,215**
Derivative financial assets	961,108	-	-	**961,108**
Total maximum exposure	**232,675,866**	**25,323,231**	**13,000,147**	**270,999,244**

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis. The Bank's market risk policy is in line with HSBC Group standards.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Armenian Drams	AMD	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	20,105,125	20,937,330	14,401,587	4,311,830	59,755,872
Investments in debt securities	35,103,522	-	-	-	35,103,522
Investments in equity securities	31,283	-	794	-	32,077
Loans and advances to banks	2,541,162	1,872	29,169	65,958	2,638,161
Loans and advances to customers	67,935,232	70,041,358	15,323,304	334,240	153,634,134
Other financial assets	641,605	1,558,660	4,240,702	6,400	6,447,367
Total financial assets	**126,357,929**	**92,539,220**	**33,995,556**	**4,718,428**	**257,611,133**
LIABILITIES					
Due to other banks	347,242	-	5,968,710	-	6,315,952
Current accounts and deposits from customers	78,388,868	92,950,924	26,071,754	1,666,030	199,077,576
Other financial liabilities	803,750	1,410,727	4,297,450	1,036,210	7,548,137
Total financial liabilities	**79,539,860**	**94,361,651**	**36,337,914**	**2,702,240**	**212,941,665**
Net position as at 31 December 2021	**46,818,069**	**(1,822,431)**	**(2,342,358)**	**(2,016,188)**	**44,669,468**
The effect of derivatives held for risk management and regular way currency contracts	**(2,976,471)**	**2,344,330**	**2,525,340**	**(1,893,199)**	**-**

26 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2020:

In thousands of Armenian Drams	AMD	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	16,151,090	13,072,547	7,434,300	2,260,572	38,918,509
Investments in debt securities	31,417,813	-	-	-	31,417,813
Investments in equity securities	31,283	-	938	-	32,221
Loans and advances to banks	-	9,639,553	7,187	19,414	9,666,154
Loans and advances to customers	59,025,645	63,385,444	21,164,521	170,327	143,745,937
Other financial assets	829,866	1,232,237	7,606,682	12,395	9,681,180
Total financial assets	**107,455,697**	**87,329,781**	**36,213,628**	**2,462,708**	**233,461,814**
LIABILITIES					
Due to other banks	768,968	-	12,822,200	-	13,591,168
Current accounts and deposits from customers	59,264,650	89,736,001	20,557,693	1,305,477	170,863,821
Other financial liabilities	1,002,193	85,916	7,457,774	671,736	9,217,619
Total financial liabilities	**61,035,811**	**89,821,917**	**40,837,667**	**1,977,213**	**193,672,608**
Net position as at 31 December 2020	**46,419,886**	**(2,492,136)**	**(4,624,039)**	**485,495**	**39,789,206**
The effect of derivatives held for risk management and regular way currency contracts	**(8,867,635)**	**4,118,108**	**5,061,464**	**(311,937)**	**-**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant: The amounts below are presented gross.

	At 31 December 2021		At 31 December 2020	
In thousands of Armenian Drams	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10% (2020: strengthening by 10%)	(52,190)	(52,190)	(162,597)	(162,597)
Euro strengthening by 10% (2020: strengthening by 10%)	(18,298)	(18,298)	(43,742)	(43,742)

26 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The tables below summarise the Bank's exposure to interest rate risks. The tables present the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

The Bank's exposure to interest rate risk as at 31 December 2021 is set out below:

In thousands of Armenian Drams	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
ASSETS						
Cash and cash equivalents	54,632,270	-	-	-	5,123,602	59,755,872
Investments in debt securities	10,721,765	24,282,707	99,050	-	-	35,103,522
Investments in equity securities	-	-	-	-	32,077	32,077
Loans and advances to banks	2,638,161	-	-	-	-	2,638,161
Loans and advances to customers	145,144,575	2,214,159	6,187,449	87,951	-	153,634,134
Other financial assets	-	-	-	-	6,447,367	6,447,367
Total financial assets	**213,136,771**	**26,496,866**	**6,286,499**	**87,951**	**11,603,046**	**257,611,133**
LIABILITIES						
Due to other banks	6,083,602	232,350	-	-	-	6,315,952
Current accounts and deposits from customers	45,684,384	43,846,068	2,576,204	-	106,970,920	199,077,576
Other financial liabilities	14,451	34,803	-	-	7,498,883	7,548,137
Total financial liabilities	**51,782,437**	**44,113,221**	**2,576,204**	**-**	**114,469,803**	**212,941,665**
Net interest sensitivity gap at 31 December 2021	**161,354,334**	**(17,616,355)**	**3,710,295**	**87,951**	**(102,866,757)**	**44,669,468**

26 Financial Risk Management (Continued)

The Bank's exposure to interest rate risk as at 31 December 2020 is set out below:

In thousands of Armenian Drams	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
ASSETS						
Cash and cash equivalents	33,294,773	-	-	-	5,623,736	38,918,509
Investments in debt securities	11,977,507	16,308,631	3,131,675	-	-	31,417,813
Investments in equity securities	-	-	-	-	32,221	32,221
Loans and advances to banks	9,666,154	-	-	-	-	9,666,154
Loans and advances to customers	135,278,789	2,271,770	6,136,294	59,084	-	143,745,937
Other financial assets	-	-	-	-	9,681,180	9,681,180
Total financial assets	**190,217,223**	**18,580,401**	**9,267,969**	**59,084**	**15,337,137**	**233,461,814**
LIABILITIES						
Due to other banks	13,009,480	387,792	193,896	-	-	13,591,168
Current accounts and deposits from customers	34,320,082	43,462,335	1,901,682	-	91,179,722	170,863,821
Other financial liabilities	103,907	327,543	85,034	-	8,701,135	9,217,619
Total financial liabilities	**47,433,469**	**44,177,670**	**2,180,612**	**-**	**99,880,857**	**193,672,608**
Net interest sensitivity gap at 31 December 2020	**142,783,754**	**(25,597,269)**	**7,087,357**	**59,084**	**(84,543,720)**	**39,789,206**

The management of interest rate risk based on interest rate gap analysis supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (before taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all positions of interest-bearing assets and liabilities, excluding financial instruments at fair value though profit or loss and fair value through other comprehensive income, existing as at 31 December 2021 and 2020 is, as follows:

	2021		2020	
In thousands of Armenian Drams	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	1,258,756	1,258,756	1,175,776	1,175,776
100 bp parallel fall	(1,350,125)	(1,350,125)	(1,185,648)	(1,185,648)

26 Financial Risk Management (Continued)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and FVOCI financial assets due to changes in the interest rates based on positions existing as at 31 December 2021 and 2020 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is, as follows:

	2021		2020	
In thousands of Armenian Drams	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	(8,910)	(124,621)	(15,545)	(124,492)
100 bp parallel fall	9,522	126,598	14,849	117,705

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2021			2020		
In % p.a.	**AMD**	**USD**	**Other**	**AMD**	**USD**	**Other**
Assets						
Cash and cash equivalents	8.5	0	0	5.6	-	3.1
Investments in debt securities	7.8	-	-	5.8	-	-
Loans and advances to banks	8.7	-	-	-	3.3	-
Loans and advances to customers	11.0	6.8	5.3	10.6	6.8	5.2
Liabilities						
Due to other banks	-	-	(0.5)	-	-	(0.5)
Current accounts and deposits from accounts						
- current accounts and demand deposits	3.7	0.5	1.2	2.7	0.5	1.5
- term deposits	6.3	2.0	0.6	7.1	2.3	0.6
Other liabilities	10.2	-	-	9.5	-	-

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank’s current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2020: no material impact).

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank’s liquidity policy is developed in accordance with HSBC Group policies and local regulations. The liquidity policy is reviewed and approved by the ALCO and the Board.

The Bank seeks to actively support a diversified and stable funding base comprising core corporate and retail customer deposits, debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;

26 Financial Risk Management (Continued)

- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

Long-term, or structural, liquidity and funding risk management is the collective responsibility of ALCO. Main objectives of ALCO include managing the balance sheet with a view to enhance profitability and promote efficiency in the use of capital and funding by enhancing return on risk assets, reviewing all risks and ensuring their prudent management.

Global Markets department is responsible for the short-term or operational liquidity risk management of the Bank. Global Markets department should maintain adequate portfolio of short-term liquid assets, largely made up of: short-term liquid securities, loans and advances to banks and other inter-bank facilities. All significant transactions which can impact the Bank's liquidity position are pre-agreed with Global Markets department by Businesses.

The key measures used by the Bank for managing liquidity risk and funding risk are liquidity coverage ratio, liquid asset buffer ratio, net stable funding ratio, depositor and term funding maturity concentrations, which are monitored and managed on daily basis. Liquidity and funding risk appetite is defined by the Bank in a Risk Appetite Statement approved by the Board. The CBA sets and monitors liquidity requirements for the Bank. Under the current requirements set by the CBA, banks have to maintain the ratios of liquid assets to total assets and liquid assets to on demand liabilities above the prescribed minimum level. For this purpose liquid assets include cash and cash equivalents and Government treasury bills, which are not pledged or the use of which is not restricted in any way. As at 31 December 2021, this minimum level was 15% and 60% respectively. The Bank was in compliance with the statutory liquidity ratios as at 31 December 2021 and 2020 and over the periods.

The following table shows the liquidity ratios calculated in accordance with the requirements of the CBA, as at 31 December:

In thousands of Armenian Drams	**2021**	**2020**
At 31 December		
Ratio of liquid assets to total assets	35%	30%
Ratio of liquid assets to on demand liabilities	77%	70%

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed and reviewed by ALCO quarterly. There is also a Contingency Funding Plan in place, which defines early warning indicators, crises management team, responsibilities, urgent liquidity sources, as well as crisis scenarios and Bank's mitigating actions.

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

26 Financial Risk Management (Continued)

The maturity analysis for financial liabilities as at 31 December 2021 is, as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative liabilities						
Due to other banks	114,892	5,968,710	232,350	-	-	6,315,952
Current accounts and deposits from customers	127,571,732	9,971,522	50,188,971	11,061,490	2,876,377	201,670,092
Other financial liabilities	2,053,567	483,507	2,027,392	2,991,427	-	7,555,893
Total liabilities	**129,740,191**	**16,423,739**	**52,448,713**	**14,052,917**	**2,876,377**	**215,541,937**
Credit related commitments and letters of credit	**44,455,661**	**-**	**-**	**-**	**-**	**44,455,661**
Performance guarantees	**6,538,839**	**-**	**-**	**-**	**-**	**6,538,839**

The maturity analysis for financial liabilities as at 31 December 2020 is, as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative liabilities						
Due to other banks	6,598,380	6,411,100	387,792	193,896	-	13,591,168
Current accounts and deposits from customers	104,952,239	10,911,842	48,044,331	6,869,465	3,086,156	173,864,033
Other financial liabilities	1,334,857	41,421	4,954,290	2,896,403	-	9,226,971
Total liabilities	**112,885,476**	**17,364,363**	**53,386,413**	**9,959,764**	**3,086,156**	**196,682,172**
Credit related commitments and letters of credit	**36,032,230**	**-**	**-**	**-**	**-**	**36,032,230**
Performance guarantees	**7,161,157**	**-**	**-**	**-**	**-**	**7,161,157**

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

26 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2021 is, as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	59,755,872	-	-	-	-	-	-	59,755,872
Investments in debt securities	3,997,432	6,724,333	24,282,707	99,050	-	-	-	35,103,522
Investments in equity securities	-	-	-	-	-	32,077	-	32,077
Loans and advances to banks	2,638,161	-	-	-	-	-	-	2,638,161
Loans and advances to customers	7,476,178	8,367,759	50,622,854	52,701,480	25,271,757	-	9,194,106	153,634,134
Property, equipment and intangible assets	-	-	-	-	-	3,404,677	-	3,404,677
Other assets	1,060,776	494,389	2,829,732	2,990,645	-	30,105	-	7,405,647
Right of Use assets	-	-	-	-	-	42,944	-	42,944
Total	**74,928,419**	**15,586,481**	**77,735,293**	**55,791,175**	**25,271,757**	**3,509,803**	**9,194,106**	**262,017,034**
Liabilities								
Due to other banks	114,892	5,968,710	232,350	-	-	-	-	6,315,952
Current accounts and deposits from customers	127,557,519	9,924,991	49,151,977	10,617,877	1,825,212	-	-	199,077,576
Current tax liabilities	-	-	129,698	-	-	-	-	129,698
Deferred tax liabilities	-	-	-	-	-	896,028	-	896,028
Other liabilities	2,232,222	1,257,620	2,107,095	3,025,673	-	-	-	8,622,610
Total potential future payments for financial obligations	**129,904,633**	**17,151,321**	**51,621,120**	**13,643,550**	**1,825,212**	**896,028**	**-**	**215,041,864**
Liquidity gap arising from financial instruments	**(54,976,214)**	**(1,564,840)**	**26,114,173**	**42,147,625**	**23,446,545**	**2,613,775**	**9,194,106**	**46,975,170**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

26 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2020 is, as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	38,918,509	-	-	-	-	-	-	38,918,509
Investments in debt securities	5,433,099	6,544,408	16,308,631	3,131,675	-	-	-	31,417,813
Investments in equity securities	-	-	-	-	-	32,221	-	32,221
Loans and advances to banks	9,666,154	-	-	-	-	-	-	9,666,154
Loans and advances to customers	8,389,552	8,436,537	31,587,787	70,074,930	14,593,252	-	10,663,879	143,745,937
Property, equipment and intangible assets	-	-	-	-	-	3,709,047	-	3,709,047
Other assets	1,627,896	162,447	6,343,602	2,813,762	-	37,966	-	10,985,673
Right of Use assets	-	-	-	-	-	474,269	-	474,269
Total	**64,035,210**	**15,143,392**	**54,240,020**	**76,020,367**	**14,593,252**	**4,253,503**	**10,663,879**	**238,949,623**
Liabilities								
Due to other banks	6,598,380	6,411,100	387,792	193,896	-	-	-	13,591,168
Current accounts and deposits from customers	104,934,584	10,866,626	47,027,173	6,144,422	1,891,016	-	-	170,863,821
Deferred tax liabilities	-	-	-	-	-	447,107	-	447,107
Other liabilities	1,510,350	811,982	5,027,728	2,929,770	-	-	-	10,279,830
Total potential future payments for financial obligations	**113,043,314**	**18,089,708**	**52,442,693**	**9,268,088**	**1,891,016**	**447,107**	**-**	**195,181,926**
Liquidity gap arising from financial instruments	**(49,008,104)**	**(2,946,316)**	**1,797,327**	**66,752,279**	**12,702,236**	**3,806,396**	**10,663,879**	**43,767,697**

Payments in respect of gross settled forwards will be accompanied by related cash inflows. Current accounts and deposits from customers are classified in the above analysis based on contractual maturities. However, in accordance with Armenian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest. These deposits are classified in accordance with their stated maturity dates. The principal amount of such deposits, by each time band, is, as follows:

- less than 1 month: AMD 8,276,344 thousand (2020: AMD 8,003,601 thousand);
- from 1 to 3 months: AMD 8,796,808 thousand (2020: AMD 8,932,302 thousand);
- from 3 to 12 months: AMD 37,376,924 thousand (2020: AMD 36,837,582 thousand);
- from 1 to 5 years: AMD thousand 3,302,826 (2020: AMD 5,930,220 thousand);
- more than 5 years: AMD 1,825,314 thousand (2020: AMD 1,887,638 thousand).

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

27 Management of Capital

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, 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, this minimum level was 12%. The Bank was in compliance with the statutory capital ratio as at 31 December 2021 and 2020 and over the periods.

Regular stress testing covering both normal and more severe market conditions is performed to assess the impact on statutory capital ratio. The result of stress tests are reviewed by the ALCO on a quarterly basis and by the Board on an annual basis.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA calculated based on reports provided to the CBA, as at 31 December:

In thousands of Armenian Drams	**2021**	**2020**
Tier 1 capital		
Share capital	18,434,350	18,434,350
Retained earnings	26,001,397	22,817,981
General Reserve (CBA)	2,128,314	2,086,680
Adjustment to CBA accounting principles	(7,345,108)	(4,881,430)
Other deductions	(2,813,136)	(3,454,910)
Total tier 1 capital	**36,405,817**	**35,002,671**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets, gross of tax	(58,360)	(57,984)
Revaluation reserve for land and buildings	393,039	393,039
Share-based payment reserve	117,315	117,315
Total tier 2 capital	**451,994**	**452,370**
Total capital	**36,857,811**	**35,455,041**
Risk weighted assets, combining credit, market and operational risks	**220,156,751**	**216,545,671**
Total capital ratio	**16.74%**	**16.37%**

The 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 unrecognised contractual commitments, with some adjustments, to reflect the more contingent nature of the potential losses.

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. The taxation system in the Republic of Armenia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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, might be material but is unlikely to be significant.

28 Contingencies and Commitments (Continued)

The Armenian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) although has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. The management has implemented an internal control system to meet the requirements of the current transfer pricing legislation. In respect of some types of transactions (including transactions with securities and derivative contracts) there are special rules for determination of the market prices.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Armenian Drams	**Note**	**2021**	**2020**
Loan and credit line commitments		22,897,464	23,194,204
Undrawn overdraft facilities		14,353,370	7,348,821
Performance guarantees		6,538,839	7,161,157
Credit card commitments		4,866,391	5,332,092
Letters of credit		2,383,524	219,268
Other commitments		-	-
Less: Provision for guarantees and other commitments	17	(12,560)	(11,679)
Less: Provision for loan commitments	17	(32,527)	(50,476)
Total credit related commitments, net of provision and cash covered exposures		**50,994,501**	**43,193,387**

Refer to Note 26 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was AMD 299,675 thousand at 31 December 2021 (2020: AMD 323,505 thousand).

Of these commitments, AMD 24,761,499 thousand are top 10 customers as at 31 December 2021 (31 December 2020: AMD 20,999,938 thousand are to 10 customers).

29 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are, as follows, as at 31 December 2021:

In thousands of Armenian Drams	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instru-ments (d)	Cash collateral received (e)	
ASSETS						
Loans and advances to customers						
- Reverse sale and repurchase agreements	2,834,872	-	2,834,872	(2,834,872)	-	-
Other financial assets:						
- Foreign exchange forward contracts	16,991	-	16,991	(16,991)	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**2,851,863**	**-**	**2,851,863**	**(2,851,863)**	**-**	**-**
LIABILITIES						
Other financial liabilities:						
Financial derivatives	194,434	-	194,434	(194,434)	-	-
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**194,434**	**-**	**194,434**	**(194,434)**	**-**	**-**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are, as follows, as at 31 December 2020:

In thousands of Armenian Drams	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instru-ments (d)	Cash collateral received (e)	
ASSETS						
Loans and advances to customers						
- Reverse sale and repurchase agreements	3,364,264	-	3,364,264	(3,364,264)	-	-
Other financial assets:						
- Foreign exchange forward contracts	961,108	-	961,108	(961,108)	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4,325,372**	**-**	**4,325,372**	**(4,325,372)**	**-**	**-**
LIABILITIES						
Other financial liabilities:						
Financial derivatives	2,776	-	2,776	(2,776)	-	-
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**2,776**	**-**	**2,776**	**(2,776)**	**-**	**-**

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are set off in the statement of financial position.

30 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

In thousands of Armenian Drams	**Notes**	**2021** Contracts with positive fair value	**2021** Contracts with negative fair value	**2020** Contracts with positive fair value	**2020** Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of					
- USD receivable on settlement (+)		-	(194,185)	771,363	(1,217)
- USD payable on settlement (-)		-	(249)	189,745	(1,559)
- JPY receivable on settlement (+)		16,991	-	-	-
- JPY payable on settlement (-)		-	-	-	-
Net fair value of foreign exchange forwards	**12, 17**	**16,991**	**(194,434)**	**961,108**	**(2,776)**

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below summarises, by major currencies, the contractual amounts of forward currency contracts outstanding as at 31 December 2021 and 2020 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these non-matured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		**Weighted average contractual exchange rates**	
In thousands of Armenian Drams	**31 December 2021**	**31 December 2020**	**31 December 2021**	**31 December 2020**
Buy USD sell AMD				
Less than 3 months	2,976,471	3,553,473	516.2	494.0
Between 3 and 12 months	-	5,314,162	-	481.9
Buy GBP sell USD				
Less than 3 months	-	1,334,465	-	1.4
Buy USD sell GBP				
Less than 3 months	-	1,332,605	-	1.4
Buy USD sell CAD				
Less than 3 months	-	40,792	-	1.3
Buy USD sell AUD				
Less than 3 months	-	19,868	-	1.3
Buy EUR sell USD				
Less than 3 months	632,141	4,808,325	1.1	1.2
Buy EUR sell JPY				
Less than 3 months	1,893,199	253,139	109.9	126.6

31 Fair Value Disclosures

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

(a) Recurring fair value measurements

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

	31 December 2021				31 December 2020			
In thousands of Armenian Drams	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in debt securities								
- Armenian government bonds	33,887,630	-	-	33,887,630	26,140,149	-	-	26,140,149
Investments in equity securities								
- Corporate shares	-	32,077	-	32,077	-	32,221	-	32,221
Other financial assets								
- Foreign exchange forward contracts	-	16,991	-	16,991	-	966,483	-	966,483
NON-FINANCIAL ASSETS								
- Land and buildings	-	-	968,764	968,764	-	-	1,081,928	1,081,928
TOTAL ASSETS WITH FAIR VALUE MEASUREMENTS	**33,887,630**	**49,068**	**968,764**	**34,905,462**	**26,140,149**	**998,704**	**1,081,928**	**28,220,781**
LIABILITIES AT FAIR VALUE								
FINANCIAL LIABILITIES								
Other financial liabilities								
- Foreign exchange forward contracts	-	(194,434)	-	(194,434)	-	(2,776)	-	(2,776)
TOTAL LIABILITIES WITH FAIR VALUE MEASUREMENTS	**-**	**(194,434)**	**-**	**(194,434)**	**-**	**(2,776)**	**-**	**(2,776)**

31 Fair Value Disclosures (Continued)

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

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

In thousands of Armenian Drams	31 December 2021 Level 1 fair value	Level 2 fair value	Level 3 fair value	Total	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents	-	59,755,872	-	59,755,872	59,755,872
Investments in debt securities	1,215,246	-	-	1,215,246	1,215,892
Loans and advances to banks	-	2,638,161	-	2,638,161	2,638,161
Loans and advances to customers	-	-	153,634,134	153,634,134	153,634,134
Other financial assets	-	-	6,430,376	6,430,376	6,430,376
TOTAL	**1,215,246**	**62,394,033**	**160,064,510**	**223,673,789**	**223,674,435**
FINANCIAL LIABILITIES					
Due to other banks	-	6,315,952	-	6,315,952	6,315,952
Current accounts and deposits from customers	-	198,390,622	-	198,390,622	199,077,576
Other financial liabilities	-	-	7,353,703	7,353,703	7,353,703
TOTAL	-	**204,706,574**	**7,353,703**	**212,060,277**	**212,747, 231**

In thousands of Armenian Drams	31 December 2020 Level 1 fair value	Level 2 fair value	Level 3 fair value	Total	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents	-	38,918,509	-	38,918,509	38,918,509
Investments in debt securities	5,275,829	-	-	5,275,829	5,277,664
Loans and advances to banks	-	9,666,154	-	9,666,154	9,666,154
Loans and advances to customers	-	-	143,745,937	143,745,937	143,745,937
Other financial assets	-	-	8,720,072	8,720,072	8,720,072
TOTAL	**5,275,829**	**48,584,663**	**152,466,009**	**206,326,501**	**206,328,336**
FINANCIAL LIABILITIES					
Due to other banks	-	13,591,168	-	13,591,168	13,591,168
Current accounts and deposits from customers	-	170,688,672	-	170,688,672	170,863,821
Other financial liabilities	-	-	9,214,843	9,214,843	9,214,843
TOTAL	**-**	**184,279,840**	**9,214,843**	**193,494,683**	**193,669,832**

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

31 Fair Value Disclosures (Continued)

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 0.0%-8.7% (31 December 2020: 0.0%-3.3%) and 5.3%-11% (31 December 2020: 5.2%-10.6%) are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively; discount rates of (0.5%) - 10.2% (31 December 2020: (0.5%) - 9.5%) are used for discounting future cash flows for liabilities;
- the fair value of variable rate instruments is not materially different from carrying amount;
- the fair value of government bonds is estimated based on government bonds yield curve.

32 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2021:

In thousands of Armenian Drams	**FVTPL (mandatory)**	**Debt instru-ments at FVOCI**	**Equity instru-ments at FVOCI**	**AC**	**Total**
ASSETS					
Cash and cash equivalents	-	-	-	59,755,872	59,755,872
Loans and advances to banks	-	-	-	2,638,161	2,638,161
Investments in debt securities	290,739	33,596,891	-	1,215,892	35,103,522
Investments in equity securities	-	-	32,077	-	32,077
Loans and advances to customers	-	-	-	153,634,134	153,634,134
Other financial assets	16,991	-	-	6,430,376	6,447,367
TOTAL FINANCIAL ASSETS	**307,730**	**33,596,891**	**32,077**	**223,674,435**	**257,611,133**
LIABILITIES					
Due to other banks	-	-	-	6,315,952	6,315,952
Current accounts and deposits from customers	-	-	-	199,077,576	199,077,576
Other financial liabilities	194,434	-	-	7,353,703	7,548,137
TOTAL FINANCIAL LIABILITIES	**194,434**	**-**	**-**	**212,747,231**	**212,941,665**

32 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with measurement categories as at 31 December 2020:

In thousands of Armenian Drams	FVTPL (mandatory)	Debt instru-ments at FVOCI	Equity instru-ments at FVOCI	AC	Total
ASSETS					
Cash and cash equivalents	-	-	-	38,918,509	38,918,509
Loans and advances to banks	-	-	-	9,666,154	9,666,154
Investments in debt securities	309,215	25,830,934	-	5,277,664	31,417,813
Investments in equity securities	-	-	32,221	-	32,221
Loans and advances to customers	-	-	-	143,745,937	143,745,937
Other financial assets	961,108	-	-	8,720,072	9,681,180
TOTAL FINANCIAL ASSETS	**1,270,323**	**25,830,934**	**32,221**	**206,328,336**	**233,461,814**
LIABILITIES					
Due to other banks	-	-	-	13,591,168	13,591,168
Current accounts and deposits from customers	-	-	-	170,863,821	170,863,821
Other financial liabilities	2,776	-	-	9,214,843	9,217,619
TOTAL FINANCIAL LIABILITIES	**2,776**	**-**	**-**	**193,669,832**	**193,672,608**

As of 31 December 2021 and 31 December 2020, all of the Bank's financial liabilities except for derivatives were carried at AC.

33 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

As at 31 December 2021, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Entities under common control	Key management personnel	Other related parties
Cash and cash equivalents (contractual interest rate: 0.0%)	16,858,134	-	-
Loans and advances to banks (contractual interest rate:0.0%)	97,044	-	-
Loans and advances to customers (contractual interest rate: 4.0 - 18.0%)	-	1,000,306	99,091
Credit loss allowance at 31 December 2021	-	(1,163)	(90)
Other assets	21,053		
Due to other banks (contractual interest rate: (0.5%)-0.0%)	6,083,603	-	-
Current accounts and deposits from customers (contractual interest rate: 0.0%-7.5 %)	-	413,577	102,681
Provisions for liabilities and charges	-	2	-
Other liabilities	7,400,809	-	-

33 Related Party Transactions (Continued)

The income and expense items with related parties for 2021 were, as follows:

In thousands of Armenian Drams	Entities under common control	Key management personnel	Other related parties
Interest income	64,796	47,833	21,999
Interest expense	(24,074)	(5,388)	(1,658)
Credit loss allowance	-	(446)	1,173
Gains less losses from trading in foreign currencies	(698,037)	660	4,428
Fee and commission expense	(67,780)	-	-
Provision for credit related commitments	-	-	471
Other operating income	110,657	556	3,657
Other general administrative expenses	(2,764,468)	-	-

As at 31 December 2021, other rights and obligations with related parties were, as follows:

In thousands of Armenian Drams	Entities under common control	Key management personnel	Other related parties
Guarantees received by the Bank at the year end	2,550,267	-	-
Other commitments	-	14,677	1,063
Other contingent obligations	4,869,670	-	-

As at 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Entities under common control	Key management personnel	Other related parties
Cash and cash equivalents (contractual interest rate: 0.0%-3.1%)	6,658,695	-	-
Loans and advances to banks (contractual interest rate:0.0%)	37,739	-	-
Loans and advances to customers (contractual interest rate: 4.0 - 18.0%)	-	731,325	291,737
Credit loss allowance at 31 December 2020	-	(717)	(1,263)
Other assets	992,050	-	-
Due to other banks (contractual interest rate: (0.5%)-0.0%)	13,009,480	-	-
Current accounts and deposits from customers (contractual interest rate: 0.0%-7.5 %)	-	291,129	869,149
Provisions for liabilities and charges	-	2	471
Other liabilities	8,514,225	-	-

The income and expense items with related parties for 2020 were, as follows:

In thousands of Armenian Drams	Entities under common control	Key management personnel	Other related parties
Interest income	59,683	44,393	15,658
Interest expense	(10,118)	(3,887)	(1,237)
Credit loss allowance	-	39	(1,232)
Gains less losses from trading in foreign currencies	1,246,313	-	-
Foreign exchange translation gains less losses	116,321	536	6,701
Fee and commission expense	(132,775)	-	-
Provision for credit related commitments	-	(1)	453
Other operating income	28,049	389	4,550
Other general administrative expenses	(2,068,915)	-	-

33 Related Party Transactions (Continued)

As at 31 December 2020, other rights and obligations with related parties were, as follows:

In thousands of Armenian Drams	**Entities under common control**	**Key management personnel**	**Other related parties**
Guarantees received by the Bank at the year end	3,769,997	-	-
Other commitments	-	12,706	412,445
Other contingent obligations	16,656,827	-	-

Key management compensation is presented below:

	2021		**2020**	
In thousands of Armenian Drams	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	563,765	-	688,076	-
- Short-term bonuses	113,004	113,004	126,976	126,976
- Benefits in-kind	-	-	19,046	-
Share-based compensation:				
- Cash-settled share-based compensation	-	-	-	-
- Equity-settled share-based compensation	-	36,442	-	36,442
Total	**676,769**	**149,446**	**834,098**	**163,418**

Short-term bonuses fall due wholly within twelve months after the end of the period, in which management rendered the related services.

34 Events after the End of the Reporting Period

During 2022 the bank received a formal approval to commence property related investment project aiming to combine bank's Head Office and Service Center by creating a modern and fit for purpose business environment in line with HSBC's new standards and ways of working, meanwhile addressing health and safety risks and facilitating a number of carbon net zero initiatives. The project seeks to exit from the Bank's Service Center building by reallocating to a newly furnished office with a retail branch in line with HSBC standards by the end of 2022. As a result, the Bank should reclassify its current Service Center building with a carrying amount of AMD 604,774 thousand as of the reporting date from the "Property and equipment" to the "Held for sale assets".