CENTRAL BANK OF ARMENIA

2021 ANNUAL REPORT

According to the law on the Central Bank of Armenia, the Annual Report refers to the provisions of governance of the Central Bank of Armenia. The Report includes the summary data on the Central Bank's annual activities and main functions described in its Strategy and financial accounts which have passed international audit. However, to get a complete picture of the Central Bank's activities, one should also consider looking at the strategies as well as the Inflation Report and the Financial Stability Report which, accordingly, are steered to the implementation of the two main objectives of the Central Bank. They contain in-depth professional analysis and estimations of the economic growth and financial market developments in both Armenia and the world.

These assessments are, by subject, referred to in this Report.

Central Bank
of Armenia

2021

ANNUAL REPORT

YEREVAN 2022



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Mr. Martin Galstyan

Governor
of the Central Bank

Dear citizens,

In 2021 Annual Report we present the Central Bank's course during the year alongside with the progress achieved and the pending problems. We have also tried to outline various forward-looking endeavors, for the implementation or their non-performance of which we will be held accountable.

Despite all its difficulties 2021 was a year of recovery for Armenia. Snap parliamentary elections, painful waves of coronavirus and economic uncertainty have all had an impact on macroeconomic policy and economic development. During the year, there was an acceleration of inflation, which began to slow down at the end of the year owing to the

actions of the Central Bank. The financial system regained lost capacity throughout the year, laying the foundations for future development. Nevertheless, economic growth had recovered during the year, and in this sense 2021 can be assessed as a positive year, which would have been impossible without maintaining macroeconomic stability. More detailed information on achieving objectives of price and financial stability is provided in our separate reports.

The adoption of a new Strategy can be definitely considered as the main achievement of the Central Bank in 2021. It reflects our vision and directions of development, to the implementation of which we will direct our efforts in the coming years. The most important direction of the Strategy of the Central Bank is the digitalization of the financial system, which requires significant human and financial resource investment. The digitalization is aimed at creating a conducive and reliable environment for the development of the capabilities of the public and private sectors. It is noteworthy that the partnership of Central Bank and the State, the State and the private sector, the Central Bank and the external sector acquire a significant role in the implementation of the digitalization agenda. As part of our mandate, under the adopted Strategy, we have committed ourselves to improving the well-being of society. More detailed information on strategic directions and goals is presented in the relevant section of this report and in the "Strategy of the Central Bank" approved in 2021.

The most comprehensive reforms were undertaken with respect to implementation of the supervision policy.

According to the Central Bank's vision on supervision, there should be a gradual transition from administrative supervision to a better risk assessment by the financial institutions themselves. During this transformation, the emerging dialogue between the Central Bank and the financial system as well as the development of human potential at all levels are extremely important. To this end, a methodology for stress testing of commercial banks has already been developed. In addition, a special emphasis was put on the control of business ethics risks, which is essential for improving the protection of the interests of consumers of financial services.

The 2021 Annual Report refers to the activities of the supreme body of the Central Bank - the Board of the Central Bank as well. The decision making on policies by the Board of the Central Bank as well as the implementation of governance and supervisory functions are presented.

At the end of last year, we have launched certain reforms within the governance structure of the Central Bank. The Procurement Coordination Service, the Project Management Center and other units were formed. These separate units will significantly increase the capabilities and efficiency of the Central Bank in their respective areas.

We give great importance to increasing the level of corporate social responsibility of the Central Bank as an institution, and our employees as members of society. We will increase our involvement and will continue developing of this direction, contributing to increased awareness of corporate social responsibility.

All these changes that we have initiated will be continuous in nature. They will be aimed at implementing the monetary policy, improving our course of action in the payment sector, increasing effective communication. The cornerstone of all these achievements are our people. Thus, the most important reform will be related to the human potential of the Central Bank.

Thank you for your support.

RA CENTRAL BANK

BOARD



Martin GALSTYAN

Governor



Nerses YERITSYAN

Deputy Governor



Hovhannes KHACHATRYAN

Deputy Governor



Hasmik GHAHRAMANYAN



Artur STEPANYAN



Davit NAHAPETYAN



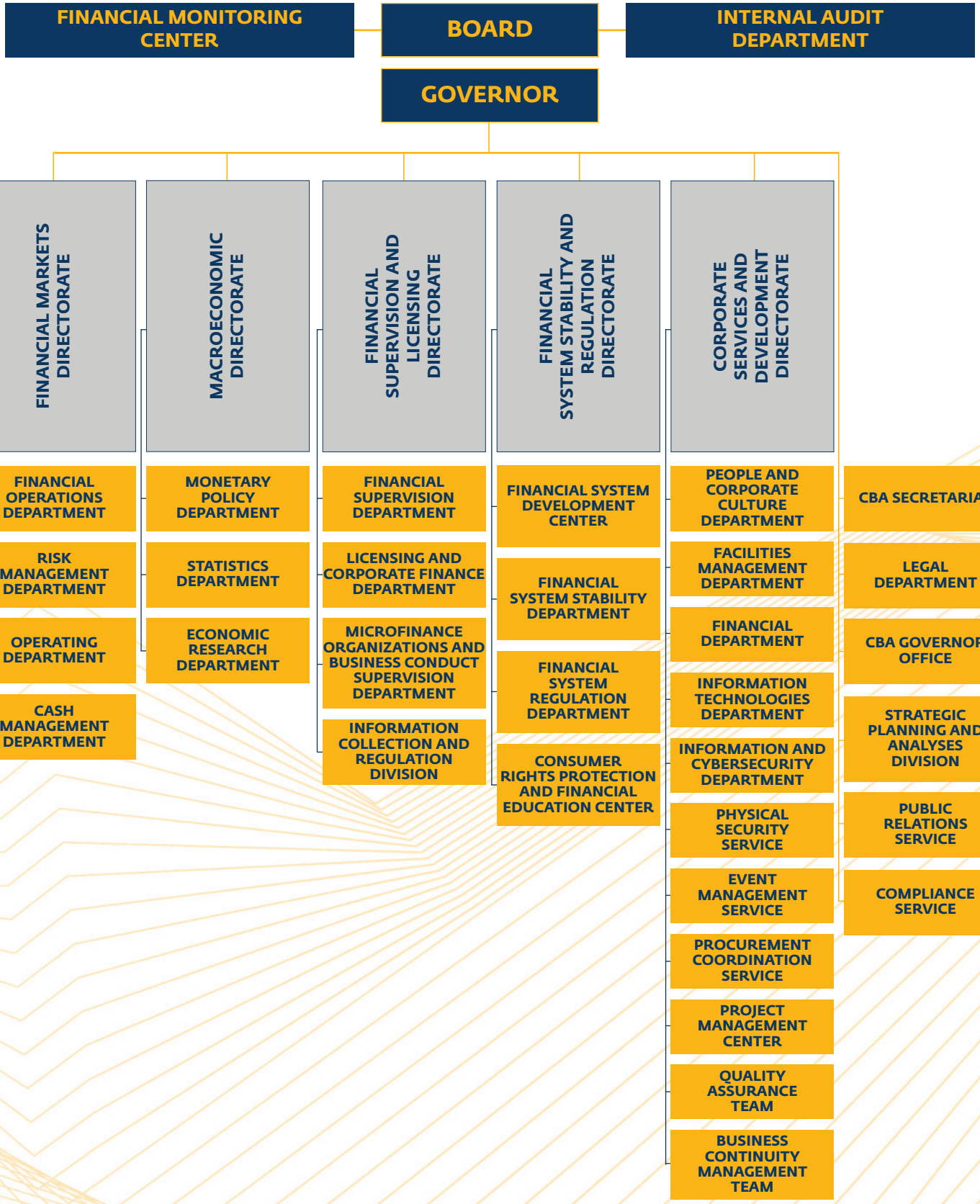
Levon SAHAKYAN



Artak MANUKYAN

THE CENTRAL BANK

ORGANIZATIONAL STRUCTURE



CENTRAL BANK OF THE RA
www.cba.am

MONETARY POLICY

12-MONTH INFLATION RATE
7.7%

REFINANCING RATE
7.75%

CURRENCY CIRCULATION

VALUE OF BANKNOTES IN CIRCULATION
721,802,865.47 ֏

FINANCIAL STABILITY

FINANCIAL SYSTEM ASSETS/GDP
121.0%

BANKING SYSTEM'S TOTAL CAPITAL ADEQUACY RATIO
17.2%

BANKING SYSTEM'S TOTAL LIQUIDITY RATIO
32.0%

LIQUIDITY COVERAGE RATIO OF THE BANKING SYSTEM
194.3%

CONSUMER INTERESTS PROTECTION

NUMBER OF INQUIRIES DURING THE YEAR
8 847 CALLS
699 APPLICATIONS

RESERVES

INTERNATIONAL RESERVES
$3 230 MLN

PERSONNEL

AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR
725 EMPLOYEES

STUDENTS FROM FOREIGN UNIVERSITIES HAVING PASSED INTERSHIP AT THE DILIJAN TRC
17

PUBLIC RELATIONS

REGULATORY DECISIONS
40

INDIVIDUAL DECISIONS
145

LOCAL DECISIONS
18

GOVERNOR'S DECISIONS
671

VISITORS CENTRE

NUMBER OF VISITORS
9 607

ANNUAL REPORT

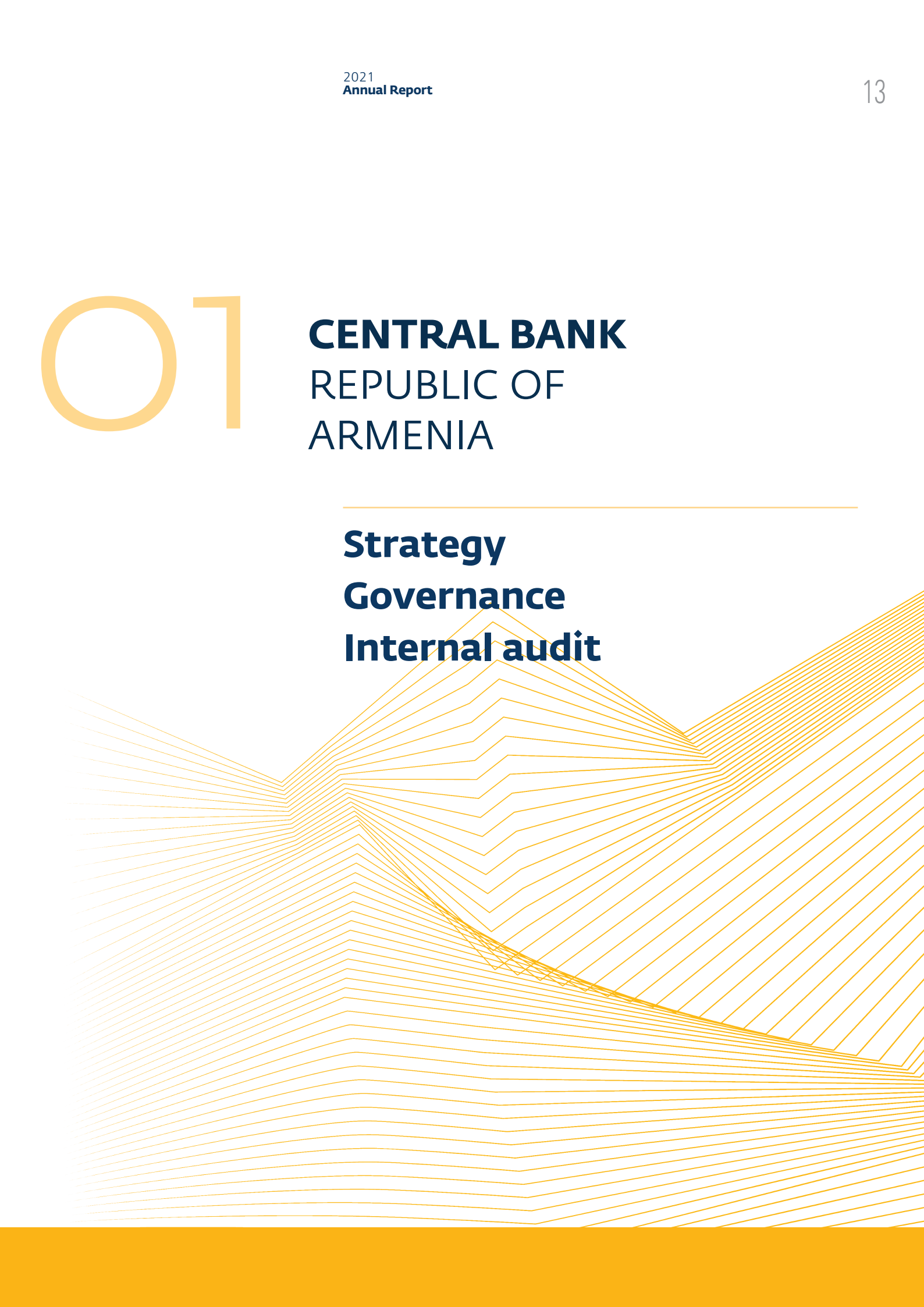
2021



Central Bank
of Armenia

01 CENTRAL BANK REPUBLIC OF ARMENIA

Strategy
Governance
Internal audit





MISSION

To be a reliable partner in a rapidly changing world, contribute to national prosperity by ensuring price and financial stability

On the way to fulfilling our mission, we have a clear idea of Armenia's challenges. Our perception of well-being includes stable economic growth, sustainable development, financial security, and improvement of the standard of living by promoting competitiveness of an individual who is able to achieve the goals of multifaceted development and the creation of greater good.



VISION

To be a leading central bank based on cutting edge research and innovative solutions.
On the way to realizing our vision, we are driven by the desire to be an all-encompassing, respectable partner, an attractive institution for talent. To achieve this, we ensure the transparency and accountability of our activities, versatile cooperation within the country and with partners abroad, and create opportunities for full-fledged professional growth and realization of the potential of free-thinking, motivated and close-knit people.



VALUES

Excellence
We strive for excellence through cutting-edge research, analysis, external and internal cooperation, and innovation in all areas of our business.

Integrity
We present our goals in an open, effective way, and we are accountable for our actions.

Respect
We respect each other and succeed by appreciating the value of diversity of people and ideas.

STRATEGY

Our Strategy is our dream, which we will realize together[1].

When developing the Strategy, we are guided by the fact that it is not just a document, but a kind of mindset. We have embarked on a process of implementing strategic thinking, which involves not only the approval of a strategic document, but a continuous process of generating strategic initiatives. In our perception, these initiatives should be transformational by their very nature and not necessarily apply do to all functions of the Central Bank.

The introduction of strategic thinking in the Central Bank involves:

- Generating a collective understanding of mission, vision, values, and strategic priorities;
- Consensus-building on strategic priorities guidance and feedback mechanisms for their evaluation;
- Actions aimed at achieving those priorities.

In this way, we ensure the contribution of any employee to the expected result in the future and each employee perceives the Strategy of the Central Bank as a guideline for the work we are implementing.

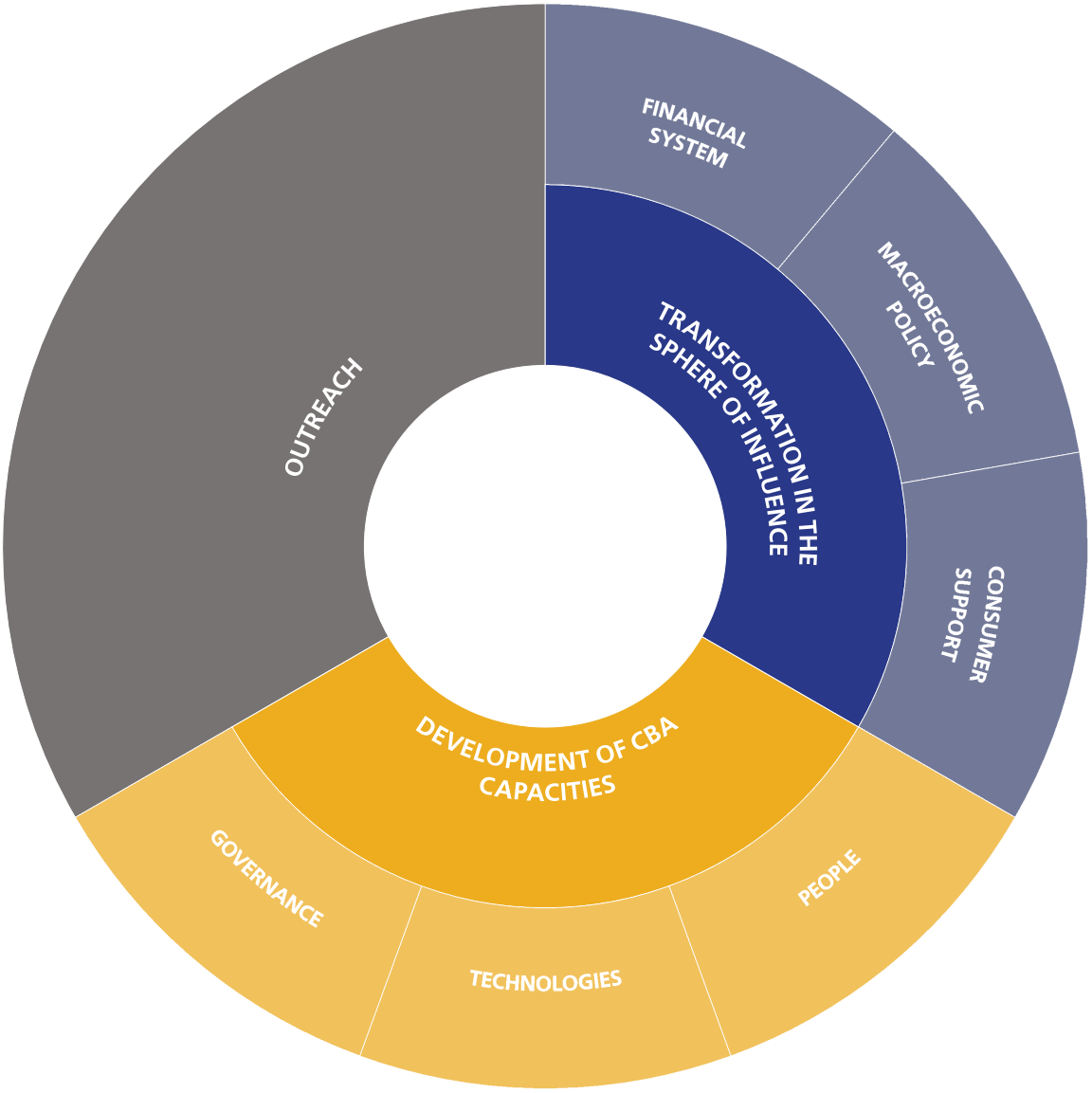
In the process of shaping strategic priorities, three primary areas have emerged:

- Things to do in the sphere of influence;
- Full development of our capabilities;
- Communication with both internal and external audiences.

1 https://www.cba.am/AM/panalyticalmaterialsresearches/Strategy%202021.pdf

As a result, the following pattern has emerged:

STRATEGIC PRIORITIES



As part of the transformation of the sphere of influence, we have identified three areas in which we have specific tasks. We have also identified three areas in terms of developing the internal capabilities of the Central Bank. The specificity here is that we cannot achieve the results defined for the sphere of influence without the development of

internal capabilities, and their transformation. From the very first stage of the development of our Strategy, special attention was paid to communication issues.

Communication combines our "Development of CBA capacities" and "Transformation in the sphere of influence". That is why communication with both internal and external audiences is important.

Emphasizing in the Strategy the role of internal communication and dialogue with employees of the Central Bank, during 2021 meetings were held in a special format, with the following logic: at the first stage, the Strategy was presented by the Governor of the Central Bank of the Republic of Armenia or his deputies to all employees of the divisions and units of the Central Bank, in order to make the Strategy accessible. Following that the units were given time to familiarize with the Strategy and define their tasks for its implementation. In the second phase, the units presented their opinions and vision for the work ahead. More than ten such meetings were held during the year.

This process has formed a perception of the relationship between the doings of each employee and our Strategy.

GOVERNANCE

According to the Law of the Republic of Armenia "On the Central Bank", the supreme governing body of the Central Bank is the Board of the Central Bank. The Board of the Central Bank consists of the Governor of the Central Bank, his two deputies and five members. Members of the Board of the Central Bank are elected by the National Assembly of the Republic of Armenia for a period of six years. The Governor of the Central Bank is also the Chairman of the Board of the Central Bank of the Republic of Armenia, who is a high-ranking official. The Board of the Central Bank is a collegial body and makes all decisions with this approach. The Governor of the Central Bank and his two deputies perform executive functions and coordinate the daily work of the bank. Five members of the Board do not participate in the day-to-day activities of the bank. Changes in the Board



of the Central Bank of the Republic of Armenia occur on the principle of rotation. By the time, the mandate of a Board member expires a new Board member is elected. This ensures the independence of the Central Bank keeping the institution intact in face of global challenges.

According to the criteria defined by law, at least half of the members of the Board of the Central Bank must have professional experience in macroeconomics and knowledge in banking, audit, IT, and other fields. By virtue of specialization in individual areas and relevant skills, they can complement each other in the decision-making process. This allows them to make diverse and optimal decisions in the face of existing uncertainty.

Comparing external and internal processes and developments, the Board discusses various scenarios and selects ones with highest probability. Options are developed based on knowledge and facts, as well as data and information management. Board members select options, generating approaches/interpretations that are then transformed into digital/analytical data, which becomes the basis for decision-making. Members of the Board of the Central Bank represent the interests and position of the Bank in the ministerial committees created by the Government, as well as in other intergovernmental commissions. They are the first link for communicating the Central Bank's Strategy, the decisions taken by the Board and information on the policy. They also ensure active cooperation with partner structures of the Central Bank, international financial organizations, as well as regional integration associations.

The Board approves all changes, transformations or decisions of the Central Bank, and thence is responsible for their further implementation.

The decisions of the Board of the Central Bank are grouped as follows:

- Policies pursued by the Central Bank (monetary, macroprudential).
- Decisions on the regulation of the financial system (establishment of reserve requirements and regulatory norms, granting licenses for banking and other activities, enforcing regulatory legal norms, and, if necessary, penalties).
- Supervisory decisions (risk management, budget, approval of financial statements, internal audit, internal control).

INTERNAL AUDIT

The Board of the Central Bank supervises the operational and financial management of the bank. Internal audit supports the implementation of oversight functions by the Board of the Central Bank. Internal audit provides independent, objective assurance and advice to support the bank in achieving its objectives by assessing and improving the effectiveness of its internal control, risk management and corporate governance processes. The internal audit of the Central Bank is functionally accountable to the Board of the Bank and, administratively, to the Governor. To exercise systematized oversight over the processes of corporate governance, risk management and internal oversight, the Central Bank operates an Audit Committee consisting of three independent members of the Board. The Audit Committee assists the Board and executive management by providing advice on the relevance of the bank's initiatives. This, in particular, refers to the corporate governance structure, values, and culture (ethics), risk management, the concept of internal control, oversight of internal audit

functions, external audit, and review of the results of other assurance services, as well as other financial and publicly available reports. In 2021, the Audit Committee held four meetings.

The internal audit of the bank carries out its work in accordance with the international standards and Code of Ethics of professional practice (IIA, International Standards for the Professional Practice of Internal Auditing and Code of Ethics), and members of the internal audit team have professional qualifications in the field of IT audit, financial audit, project management and other related areas (CIA, CISA, ACCA, CRMA, ISO 270001, CMA, PMP). Following the international standards, the internal audit service undergoes an external quality assessment every five years. According to the results of the assessment by the Bank of the Netherlands in 2017, the Internal Audit Service received a rating of "Generally conform".

In 2021, to ensure the implementation of the new Strategy of the Central Bank, the Internal Audit function conducted an assessment of risks that could impede the implementation of Central Bank's strategic goals. During the year, eleven assignments and five special studies were carried out. The tasks performed by the Internal Audit Department had an objective of assessing the effectiveness of transformation processes and managing the risks of ongoing initiatives within the framework of the new Strategy adopted by the Central Bank. This is led to raising the awareness and perception of the ongoing processes and possible risks within the bank, which contributed to the adoption of effective management decisions.

02 IMPLEMENTATION OF THE MANDATE

Ensuring price stability

Ensuring financial stability

Payment system

Consumer protection in the financial system and financial education

Currency issuance, organizing currency circulation

Managing foreign exchange reserves

Securities market

Statistics

Developing research capacities

Organizing and regulating the fight against money laundering and terrorism financing

ENSURING PRICE STABILITY

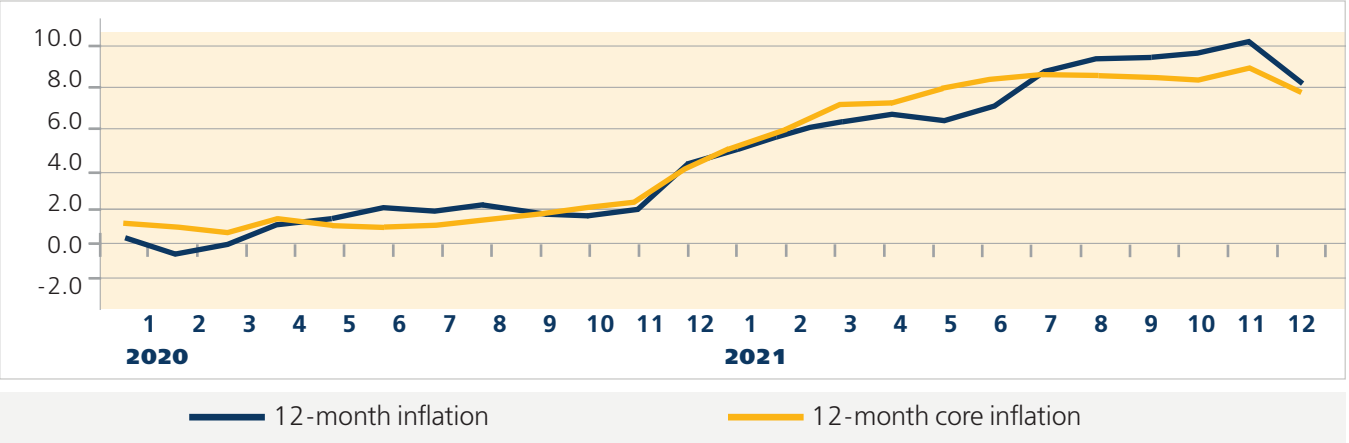
Implementation Of The Price Stability And Challenges The monetary policy pursued by the Central Bank in 2021 was aimed at ensuring the target level of 12-month inflation of 4% on the forecasted three-year horizon. The year was marked by outbreaks of new waves of the coronavirus pandemic and the rapid pace of its spread. The global economy and health system continued to face new trials and challenges, as well as uncertainty about the economic outlook. Nevertheless, as a result of the active vaccination process and, mostly, the non-application of strict economic restrictions, the impact of consecutive waves of the epidemic on both the global economy and the economy of the Republic of Armenia was weak, and during the year there was a recovery in economic activity and aggregate demand at a faster pace than expected. Despite some supply factors, including rising transportation costs and disruptions in production chains, demand growth has exceeded the rate of supply, significantly broadening the inflationary environment in international commodity markets and in major partner countries. This had a subsequent impact on the prices of the commodity markets of the Republic of Armenia and the inflation expectations of society.

Considering the macroeconomic situation in 2021 and guided by the principle of implementing a forward looking policy, the Central Bank of the Republic of Armenia continued to gradually raise the interest rate, neutralizing the expansionary monetary stance. During 2021, the interest

In order to fulfill one of the main tasks of the Central Bank of the Republic of Armenia, i.e. ensuring price stability, the medium-term target inflation rate or inflation targets are determined. The implementation of the Central Bank's relevant policy is an important precondition for curbing the maximum inflation expectations of society, ensuring macroeconomic stability and, thereby, promoting long-term economic growth. In the Republic of Armenia, inflation targets are reflected in the monetary policy programs of the Central Bank, the state medium-term expenditure programs of the Government of the Republic of Armenia, the laws of the Republic of Armenia on the state budget and sustainable development programs.

rate was increased by a total of 2.5 percentage points reaching 7.75% at the end of the year. Thus, in the conditions of inflationary pressure from the external sector coupled with demand that was still considered weak, the Central Bank increased the interest rate by only 0.25 percentage points in the first quarter. Since the second quarter, the increasing pace of demand recovery in the face of relatively weak growth in production capacity, has generated additional inflationary factors that forced the Central Bank to raise interest rates by 1.0 percentage points. In the second half of the year, external inflationary effects again prevailed due to rising energy prices and disruptions in production chains. The expansion of the continuing favorable environment of demand has also been supported by the relatively positive development of tourism. Under the influence of economic and geopolitical uncertainty, as well as expected changes in prices for regulated services, inflation expectations increased by the end of the year. Under these conditions, the Central Bank raised the interest rate in the third and fourth quarters by 0.75 and 0.5 percentage points, respectively. During the year, 12-month inflation rose to 7.7% by the end of 2021 from 3.7% at the end of 2020. Notably, pursuing forward looking policies has led to a significant limitation on the potential acceleration of inflation. According to the Central Bank estimation, if the interest rate were kept unchanged, inflation by the end of the year could have reached about 13%. In addition, it should be noted that as a result of the consistent monetary policy pursued by the Central Bank, by the end of the year there was already a decrease in 12-month inflation. At the same time, it should be added that monetary policy is still aimed at neutralizing the risks of accelerating inflation expectation and anchoring the long-term inflation expectations of society, if possible, without compromising the recovery of aggregate demand.

Diagram 1. **During 2021, both general and core (natural) inflation showed an upward trend, and at the end of the year they significantly decreased as a result of the implemented impact of monetary policy.**



Implementation of Monetary Policy

During 2021, despite the periodic emergence of new waves of coronavirus and the rapid pace of spread, its negative impact on the Armenian economy and the financial market was mild due to the widespread use of vaccination and the non-application of strict restrictions. At the beginning of the year, due to the significant impact of the coronavirus epidemic and the previously declared martial law, there was some volatility in the financial market, to which the Central Bank of the Republic of Armenia promptly responded through its main monetary instruments. Subsequently, during the gradual easing of uncertainties, there were no significant fluctuations in the financial market. During the year, the Central Bank consistently satisfied the emerging demand for liquidity, providing the market with an adequate amount of liquidity through its main instrument. As a result of this, market interest rates were mostly close to the operational goal policy rate.

The Central Bank implements monetary policy in accordance with the inflation targeting strategy. At the same time, the intermediate goal, in parallel with the 12-month inflation target, is a predictable path to approach-inflation to the target mark, as well as an operational goal - a short-term market interest rate. Its target level is the policy (refinancing) rate, determined by the Central Bank, which also serves as a guideline for the actions of the Central Bank in the financial market. The main monetary policy tool is a seven-day repo agreement, through which the Central Bank regulates the level of liquidity in the financial system.

Policy Rate Decision-making

In 2021, an innovative approach was applied to the development of monetary policy, which emphasized the active participation of all members of the Forecasting Group in all stages of forecasting and policy development. In particular, from the beginning of 2021, at each stage of the forecast, one of the members of the Forecasting Group has undertaken the work of coordinating the entire policy development process, including the submission of the final report to the Board of the Central Bank. This initiative, on the one hand, is a good opportunity for all team members to intensify their participation in the discussion process and develop their presentation skills. On the other hand, the

The process of developing monetary policy in the Central Bank is organized through Forecasting and Policy Analysis System of the Central Bank (FPAS). The Board of the Central Bank makes decisions on the interest rate eight times a year, in accordance with a predetermined and published schedule. The formation and approval of the monetary policy program for that quarter follows the four decisions, and the remaining four monitoring the implementation of monetary policy between quarters.

Board has the opportunity to identify the individual potential of the forecasting team for a more effective and targeted guidance of its activities.

External Communication of Monetary Policy

In the face of unprecedented uncertainty due to geopolitical events and outbreaks of various waves of the coronavirus pandemic in 2021, the prioritizing an active, targeted, and comprehensible communication on monetary policy decisions was extremely important. To this end, in parallel with several publications on monetary policy, Central Bank Board actively presented explanations on the macroeconomic situation and inflationary changes through interviews given to different media outlets.

During the year, the Central Bank held meetings with students and lecturers from various universities, as well as periodic discussions with bank analysts and market participants on the macroeconomic situation and the relevant monetary policy. Emphasizing the role of all employees of the Central Bank in external communication, the basic principles and logic of decision-making on monetary policy were presented to employees of all divisions of the Central Bank.

The Central Bank's communication with society is essential for its inflation target setting strategy.
As part of the external communication of monetary policy, the Central Bank publishes press release on interest rate decision, minutes on interest rate, and a quarterly inflation report. Decisions on the interest rate are followed by a press conference with the participation of the Governor of the Central Bank, which is broadcast live on the website of the Central Bank.

Improving and Advancing the Monetary Policy Making Process

In 2021, the Central Bank continued to undertake actions to enhance the model system and improve the policy implementation process, guided by the priorities of the Central Bank's strategic goals and considering the real situation and developments in the economy.

In particular:

1. Due to increased uncertainty in both the domestic and external economies, it was necessary to consider their economic consequences and discuss the specifics of the response in the field of monetary policy. To this end, the impacts of uncertainties on both the decisions of consumers and firms in the short term and on labor and capital flows in the long term were considered. They were also confirmed by empirical analysis of data from two groups of developing countries (Latin America and the CIS). The results were used to discuss estimates of the long-term potential growth of the RA, in conditions of uncertainty and from the perspective of monetary policy response.
2. As part of the improvement of the system of monetary policy analysis and forecasting, the construction of a basic structural model has begun. In the process of forecasting, implementation issues were identified and fixed, the main aspects of development in the context of the necessary medium-term and long-term behavioral interconnectivities in the economy of the Republic of Armenia were summarized.

Personal experience

Since the second half of 2021, the coordination of work on each stage of forecasting has been delegated to one team member, on voluntary basis. Thus, the management of forecasting work in the third quarter of 2021 was entrusted to Karapetyan Hayk, and in the fourth quarter to Hovhannisyan Edgar.

Acting as the head of the forecast team was quite a serious responsibility and a challenge for me, which I readily accepted, because after working for many years in the Monetary Policy Department, I was sure that any trial could be easily overcome with such a team. The work was quite interesting and informative for me, because it was an opportunity to collaborate with each team member and understand the events in specific sectors of the economy, their role in the overall forecasting system, as well as in identifying existing gaps and aspects of development in terms of improving and transforming FPAS. On the other hand, the responsibility was great because the team entrusted me to convey the entire monetary policy program to the Central Bank Board and to present a well-grounded recommendation on the future progress of the policy, based on the analysis, forecasts and judgments of the team. Working with the team, I once again became convinced of the high level of its professionalism, knowledge, skills, and quality, and all I had to do was coordinate the work of the team as a team leader, identify the weaknesses of the program through discussions, as well as look at the analysis and forecasts of different segments of the economy in one comprehensive way and correct potential inconsistencies. This was a particularly good opportunity for me, and I believe that the knowledge and experience I gained will further serve to improve the monetary policy program and will contribute to the implementation of the Central Bank's goals to ensure price stability. ■

Hayk Karapetyan

Most of my work in the previous stages of forecasting was related to the implementation of macroeconomic forecasts, the construction of policy scenarios and their presentation within the team. This work includes discussions and meetings with almost all team members to understand the details of analysis of the economy segments and incorporate them into embedded scenarios. From this point of view, the coordinating the work of the forecast team was quite close to my main work, so I was willing to take on this responsibility.

This stage of forecasting was conducted against the background of quite interesting processes in the world economy and in international commodity markets. The world, including the RA, has seen a relatively high inflationary environment, accompanied by an apparent increase in uncertainty about future events. This added additional interest to our work and increased our responsibility.

I should note that most of the team members are quite experienced professionals, which greatly facilitates the organization of work and, in fact, practically eliminates the need for separate control over the processes. Of course, sometimes you must be consistent in coordinating the work of a variety of professionals, especially if they are currently working on a common topic. Working as a team leader, I can highlight two principal factors that have been more challenging but beneficial in terms of my development.

First, after a long period of time as a team member, you learn certain tools and techniques necessary to perform a narrow professional task and ensure extremely high performance. However, in terms of team management and the efficiency of time allocation, you should be able to give up the desire to do the work yourself, trust team members, and focus on coordinating the overall work.

Another problem arises when it is necessary to convey the results of the current work of the team to the Board of the Central

Bank. Work and discussions within the team include technical and extremely narrow professional vocabulary, which is not so useful in high-level discussions. Consequently, it is necessary to be able to "translate" and bring technical analysis and theoretical discussions closer to the real-life economy.

In general, I can say that under my leadership, the team was able to smoothly carry out the planned work, deal with important research priorities identified within the team and by the Board, as well as submit the team's proposal on monetary policy, which was adopted and implemented by the decision of the Central Bank Board. I am very glad that I tried myself in this role, because as a result I have a better understanding of the characteristics of our team and, in general, teamwork, expectations from the team, ways of personal and team development and improvement. ■

Edgar Hovhannisyan

ENSURING FINANCIAL STABILITY

In 2021, the financial system of Armenia maintained continuity in matters of financial intermediation. Moreover, during the year, the system's ability to cope with stressful situations and shocks improved. The capital adequacy of the banking system, constantly above the minimum required level, increased slightly during the year. There is a significant increase in foreign exchange liquidity, which, in addition to the events of 2021, is also explained by the long-term policy of the Central Bank in this direction. In particular, in order to accumulate highly liquid foreign exchange reserves, starting from 2019, a gradual transition was made to FX reserve requirements for funds attracted in FX, and in 2021 new liquidity standards came into force, which are designed to address liquidity risks more accurately. The results of stress tests conducted by the Central Bank also demonstrate the high ability of the system to withstand shocks.

The macroprudential policy pursued by the Central Bank in 2021 was aimed at maintaining the continuity of economic lending by the financial system, so the countercyclical capital buffer remained at the level of 0%.

During the year, the dynamics of lending in the main sectors of the economy were not homogeneous, and noticeably high growth rates of lending were recorded only for mortgage loans. In order to effectively address the risks arising in the mortgage and real estate markets, the Central Bank has introduced Loan-to-Value (LTV) ratio, which is widely used in international practice and will come into force from April 2022. By influencing the volume of mortgage loans, this macroprudential tool is aimed at curbing potential "overheating" in the real estate market (unreasonable growth in real estate prices), which can lead to the accumulation of

Financial stability is the ability of the financial system, i.e. financial institutions, markets, and market infrastructure to withstand potential shocks and imbalances, thereby reducing the likelihood of disruption of financial intervention functions. To ensure financial stability, the Central Bank pursues a macroprudential policy. In order to timely identify and eliminate the accumulation of systemic risks, the Central Bank constantly monitors various early warning indicators that reflect the accumulation (or materialization) of risks, indices formed as a result of early warning intigators integration, as well as applies a system of various models of risk assessment and macro-stress testing.

systemic risks. As part of the strategic goal of developing tools for assessing systemic risks, the Central Bank has developed models for assessing basic real estate prices. The use of models will help to increase the validity of decisions to determine/revise the LTV ratio in the future.

Another aspect of the works aimed at developing macroprudential tools was the continuous improvement of the stress testing system. In particular, among the improvements implemented in 2021, it should be noted the ability to conduct the most detailed assessment of the probability of default (PD) by economic sectors, currency, and bank.

In accordance with the principle of policy transparency, the scenario and summary results of stress tests conducted by the Central Bank are published in the Financial Stability Report. In fact, scenarios can also serve as a guide when assessing the risks of financial institutions. In the context of ensuring the long-term stability of the financial system, the Central Bank attaches great importance to the introduction of sustainable (green) financing standards in the financial system.

The Central Bank has formed a working group on green finance. In parallel, international cooperation expanded in particular, in November 2021, the Central Bank became a member of the SBFN platform (Sustainable Banking and Financial Network).

In 2021, a new Strategy of the Central Bank was adopted, which, inter alia, identified priorities for the digital transformation of the financial system. Transformation of the system towards digitalization involves, at a minimum, the development of key competencies and capabilities, including issues of technology and risk management. The latter is important, both from the prospective of ensuring financial inclusion and strengthening financial stability.

Supervision of the Financial System

The purpose of the supervision by the Central Bank of the Republic of Armenia is to ensure that there exists proper risk management in financial institutions, infrastructure, and markets, as well as minimize potential impact of probable problems and/or crises.

The ongoing supervision of financial institutions is aimed at identifying current and expected risks, taking into consideration both considering the risk of an individual institution, and its impact on the overall financial system and a wide range of consumers. Our goal is to constantly focus supervisory potential on the riskiest areas and institutions, thereby contributing to improving the overall well-being of the population and strengthening consumer trust in the financial system. To improve the effectiveness of the implementation of the described processes, we prioritize the continuous development of internal capabilities and transformation of the range of influence of supervision and licensing so as to make it more modern and effective. We also attach the utmost importance to communicating our actions to internal (CB) and external beneficiaries, responding to the signals we have received through feedback.

As a consequence of the uncertainty created during the year, the strategic aspects of financial supervision have changed dramatically, with priority given to focused analysis and operational monitoring of crisis situations. Particular importance was attached to the development of the capacity of financial companies, in particular in the issues of risk detection, containment and preparedness for potential crises, as well as ensuring consumer protection to increase confidence in the financial system. An active dialogue began with relevant heads of financial companies to discuss existing challenges and strategies for overcoming them, as well as to assess and identify their ability to overcome crises. A significant contribution was made to the development of internal capabilities. With the support of the World Bank, banks' risk assessment and management supervision tools are in the process of modernization, based on risk-based

supervision and the best international practices. In particular, during 2021, a comprehensive assessment of bank recovery plans, strategies and internal capital adequacy assessment processes was carried out. The results obtained will be used to develop the capabilities of financial companies in matters of risk mitigation and crisis management, as well as to further optimize and improve the regulatory framework.

The concept of implementation of microeconomic stress tests to assess the impact of possible macro-financial changes on the solvency of individual banks has been developed. Information about the implementation process of the concept was constantly communicated to the banks involved in the project.

In order to further focus on consumer protection, appropriate structural changes were made to separate the function of supervising business conduct from prudential supervision. Efforts have been undertaken to address several significant issues affecting a wide range of consumers, such as reducing the total cost of servicing a loan in case of early repayment of consumer loans, problems with disclosing information when providing other products in conjunction with banking products. Supervisory signals were also given regarding the need to introduce a fairer and more equivalent system of assessments in the field of MTPL.

In order to ensure a free and fair competitive environment in the financial system, measures were taken to identify and eliminate anti-competitive manifestations, including ensuring the functioning of fair pricing mechanisms in the foreign exchange market and eliminating unfair competition in the field of banking services. Competition conditions in certain financial services markets were examined with a view to introducing or revising relevant regulatory approaches.

Despite the restrictions imposed by the COVID-19 pandemic, intensive programs to develop the knowledge and capabilities of supervisors continued. Throughout the

year, they participated in numerous online courses and conferences, learning from international experiences, and passing on their experiences. Throughout 2021, macroeconomic and financial uncertainty caused by COVID-19, war, and regional tensions persisted. In this context, flexible, adaptable, and future-oriented supervision is essential. The processes taking place in recent years in the fields of digitalization, sustainable development, and rapid climate change show that the structure and direction of risks for financial companies, as well as the nature of their services are changing, which accordingly gives rise to the need to develop supervisory tools and resources.

The most important future challenges include the following:

- Competitive financial supervision, which implies the transition to new management models based on new technologies, machine learning and artificial intelligence, as well as inclusive databases. The integration of these tools into the processes of daily supervision will significantly facilitate the reporting systems of financial institutions and reduce their costs in this part. As part of this process, work has also been undertaken to digitize supervisory processes, which in turn will contribute to a significant increase in the effectiveness of supervision.
- Ensuring compliance of the continuity of financial organizations with international standards, as well as the aligned development of digitalization and cybersecurity of the financial system.
- Optimization of the exchange of information of various nature with state institutions and its implementation in online mode, the creation of unified information databases.

- Identification of environmental risks, forecasting of climate change, assessment, and reflection of the results of risk analysis related to financial companies.
- Development of principles of risk-based supervision in the field of business conduct of financial organizations.
- Tightening the regulatory framework on natural disasters (in particular, the risk of earthquakes) in order to increase the level of solvency of insurance companies in the event of such risks.
- Improving transparent communication with internal and external beneficiaries.

Insurance System

The registration process of insurance agents has been changed to improve the efficiency of agent selection. It was determined that insurance companies keep records of agents, and the Central Bank, based on the information provided by the company, includes agents registered by the company in the register and publishes information about them on the website of the Central Bank. As a result of the changes, insurance companies conduct a check of compliance with the legal requirements for the registration of their contractual agents and are also responsible for their activities. At the same time, the process of granting prior authorization for delegating functions of insurance agents has been optimized. An insurance company that has concluded a contract with a legal entity and registered it, will no longer apply to the Central Bank for permission to delegate functions.

Requirements for insurance agents/brokers have been brought into line with international standards, in particular

on the issue of submitting information about their significant owner to the Central Bank. This change makes it possible to identify and prevent persons with criminal records from brokering activities, thereby reducing the degree of exposure of insurance brokers to operational risks (reputational, fraud and other manifestations).

For a fairer and more accurate assessment of the risks of insurance companies, the procedure for calculating the prudential standards of insurance companies was softened. According to the previous regulation, the amount of the guarantee should not exceed 10 percent of the regulatory capital of the insurance company. The amendment provides that the amount of the guarantee may be reduced to the amount of reinsurance if the reinsurance meets the established conditions. As a result, insurance companies will expand their possibilities to provide guarantee insurance on a larger scale.

The Central Bank of the Republic of Armenia also approved changes in the regulation of prudential standards of insurance companies and corresponding reports submitted to the Central Bank.

Thus:

- In the standard of maximum size of a single risk calculated for an earthquake the insurance company's liability is not reduced by the amount of deductible.
- Weights of credit risks for foreign reinsurance companies has also been reduced.
- Reinsurance reporting forms have been clarified, i.e. information on the deductibles are included in the reporting forms.
- The information required about the equalization reserve has also been detailed.

The changes made it possible to control the risks of insurance companies more effectively, to exclude as much as possible the circumvention of standards requirements by insurance companies, to have reporting forms corresponding to changes in the regulatory field and more complete information on reinsurance and also a thorough description of the elements of calculating the equalization reserve (in particular, a separate reflection of claim handling expenses from the amount of compensation). All this permitted to assess the impact of claims handling costs on the size of the equalization reserve.

PAYMENT SYSTEM

In 2021, the Central Bank adopted a new policy on international money transfers aimed at curbing the potential risks associated with the transfer of funds and operators of foreign financial systems (for example, in matters of settlement and credit risk). According to the new requirements, banks and financial organizations can carry out international money transfers exclusively through Armenian systems. Requirements have also been established for operators of foreign systems, in particular:

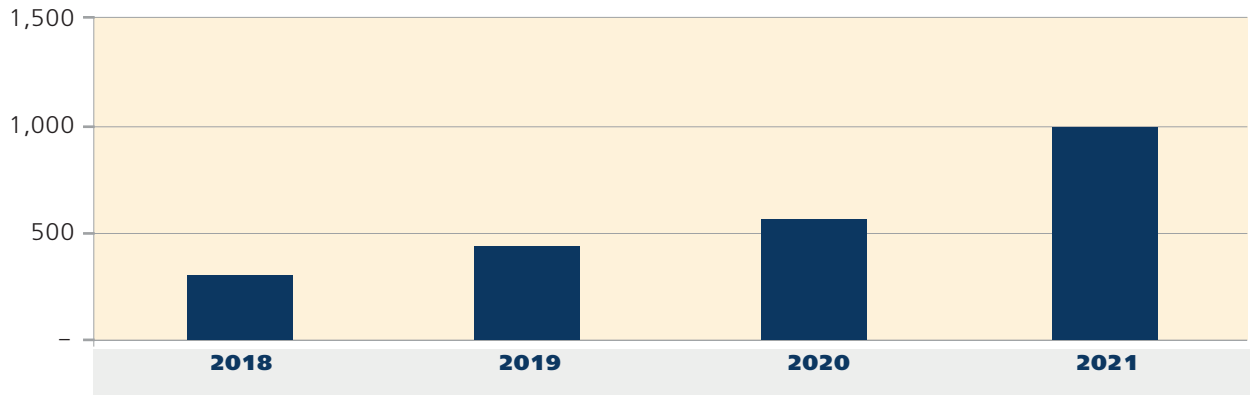
- it is necessary to establish a procedure for cooperation with the operator of the Armenian system, which will also determine the mechanisms for risk control.
- to make money transfers through the Armenian financial systems, it is necessary to set up corresponding monetary collateral/reserves through one of the Armenian bank acting as a settlement/payment agent on its behalf.

The Central Bank continues to pay special attention to the functioning of the systematically important payment as well as securities accounting and settlement system. Changes made in the software modules of the Electronic payment system of the Central Bank allowed increasing the speed of payment processing, thus increasing the overall processing capacity of the system.

In 2021, the Central Bank, together with interested state bodies, continued to work on the development of a legislative package for the development of non-cash payments. The adoption of the legislative package will increase the level of availability of non-cash payments and amenities for citizens, form a culture of implementation of non-cash payments, and expand the possibilities of financial

One of the tasks of the Central Bank is the creation and development of an effective payment and settlement system. Through the payment and settlement system payments and money transfers between economic entities and citizens, tax and social payments, international transfers and several other financial transactions that meet the needs of society are carried out. Therefore, to achieve this goal, the Central Bank emphasizes ensuring the safe and efficient functioning of payment and settlement systems that comply with internationally accepted principles and standards.

Diagram 2. **The volume of non-cash payments with payment cards in the Republic of Armenia (billion drams)**



intermediation. It should be noted that in 2021, the value of credit cards transactions increased by 32.4 percent, while the number increased by 54.7 percent.

To improve the efficiency of supervision and analysis, the Central Bank has amended the forms of reports submitted by banks and payment and settlement organizations to the Central Bank, which allowed:

- receiving comprehensive information on international and domestic transfers of banks and payment and settlement organizations,
- receiving daily information from organizations that carry out money transfers (including those that issue electronic money) about the reliability of their financial obligations to customers and their security.

In the coming years, the efforts of the Central Bank will be aimed at providing new and digital payment services and creating conducive regulatory environment for the new participants of the market in order to form a flexible service system that meets international standards and modern-day consumer needs. In addition, work will be carried out to determine the minimum and/or maximum limits of intermediary fees to ensure compliance with the objectives of the adoption of the law "On non-cash transactions" and to encourage the acceptance of non-cash payments by entrepreneurs.

CONSUMER PROTECTION AND FINANCIAL EDUCATION IN THE FINANCIAL SYSTEM

Consumer protection

With respect of consumer's obligations to early repayment of loan , several problems were revealed in the process of their implementation through financial organizations. On the one hand, financial organizations did not strictly comply with the established rules and principles, while on the other hand, for some types of loans, the Central Bank did not have the appropriate jurisdiction to determine regulatory formulas and examples. As a result of numerous studies and discussions, indicative models of uniform rules, calculation formulas and explanatory samples were developed for financial organizations. Consequently, consumers will have the opportunity to fully exercise their right to early repayment of loans. Meanwhile, in 2022, relevant legislative changes will be implemented to define these approaches and principles in the law.

Through the development of appropriate policies, rules, and conditions consumer protection and financial education are aimed at the formation of a competent consumer capable of significantly improving his/her well-being,

In partnership with the State Revenue Committee (SCD) and ACRA Credit Bureau, an automated system for the return of interest on mortgage loans withheld from income tax has been successfully implemented. As a result, in 2022, about 20,000 beneficiaries, will receive the amount of interest on mortgage payments from income tax through the provision of electronic applications. without visiting financial institutions and SCD.

To address current consumer protection challenges, more granular and detailed data is required, as well as more flexible, faster, automated, and digitized data management and exchange solutions. Considering this problem, a Memorandum of cooperation between the Central Bank and

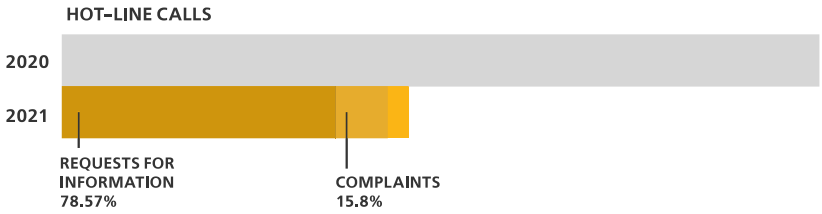
the Office of the Financial System Mediator was revised and signed. The new Memorandum emphasizes the principles of information management and exchange, as well as identifies the main areas of cooperation. From now on, the parties will exchange more operational, detailed, and comprehensive information, which will allow the Central Bank to conduct substantive analysis, develop appropriate policies and respond faster to consumer problems.

In 2021, the Central Bank began the process of developing a new policy based on the data and behavioral research in the field of consumer protection. To this end, a four-stage program (research, intervention, regulation, and evaluation) designed to develop regulatory policies for certain types of loans has been identified and is being implemented.

STATEMENTS

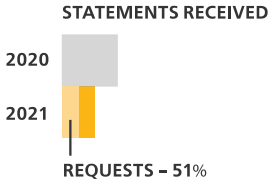


-48%
8 847





-41,5%
699 (-496)



Based on the review of consumer applications/complaints to the Central Bank and the results of the work of the hotline service, changes were outlined in the field of regulatory activities, as well as in educational and awareness-raising activities. Checks were carried out for ensuring the credibility, accuracy, and compliance with other legal standards of

information posted by financial organizations and institutions on their websites, social networks, and the financial info web page Fininfo.am.

Financial Education

During 2021, the Government of the Republic of Armenia approved the Financial Education Program and the Action plan for 2021-2025 attached to it.

The Program includes the results of progress at the first stage of its implementation (2014-2019) and the plans for the second phase (2021-2025).

In addition to the current target groups, the program identifies new ones, including women and family, migrants.

Guiding principles have also been identified for the implementation of the program activities, including:

- continuous learning,
- a variety of methods and pathways,
- development of digital content and tools,
- cooperation with partner organizations,
- simple and accessible communication,
- prioritization,
- cost effectiveness.

The review of the Financial Education Program is based on the results of the analysis " The study of the financial capability of population in Armenia 2019".

The implementation of the Financial Education Program was carried out considering the importance of improving the level of financial education of the population in the Republic of Armenia.

The Ministry of Education, Science, Culture and Sports, the Armenian State Pedagogical University named after

Khachatur Abovyan, together with the Central Bank, within the framework of the "Financial Education at School" program, 2,559 teachers from 378 schools were trained with the hybrid model (on site and online). As a result of a four-year refresher course, teachers of the subjects "I and the World Around Us", "Mathematics", "Algebra", "Social Studies" of almost all schools (1,399 schools, 9,560 teachers) are already enrolled in the program, which allows students to be more financially aware and better manage their personal finances today and in the future as well.

The concept of an e-learning and training platform (E-Learning platform) has been developed. The goal of the platform is to provide continuous education to more than 10,000 teachers. For the Central Bank, this will serve as a tool for constant monitoring and analysis of processes. Work on the development of the platform will continue in 2022 and its completion is scheduled for 2024.

Together with the Armenian office of the United Nations Development Program, the project "Financial Education for Women" was piloted . About 30 women with legal and economic education took part in the project, for whom a section on personal finance management was also presented as part of the three-day course. Evaluation of effectiveness through focus group meetings showed positive results, which allowed continuing the program and expanding its scope throughout 2022, including the use of mentoring tools.

Through an educational website www.abcfinance.am and its social networks, as well as through various events (financial events, webinars, and competitions), knowledge and skills of more effective personal finance management were transferred to the public.

Throughout the year awareness campaigns were made about the Fininfo.am website, which allows searching, finding and comparing the main services offered by financial institutions (loans, deposits, payment cards, etc.).

CURRENCY ISSUANCE, ORGANIZING CURRENCY CIRCULATION

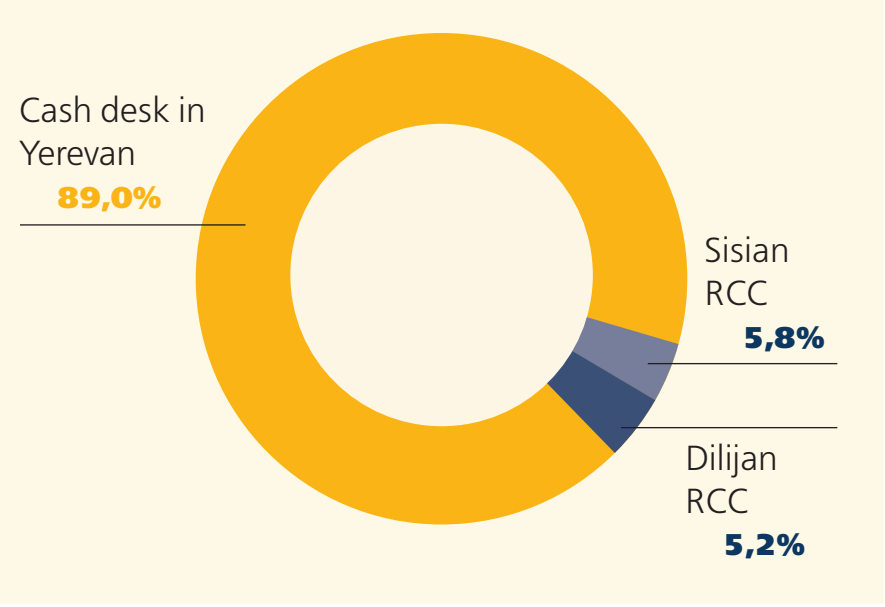
The Central Bank provided cash services to its customers in the regions of the Republic through cash desks of the head office in Yerevan and regional cash centers in Dilijan and Sisian (RCCs).

Unlike previous years, in 2021 the volume of cash in circulation decreased by 0.6 percent. However, cash turnover of the Central Bank increased by 29.6 percent, compared to the previous year. During 2021, the total cash turnover of the Central Bank amounted to 3,581.2 billion drams, of which in Yerevan - 3,186.1 billion drams and 395.1 billion drams in regional cash centers. 11.0% of the Central Bank's cash turnover was provided through RCCs.

As in previous years, cash withdrawal operations were mostly carried out through RCCs which covered for 67.6% of RCC turnover.

Activities of the Central Bank in the field of regulation of national currency circulation were aimed at satisfying the demand for cash in the economy by necessary volumes, structure, quality and terms. To ensure the continuity of cash circulation in Armenia, the Central Bank organizes, regulates, and controls the circulation of the national currency ensuring availability, convenience, efficiency, and reliability.

Diagram 3. Cash turnover of the Central Bank in 2021



Outside the Central Bank, there have been some changes in the typology of cash structure. The demand for a banknote with a nominal value of 20,000 was particularly high, the volume of which in circulation has increased by 8.1% compared to the beginning of the year.

During 2021, the mass of coins increased by 2,021.1 billion drams. The mass of coins is dominated by a coin with a nominal value of 500 drams, the share of which in the overall volume of coins is 52.0%. The demand for a coin with a nominal value of 200 drams increased by 15.9% compared to the beginning of the year, and its share in the overall volume of coins comprised 20.6%.

Diagram 4. Currency structure outside the CBA as of 31.12.2021 (in monetary terms)

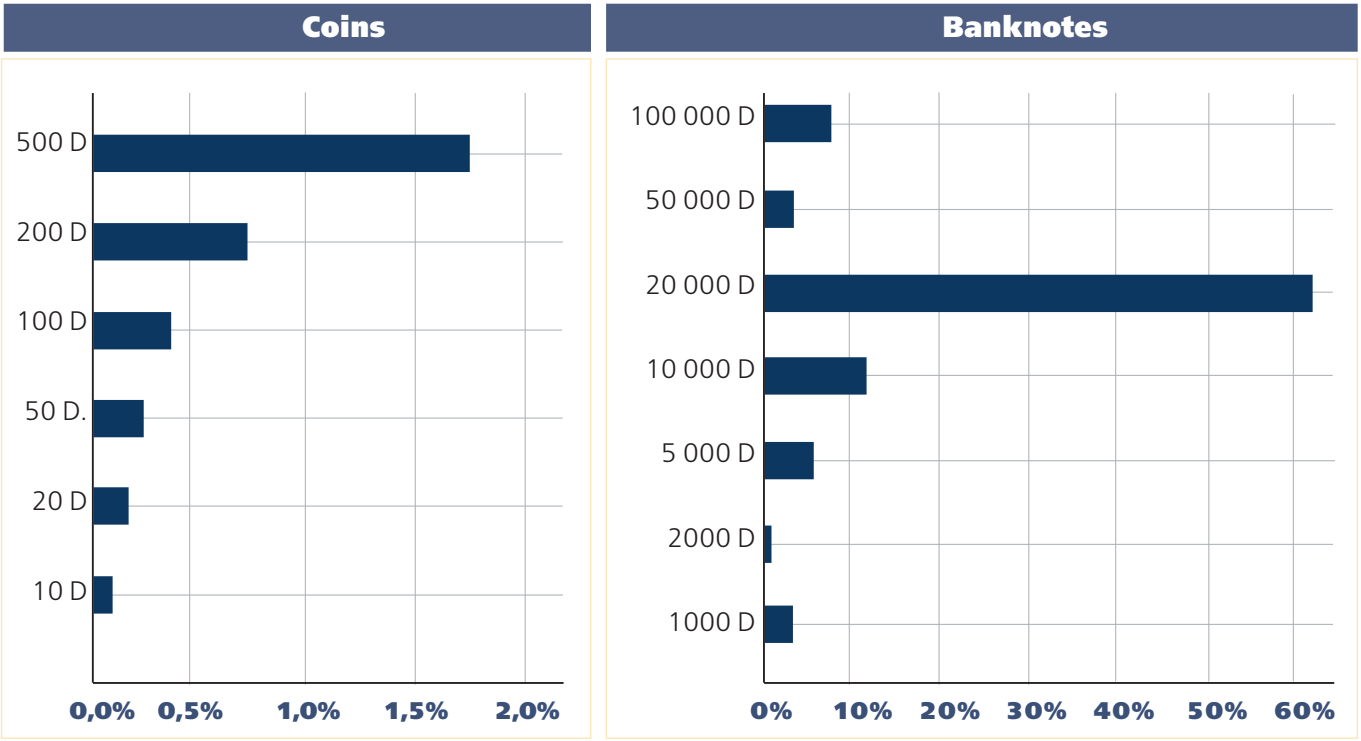
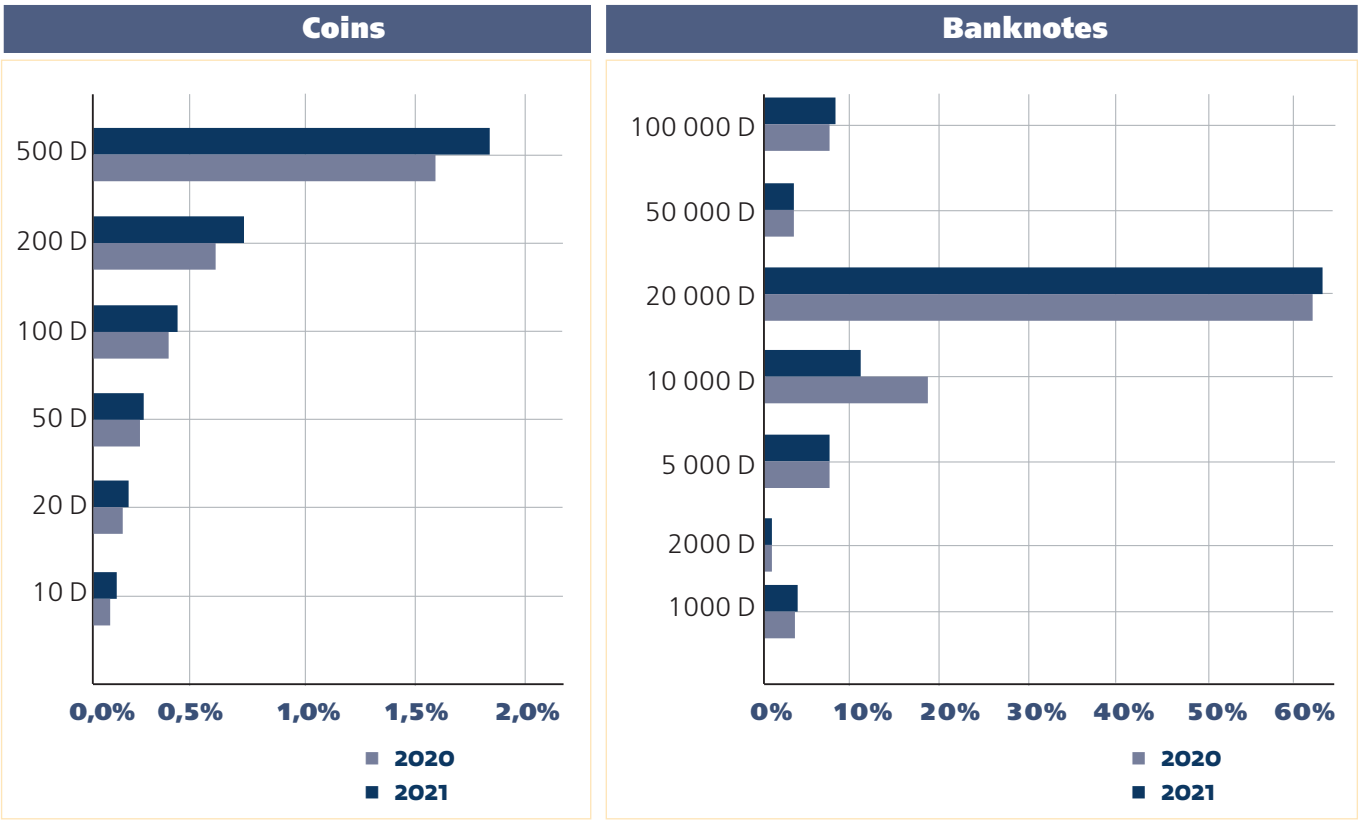


Diagram 5. Currency structure by the end of 2020-2021 (in monetary terms)



Currency Issue and Numismatics

In 2021, to increase the level of effectiveness of the fight against counterfeiting, it was decided to further enhance protection of the banknotes of the III series, in particular by applying additional security features on the backside of the banknotes.

In 2021, 8 types of collector coins were issued in all. They were dedicated to significant events in the modern history of Armenia, jubilees of famous Armenian personalities and historical dates in the field of Armenian culture:

With these issues, the Central Bank of Armenia promoted the achievements of independent Armenia, the creative contribution of well-known Armenian figures of culture and art, the role of theatrical art and cultural and educational centers of the Armenian Diaspora in patriotic upbringing and education of the younger generation and preserving the national characteristics of the Armenian people.

Meantime, information about collector coins was disseminated through the Central Bank s website and the Visitors Center, various social networks and the media, as well as through trilingual illustrated brochures. These efforts were aimed at increasing the level of knowledge about the Armenian history and culture both within Armenia and abroad.

For the same purpose, the collector coins of the Republic of Armenia were presented for participation in international numismatic competitions. In 2021, the Central Bank participated in several numismatic competitions. At the international competition "Coin Constellation 2021", held in the Russian Federation, the gold collector coin" Jansem-100", issued by the Central Bank in 2020, took the 3rd place in the nomination "Coin Classic", and the silver collector coin "Mother Cathedral of Holy Etchmiadzin" was recognized as the winner in the nomination "People s Choice Award".

The goals and objectives of the Central Bank in the spheres of currency issue and numismatics are:

- *To ensure regular cash turnover by issuing modern, reliable banknotes/coins with publicly recognizable security features; protect cash in circulation from counterfeit and insolvent banknotes/coins and, thereby, strengthen public confidence in the national currency; ensure cleanness of cash in circulation by regular and timely replenishment of money reserves of the Central Bank.*
- *To organize the issuance and distribution of collector coins and other numismatic items, with the aim of presenting national values, culture and history of Armenia to the Armenian society and international community and meeting collection and investment demands of population.*

During the reporting year, the issue of gold and silver investment coins of the Republic of Armenia "Noah's Ark" continued. Being sold mainly in the European and American investment markets, "Noah's Ark" sales increased almost twice in 2021, thereby creating favorable conditions for the recognition of reputation of Armenia in international bullion coins markets and dissemination of information about Armenia's cultural values.

In 2021, the museum collection of the Central Bank was replenished with a number of coins of historical Armenia, dated the I century BC and the coins of the Soviet era, as well as the banknotes of the Russian Empire of the early XX century and of the first Republic of Armenia. These acquisitions serve as a historical source and factual material for professional research and contribute in many respects to the development of numismatics in Armenia.

In 2021, the development of key directions of the Central Bank's policy related to issuance and distribution of numismatic items started. The policy will be focused on clarifying the objectives of numismatic items' issuance and will determine the possible means of distribution of such items in local and foreign numismatic markets. The basis for determining the key policy areas will be the long-term experience of the Central Bank, the study of international experience, current trends in the development of the numismatic market, as well as the tasks defined in the new Strategy of the Central Bank.

- *To replenish the museum collection of the Central Bank with banknotes/coins circulating in historical Armenia, with the aim of developing numismatics in Armenia through appropriate research and proper presentation of the history of money to the public.*

8 types of collector coins



30TH ANNIVERSARY OF THE REPUBLIC OF ARMENIA



30TH ANNIVERSARY OF THE COMMONWEALTH OF INDEPENDENT STATES



150TH ANNIVERSARY OF ALEXANDER SPENDIARYAN'S BIRTH



100TH ANNIVERSARY OF ARNO BABAJANYAN'S BIRTH



100TH ANNIVERSARY OF ESTABLISHMENT OF GABRIEL SUNDUKYAN NATIONAL ACADEMIC THEATER



100TH ANNIVERSARY OF ESTABLISHMENT OF PETROS ADAMYAN ARMENIAN STATE DRAMA THEATER IN TBILISI



200TH ANNIVERSARY OF ESTABLISHMENT OF ARMENIAN COLLAGE AND PHILANTHROPIC ACADEMY IN KOLKATA

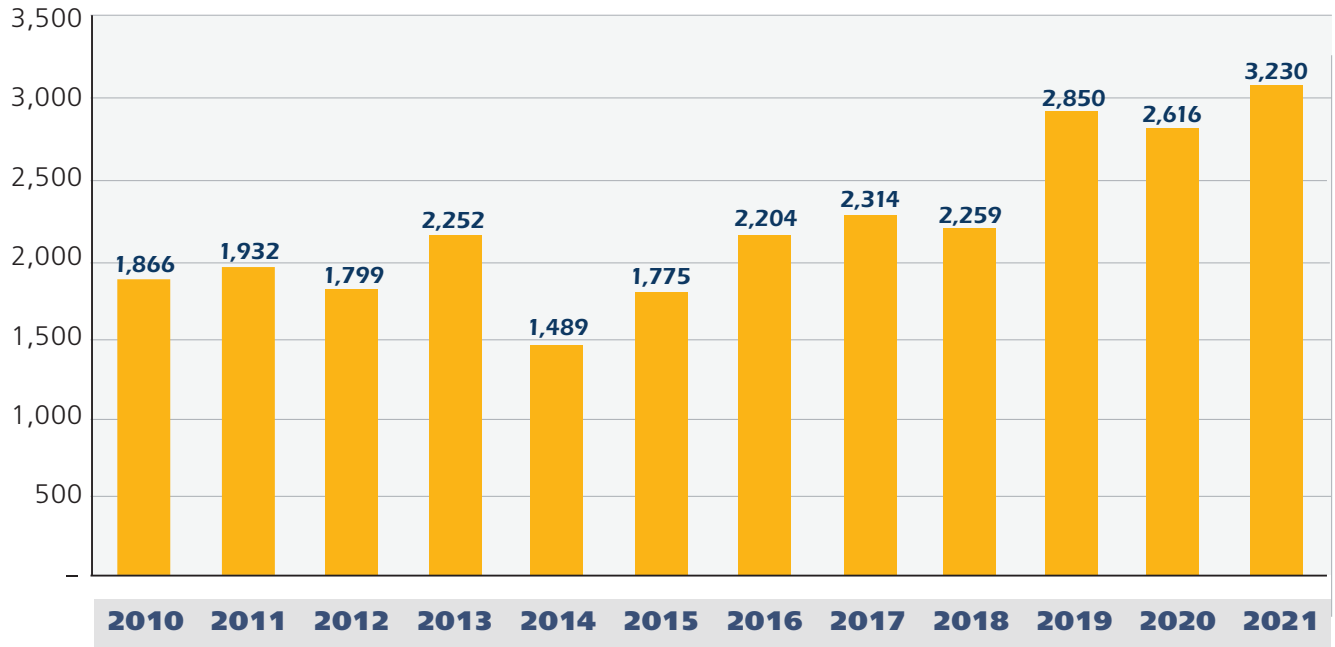


675TH ANNIVERSARY OF GRIGOR TATEVATSI'S BIRTH

MANAGEMENT OF FOREIGN EXCHANGE RESERVES

The Republic of Armenia forms and maintains foreign exchange to ensure the country's ability to contain balance-of-payments shocks and to ensure confidence in monetary, macroprudential and exchange rate policies. At the end of 2021, Armenia's foreign exchange reserves increased by approximately $614 million and amounted to approximately $3,230 million by the end of the year.

Diagram 6. The level of international reserves of the Republic of Armenia



Among the main factors causing changes in the volume of reserves are the receipt of loans and borrowings (equivalent to about $ 1,003.2 million), servicing external debt (equivalent to about $ 460 million), the sale of foreign currency in the domestic market (equivalent to about $ 134

million), as well as the growth of correspondent account balances of financial organizations and banks (equivalent to about $ 378 million).

During 2021, the level of Armenia's international reserves continued to meet the main requirements of foreign exchange reserves, in particular in terms of the ability to mitigate possible external shocks. The foreign exchange reserves of the Republic of Armenia provided coverage for imports for about six months, and servicing of current obligations - about seven years.

The Central Bank continues to adhere to its strategy of managing foreign exchange reserves of the Republic of Armenia with minimal risks to ensure their stability, liquidity, and effective management.

SECURITIES MARKET

During 2021, activities continued within the framework of the Capital Market Development Program" approved by the Government of the RA. In particular, in the various working groups formed, efforts were directed to regulating the crowdfunding framework, issuance of municipal bonds, the assessing the compliance of the regulatory landscape with international standards, developing of the money market, automated online registration of collateral of mortgage-backed securities, improving trading systems and other areas.

Together with its stakeholders, the Central Bank has also developed an Action plan" to stimulating the development of money market, foreign exchange market, secondary security market and public debt market, which will contribute to market deepening in the countries.

As part of these actions, it is planned to arrange a platform for one-day repo transactions. The successful operation of repo platform will assist steering one-day money market rate. This additionally boosts development of other segments of financial market, including derivative financial instruments and serving as a guiding principle for their pricing.

One of the strategic priorities of the Central Bank is boosting the development of capital market and buildup the necessary prerequisites for creating new investment opportunities in this market.

STATISTICS

In 2021, the Central Bank of the Republic of Armenia ensured dissemination of timely and reliable data[2], and also carried out efforts to expand the sources of information calculation of new indicators, comprehensively automate the processes of compiling and processing statistics, expand the scope of and accessibility to statistical data, improve the quality of statistical data, improve the methodology of statistics collected and their alignment with international standards.

Based on granular data received from banks, the Central Bank compiles, processes and makes regular calculations of summary statistical data on loans provided by commercial banks for SMEs, on their funds allocated placed in the regions of the Republic of Armenia and loans granted to the economy through international programs funding broken down by industry, currency, maturity and other parameters. It should be noted that parallel to wide use of granular data, the number of reports provided by banks will gradually decrease.

The Central Bank of the Republic of Armenia, in cooperation with the Government of the Republic of Armenia and international financial organizations, has developed a comprehensive and multilateral Action plan for the development of monetary market, FX market, derivatives market and public debt market, with the aim of calculating new statistical indicators and increasing the level of availability of market information.

The Central Bank of the Republic of Armenia has begun to implement the new guidelines developed by the IMF (FSI Compilation Guide 2019) on the calculation of financial stability indicators (FSI). A timetable was drawn up detailing the Action plan to bring the parameters of FSI calculated by

According to the Law on Official Statistics, the Central Bank of the Republic of Armenia is a producer of official statistics, and in accordance with the provisions of the Law on the Central Bank of the Republic of Armenia, it collects, compiles, and disseminates monetary, financial sector, and external accounts statistics used by the Central Bank of the Republic of Armenia to formulate monetary policy, maintain financial stability, financial supervision, develop payment and settlement system and perform other functions. These statistics are also used by government agencies, financial market participants, international financial organizations, the media, and the public to conduct economic analysis, make investment decisions and develop economic policies.

2 Central Bank of the Republic Armenia publishes statistical data in the "Statistics" section of its home page (www.cba.am).

the Central Bank into full compliance with the parameters of the new guidelines. Within the framework of the ongoing program, in addition to the basic data of the FSIs, detailed data on the balance sheet, income statement of commercial banks, as well as information on concentration and distribution of financial stability indicators, will also be published.

In order to obtain statistical information on the types of financial institutions and their shareholders from one common database, work was carried out to compare, verify and correct the information of the financial organizations licensing database and the data available in the reports collected by the Central Bank. As a result, output reports will be generated from the licensing database, which will allow to have summary statistics on capital, branches, and foreign shareholders of financial institutions.

Additional calculations for the balance of payments of the Republic of Armenia were carried out to assess certain phenomena and their inclusion in the balance of payments accounts. In particular, based on the results of surveys conducted in organizations engaged in cargo transportation and in cooperation with the State Revenue Committee of the Republic of Armenia, data on the relevant expenditure items of resident and non-resident cargo carriers were clarified.

In partnership with the National Operator of Payment System, the balance of payments of the Republic of Armenia was supplemented with information on E-POS transactions paying abroad by cards issued in the Republic of Armenia. As a result, the compilation of current account in respect of online trade and import of some services have been improved thus ensuring inclusion of previously unavailable data.

As part of the automation of business processes in the compilation of statistics, the coding of the main items of the balance of payments of the Republic of Armenia according to international standards was carried out. This process, as

well as efforts with respect of testing foreign trade and private sector investment software packages and their final implementation, will continue in 2022. Automation of business processes will significantly increase the efficiency of statistics complication process, enable internal users to receive operational information, as well as concentrate the resources freed up as a result of automation on solving other strategic issues.

The IMF Mission on Technical Support of Public Finance Statistics, together with the Ministry of Finance of the Republic of Armenia and the Statistical Committee of the Republic of Armenia, held discussions on improving government finance statistics. In particular, the Central Bank clarified and compiled a list of financial organizations that are part of the public sector, in accordance with internationally recognized statistical standards and classifications.

Non-traditional statistical sources were used to develop data on online purchases for the prompt and periodic (daily and weekly) collection of information on prices and its summary to form an estimate of monthly inflation (now casting). Work has also been undertaken on the use of information available by the State Revenue Committee of the Republic of Armenia in determining the parameters of economic activity and operational assessment of inflation indicators.

As part of the development of visualization of statistical indicators, work was carried out to create an "Information Platform (Dashboard) of Real Estate Statistics". The introduction of the Real Estate Statistics Information Platform has created an opportunity to show the patterns of development of the industry quickly and quite figuratively. It is planned to create similar platforms for demonstrating indicators of consumer prices, economic activity, the financial system, and other statistical data.

DEVELOPMENT OF RESEARCH CAPACITY

Continuous development of research capacity is one of the main priorities of the Central Bank for evidence-based decision-making and for effectively addressing the objectives outlined by the Strategy.

During 2021, the Central Bank hosted representatives of the world's best universities and research centers, including Mattias Polborn, Bruce Poghosyan, Artashes Karapetyan, Zareh Asatryan, and others. They were involved with the Bank and advised employees of the Central Bank, in particular, specialists engaged in economic research. In 2021, the Central Bank also hosted representatives of the Central Bank of Kyrgyzstan, presented its experience, and held consultations on the creation of a similar research and training center.

During 2021, the Central Bank authored several works and studies. Within the "Financial Education in Schools" program, the effectiveness of online training for teachers was studied, the results of which were published on UNESCO's Global Education Blog[3]. Of the research papers presented at the annual conference of the Armenian Economic Union, our team's article on countries' tax potential[4] was distinguished by the IMF representative and was awarded a special prize, i.e. "Best Working Paper". A study on the problems of the consumer lending market in the Republic of Armenia was conducted, aimed at identifying the key factors affecting the behavior of borrowers/creditors, and, if necessary, developing legislative changes to protect the interests of consumers. Studies were carried on with experts from the American Stanford and Swiss University in Zurich. In one of the studies, the impact of exchange rate devaluations on the saving behavior of households was evaluated. Another study

3 https://world-education-blog.org/2021/08/02/how-effective-is-online-teacher-training-evidence-from-armenia-during-the-covid-19-pandemic/

4 https://drive.google.com/file/d/1qyuLzELHUEKvlVDtIqjKuzDgoQb1iL23/view

raises the issues of customer steering in the mortgage market. The study examines the extent to which banks steer their customers in choosing the currency of a mortgage loan. Several studies were conducted to assess the impact of mandatory reserve requirement on the interest rates of bank deposits, loans, and the level of dollarization. The mechanism of risk taking by banks was studied to determine how changes in Central Bank policy rate affect the provision of risky loans by banks. In addition, in partnership with the regional advisory group of the CIS Financial Stability Board, a study was presented on possible ways to reduce the negative effects of risk premiums in developing countries. Emphasizing the continuous development of professional skills of employees of the Central Banks of the Republic of Armenia and other countries, a week-long course on "Machine Learning" was organized, both for employees of the Central Bank and for employees of the central banks of the Member States of the Eurasian Economic Union.

The Central Bank prioritizes its cooperation with educational institutions and the training of students and, in general, efforts in this direction. In order to present the activities of the Central Bank and transfer relevant knowledge to students, a Memorandum of cooperation was signed with the Ijevan branch of Yerevan State University. The main goal is to promote the improvement of the educational programs of the Faculty of Economics and their compliance with the programs of the world's leading educational institutions, as well as to increase the scientific potential of the university. Currently, five employees of the CB DTRC teach at the branch of YSU Ijevan.

In an effort to have one of the best educational and research centers, an agreement was reached between CBA and Abdul Latif Jameel Poverty Action Lab (J-PAL)to conduct joint research on education sector reforms in the Republic of Armenia with In 2022, Central Bank is going to host Professor Christopher Palmer from the Massachusetts

Institute of Technology (MIT) to obtain professional advice on the RA credit market and financial inclusion, as well as conduct joint analytical work.

An agreement was reached with the German research center Leibniz Centre for European Economic Research, according to which two employees of the Central Bank will visit the Center and will conduct an onsite analysis of the problems of misallocation of resources by RA firms.

Efforts directed to analyzing the savings behavior of households and steering in the mortgage market will continue in 2022. For the purpose of a deeper and more extensive study of this issue, the Central Bank is preparing to host Professor Vardges Levonyan from the University of Zurich. To further study the mechanism of risk-taking by banks, as well as to assess the impact of changes of the total capital requirement of banks on the financial system, in 2022 the Central Bank intends to cooperate with Professor Vladimir Asrian from the Spanish University of Pompeu Fabra. In addition to research, the above-mentioned courses on "Machine Learning" will be continued.

RESEARCH FELLOWSHIP INTERNS

3

FUDAN UNIVERSITY

IE UNIVERSITY

STOCKHOLM UNIVERSITY

ORGANIZING AND REGULATING THE FIGHT AGAINST MONEY LAUNDERING AND TERRORISM FINANCING

The following key undertakings are implemented:

- Strategic and thematic (sectoral) analysis of AML/CTF (Anti-Money Laundering/Countering the Financing of Terrorism) problems;
- Operational analyses with consideration of national ML/TF risks;
- Works on preventive measures against suspicious signals, including notification to law enforcement agencies relating to reasonable suspicions,
- Developing legislation and improving domestic and international cooperation.

The fight against money laundering and terrorism financing (ML/TF) is carried out by the Financial Monitoring Center (FMC) of the Central Bank. In this context, the main function of the Center is to collect, analyze, and exchange information to combat ML/TF. The Centre performs this function as an intermediary between reporting entitiesand law enforcement agencies.

Strategic and Thematic Analyses

In 2021, works towards the next stage of the national ML/TF risk assessment were continued. In connection with the change in the FATF recommendations, the national risk assessment system has been expanded to include risk assessments of the FPWMD. The results of the ML/TF and FPWMD risk assessments were summarized in two documents - "Report on the National Assessment of Money Laundering and Terrorism Financing Risks in the Republic of Armenia in 2017-2020" and "Report on the National Risk Assessment of Financing the Proliferation of Weapons of Mass Destruction in the Republic of Armenia in 2017-2020". According to these documents, the risk of ML in RA was

Strategic analyses conducted by the FMC are aimed at identifying the systemic risks of ML/TF and of financing the proliferation of weapons of mass destruction (FPWMD), while the thematic analyses are aimed at identifying sectoral risks and taking measures commensurate with the identified risks.

assessed as medium, and the risks of TF and FPWMD as low. The main findings of the reports are published in the anti-ML/TF section of the Central Bank's website[5]. Using the results of the analysis, public authorities and individuals involved in the fight against ML/TF direct their efforts to carry out targeted measures to mitigate the identified high risks.

In 2021, performance indicators of banks operating in Armenia for the previous year, relevant ML/TF potential risks and the effectiveness of risk mitigating measures were also analyzed. The results of the study, including the identified issues were communicated to the banks, which responded with comments/clarifications, as well as a program of measures to address procedural issues.

Operational Analysis

In 2021, the trend of growth in the number of reports on suspicious transactions or business relations (STR) submitted by non-bank financial organizations continued, in compliance with the requirements of the legislation on combating ML/TF. This indicates further involvement of reporting entities in the AML/CTF system.

The following schemes were encountered more frequently during the analyses:

- Financial transactions involving politically exposed persons (PEPs).
- ML schemes involving the placement of funds acquired through various fraudulent crimes.
- Financial transactions aimed at evading tax obligations, carrying out illegal entrepreneurship, concealing the true scale of economic activity.

The operational analyses carried out by the FMC are aimed at identifying possible ML/TF incidents, implementing preventive measures if necessary, and notifying law enforcement authorities of reasonable suspicions of ML/TF.

5 https://www.cba.am/am/SitePages/FMCNewsDetails.aspx?NewsID=602

- Cases of legalization of proceeds obtained through various models of mass marketing.
- Transit transfer of funds through the banking system of the Republic of Armenia.
- Schemes of legalization of funds acquired through the sale of drugs.
- Other situations corresponding to the schemes described in typologies of the Central Bank of the Republic of Armenia and international organizations.

The STRs received from reporting entities were in most cases referring to drug trafficking and fraud.

Preventive Measures

Among the activities relating the combating ML/ TF in 2021, the updating of domestic lists of persons associated with terrorism, it should be noted the assignments to reporting entities, as well as methodological guidance for the implementation of preventive measures should be mentioned. At the initiative of the FMC, the updated list of persons associated with terrorism under the UN Security Board Resolution 1373 was introduced and approved by the Inter-agency Commission on Combating Money Laundering, Terrorism Financing and Financing of proliferation of weapons of mass destruction on October 18, 2021. Currently, the list includes data of mercenaries and terrorists (341 individuals and 13 organizations) who, under the patronage of Turkey, were hired and conveyed to Azerbaijan during the unleashed hostilities against the Republic of Artsakh from September 27 to November 10, 2020, and in the period preceding there. An updated list of individuals linked to terrorism was published on the FMC

Preventive measures include assignments to reporting entities to mitigate ML/TF risks identified through strategic and operational analyses, posting on the FMC website the public notifications about changes in the international lists for the purpose of immediate application of targeted financial sanctions, training of reporting entities, and so on.

website on October 21, 2021, and accountable individuals and relevant agencies were informed.

During the reporting year, preventive measures to effectively mitigate potential TF risks to meet the restrictive requirements imposed by international institutions continued, including publication of updates to the UN SC and FATF lists on the FMC website and notifying reporting entities.

Reporting entities were also informed of the restrictions imposed by individual organizations and countries to take measures to avoid possible financial sanctions.

Examples of providing guidance to, reporting entities are the communication of minimal list of PEPs and mandatory parameters for the strategic ML/TF risk analyses by the reporting entities.

Over the reporting period, reporting persons assignments relating to:

- Carrying out preventive measures related to fraud schemes and people that might be involved therein.
- Enhanced due diligence of transactions and business relations of individual high risk customers.
- Taking measures to prevent the withdrawal of funds with a potential risk of money laundering in individual transactions.
- Clarification of some of the requirements addressed to the reporting entities established by the legislation of combatting ML/TF.

During the reporting year only for the incidents included in the STRs, banks refused to conduct approximately 100 transactions assessed as high-risk or terminated the established business relationship with the client.

Legislative Development

The amendments and additions are designed to eliminate a number of shortcomings of the ML/TF system in Armenia that were documented through international assessment, as well as the ambiguities discovered during the implementation of the above-mentioned law.

In particular, the framework of the PEPs has been expanded to include domestic high-level officials and persons entrusted with prominent functions in international organizations, including members of their families and their affiliates; measures to identify and verify the identity of the beneficial owner of the client have been clarified; there are provisions for the exchange of information on suspicious transactions or business relationships between members of a financial group were defined, as well as other substantive and technical changes.

One of the most important elements of the effectiveness of the AML/CFT system is legislation that best reflects international standards and mitigates the identified ML/TF risks. Over the reporting period, the National Assembly of the Republic of Armenia adopted the Law No-296-N "On Amendments and Additions to the Law on Combating Money Laundering and Financing of Terrorism", which entered into force on July 26.

Cooperation

The FMC continued its cooperation with international institutions. Moreover, FMC representatives were included in the implementation of their programs, among which "The Role of Financial Investigation Authorities in Combating Proceeds Derived from Corruption Crimes in the Context of the COVID-19 Pandemic" within the frameworks of the Egmond Group and ML regional risk assessment program implemented within the Eurasian Group should be noted. At the same time, representatives of the FMC were elected Vice-President of the MONEYVAL CoE Committee and a member of the Bureau of the Conference of the Parties to the Warsaw Convention, each for a period of 2 years of office.

The exchange of information between the FMC and law enforcement agencies, holding joint discussions and trainings are important for the identification, prevention, and elimination of ML/TF cases.

03

INSTITUTIONAL DEVELOPMENT OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

IT Management

Procurement process

Project management

Continuity of processes

People

Corporate Social Responsibility

Public Relations

Accountability of the Central Bank of the Republic of Armenia

Visitor Centre

Compliance function

IT MANAGEMENT

In 2021, the Central Bank launched a transformational process of information technology management that brings together and harmonizes IT with information security and cybersecurity. This will be implemented in accordance with the best standards in this area, by the introduction of the COBIT framework in the Central Bank. For this purpose, during the reporting period, two employees have received the appropriate international qualifications (*COBIT Foundation and COBIT design and implementation*) and will lead the implementation of the process. The Central Bank will continue to adhere to the adopted approach of encouraging the development of professional skills of employees, as well as attracting new talent to the team. During a year, a new approach was used that focused on in-house training of required specialists. Thus, students were recruited and provided with specialized training, based on the results of which and the results of the corresponding final work hiring decisions were made. In 2021, we engaged young professionals who will soon receive certificates of qualification of an international degree of cybersecurity.

In response to existing challenges, the Central Bank made required strategical structural changes, which in turn contributed to the launch of a series of positive transformation processes. The transformation allowed optimizing the decision-making mechanism and management processes. The organization of well-aligned

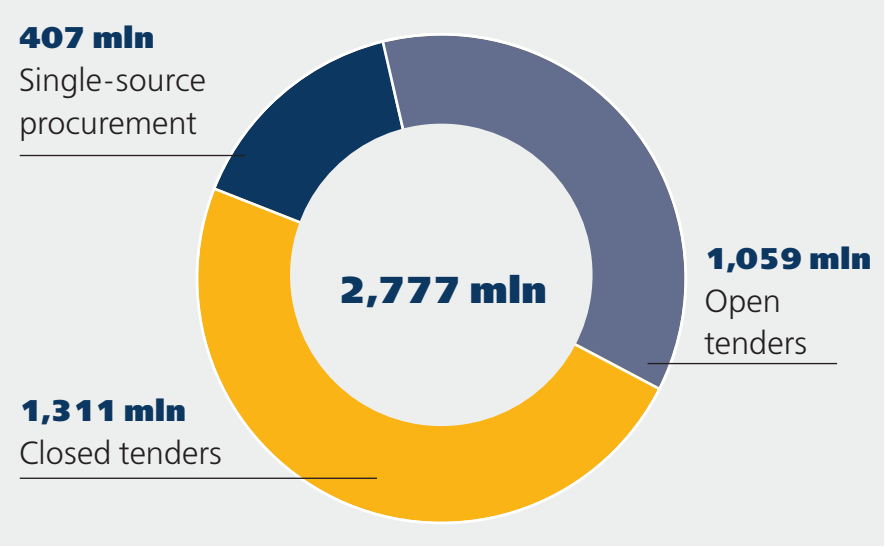
interaction of technologies, effective processes, and highly qualified specialists (People, Process and Technologies) generates solutions that have a new, unique quality.

The *Security Operation Center (SOC)* - the center for response and management of situations in the field of information and cybersecurity - will also operate on a similar principle. The center will serve both the Central Bank and financial sector participants, at the first stage providing everyone with the information about hacker attacks and possible methods and tools to protect against them.

PROCUREMENT PROCESS

As part of the structural changes at the Central Bank of the Republic of Armenia, the Procurement Coordination Service was established as a separated and independent unit focused on providing centralized procurement services to the Central Bank of the Republic of Armenia.

Diagram 7. Purchases of the Central Bank in 2021 (in drams)



The main objective of the Procurement Coordination Service is to increase the efficiency of the procurement processes carried out by the Bank, guided by the principle of performing work on a simple, transparent, competitive, and non-discriminatory basis. It is necessary to ensure the principle of obtaining the maximum value from costs (Value for Money), which implies the best quality for cost balance in the procurement process so as to get the right quality, the right quantity, at the right time, from the right supplier at the right price.

As a result of research and analysis of the market, the involvement of new participants in the procurement process led to savings of approximately 208 million drams (about 7.5% of the total volume of procurements).

In accordance with the strategic directions adopted by the Central Bank of the Republic of Armenia, the Procurement Coordination Service has begun to improve procurement processes, which include digitization, development of procurement policy, revision of the procedures, improvement of accountability and internal control.

PROJECT MANAGEMENT

The function of project management at the Central Bank of the Republic of Armenia is to implement the priorities outlined in the Strategy of the Central Bank of the Republic of Armenia within the unified methodological frameworks of project management.

To this end, the Project Management Center was created, consisting of two divisions - the Project Management Division and the Business Analysis Division.

In 2021, the Project Management Division conducted research on various international project management methodologies and best practices, resulting in the development of a policy, procedure, and methodological recommendations for project management. Projects are also being developed to create a new website, automate internal workflows and others.

The software and operational capabilities of the JIRA project management system were studied so as to implement it at the Central Bank of the Republic of Armenia.

To develop flexible and localized project management methodologies, a study of the current project management system was conducted during the year, identifying, and eliminating gaps.

Plans for 2022 include:

- Holding discussions on project management methodology, approaches, tools, and ideas about project management.
- Complying with the working cycle, rules and principles defined in the internal regulations for the management of new projects.
- Assuming the management of new projects prescribed as priorities within the Strategy of the Central Bank of the Republic of Armenia, as well as provide methodological assistance and advice to other departments.

CONTINUITY OF PROCESSES

Digital developments in the 21st century and the growth of non-cash transactions bring with them new risks. One of the key guarantees to overcoming and controlling these risks is the availability of an effective and flexible system for managing the continuity of processes.

In 2021, in the context of continuing tensions at the borders, geopolitical developments and uncertainties, an important task of the Central Bank was to have a system of continuous process management that meets international standards. Such a system would be designed not only to ensure the continuity of the processes of the Central Bank itself, but also, as a responsible body, the stability of the financial system, the continuity of the work of systemic and socially significant payment and settlement systems of the Republic of Armenia. As a result, the uninterrupted implementation of payments from citizens, the private sector and the public system will be ensured.

In 2021, the Business Continuity Management Team of the Corporate Services and Development Directorate was

In the contest of meeting primary and other objectives prescribed to it by the law, the Central Bank has consistently emphasized the need to ensure continuity of services provided, on which our success directly depends.

strengthened by experienced employees who shortly received international qualifications.

The Business Continuity Management Team is designed to implement a continuous process management system that corresponds to modern and international experience, which will increase the resilience of the Central Bank and develop its ability to respond quickly and make flexible decisions in the face of threats. ISO22301 "Business Continuity Management System" was selected as a guiding standard for the implementation of the system.

In September 2021, a two-day course " Business Continuity Management and Cyber Resilience" was organized at Dilijan Training and Research Center, dedicated to the discussion of the main trends emerging in the digital world. The speakers of the seminar, specialists with many years of experience in Armenia and abroad, presented the best international experience in this field. Such courses will become an integral part of the continuity management system and will be of a permanent nature aimed at developing the capability of the Central Bank and the financial sector.

PEOPLE

During 2021, one of the most important tasks of the Central Bank was to reinforce its team with high-quality members who would fit into the culture of the bank alongside with providing them with an attractive working environment and conditions, offering opportunities for development and their involvement in a comfortable working environment.

In today's rapidly changing world, human capital management is a vital prerequisite for progress for the central banks like all other organizations.

Along with the transformations of the labor market attracting employees, has become one of the challenges of 2021.

In the current competitive environment , with the "talent hunt" on the agenda, it is becoming increasingly difficult for the public sector to recruit competitive and qualified professionals that would also fit the desired image of an employee of the Central Bank , for whom, serving the public interest for the benefit of the country will be a priority.

In this context, it is important for us to attract both experienced and young, novice specialists. With the aim of strengthening the Central Bank's team with young, talented members, cooperation and interaction with relevant institutions continued throughout 2021. Central Bank top managers visited various local universities presenting the activities and projects of the Central Bank to the students, as well as the opportunities they may have by joining the Central Bank team.

A number of internship programs were organized for the university students in various units of the Central Bank, as a result of which several students became members of the CBA team after the end of their internship. In cooperation with the Office of the High Commissioner for Diaspora Affairs, in 2021 two young Diaspora Armenians joined the Central Bank team, in the scope of the program 'iGorts' and started working at Dilijan Training and Research Center.

In order to find experienced specialists, the list of recruitment sources was expanded. In addition to traditional job ads, the process of finding and engaging professionals and suitable candidates using social networks has begun to be applied more widely.

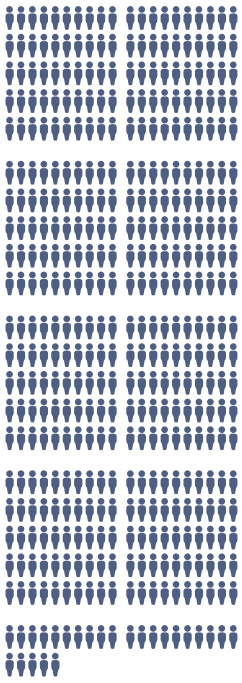
EMPLOYEES

AVERAGE ANNUAL NUMBER OF EMPLOYEES

725

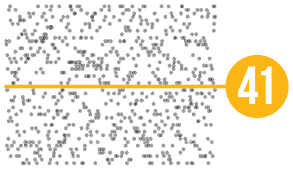


300
MEN



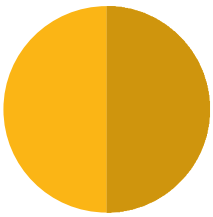
425
WOMEN

AVERAGE AGE



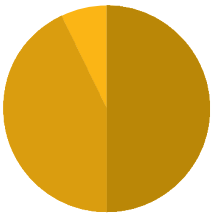
EMPLOYEES WHO JOINED THE CB TEAM

BY EXPERIENCE



50% BEGINNERS **50%** EXPERIENCED

BY AGE



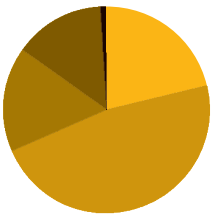
50%
UP TO 27 YEARS OLD

43%
27–40 YEARS OLD

7%
41–61 YEARS OLD

DISMISSED

BY AGE



21%
UP TO 27 YEARS OLD

47%
21–41 YEARS OLD

16%
41–61 YEARS OLD

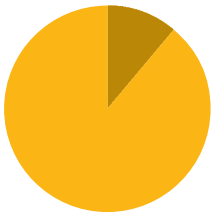
14%
61–77 YEARS OLD

1%
OVER 77 YEARS OLD

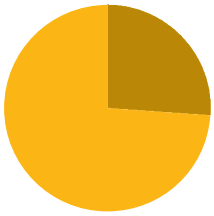
PROMOTION

TOTAL
81 EMPLOYEES

11%



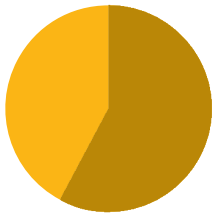
BY POSITION



26%
MANAGERS

74%
NOT MANAGERS

BY GENDER



58%
WOMEN

42%
MEN

STAFF TURNOVER RATE

12%

Education and Development

To move with a rapidly changing world, it is crucial to provide the staff with opportunities for continuous improvement, create a learning environment and have the prerequisites to stimulate and encourage development. In this regard, the Central Bank has always attached great importance to the acquisition and improvement of new knowledge, ensuring the continuous education of employees.

To avoid complications in the activities caused by the restrictive measures of the pandemic, subscription to modern electronic training platforms was carried out alongside with access to a number of educational programs for employees (LinkedIn, Udemy, Coursera, eDX).

In 2021, Central Bank employees also participated in other training courses organized mainly online by other central banks and foreign educational institutions (the International Monetary Fund, Joint Vienna Institute, Bank of England, Bank of France, the Bank of Italy, Deutsche Bundesbank, etc.) 457 employees took part in 175 online programs.

Development and improvement of the skills of mid-level managers was emphasized. Leadership development courses were organized, in which about 90% of managers participated. Furthermore, SQL and Excel courses were organized for employees of the Central Bank, in which 130 people took part.

During 2021, the Central Bank hosted world-famous experts at Dilijan Training and Research Center who shared their knowledge and experience during the lectures.

In the framework of cooperation with the member countries of the EAEU, the staff of the Central Bank conducted online courses for employees of the Central/National banks of these countries on the following

topics: International Financial Reporting Standard, Machine Learning, Control of Settlement and Payment Systems and Protection of the Interests of Financial Services Consumers.

221 employees of the Central Bank attended advanced training courses organized by the Bank of Russia, and 106 employees took part in other online courses organized by the Central/National Banks of the EAEU member states.

As part of the technical assistance, a five-day training course on the topic "Cash Management" was organized by Jan Binnekamp, an expert of De Nederlandsche Bank. With the participation of the delegation of the Republic of Kyrgyzstan, a training course-discussion was held on the topic "The work of Financial System Mediator and the protection of interests of financial services consumers". The Toronto Center, together with the Central Bank of the Republic of Armenia, organized a two-week online course on "Climate Risk and Ensuring Financial Stability".

In addition, within the framework of the Technical Assistance Program, donor banks and organizations

ONLINE IFRS COURSES

117

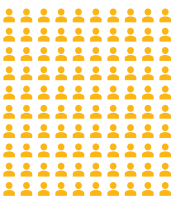
participants from Central Banks/national banks of the EEC countrie



"INTRODUCTION TO MACHINE LEARNING:APPLICATIONS IN CENTRAL BANKS" ONLINE COURSES

100

participants from Central Banks/national banks of the EEC countries



ONLINE COURSES ON THE TOPIC "INTERACTION WITH NATIONAL PAYMENT SYSTEMS-PARTNERS. WAYS TO IMPROVE SUPERVISION/OBSERVATION (OVERSIGHT) OF THE PARTICIPANTS OF THE PAYMENT MARKET OF THE COUNTRY"

27

participants from Central Banks/national banks and financial organizations of the EEC countries



JOINT ONLINE COURSE WITH THE BANK OF RUSSIA ON THE TOPIC "FINANCIAL SERVICES CONSUMER PROTECTION SYSTEM"

105

participants from Central Banks/national banks of the EEC countries



VIDEO-CONFERENCE ON THE TOPIC "BEST PRACTICES OF INTERNATIONAL AML/CFT COOPERATION"

34

participants



cooperating with the Central Bank held 10 video conferences and online forums.

Within the framework of Technical Assistance Programs, the Central Bank resumed cooperation with the National Bank of Ukraine and launched a new relationship with the National Bank of Slovakia.

In 2021, a process was also initiated to review and modify the role of clerks and the principles of their activities, providing for a wider range of functions and responsibilities, which, in turn, requires development of knowledge and skills.

Providing the staff with attractive workplace environment is another challenge from the perspective of being considered as an employer of choice, for which it is essential to nurture and strengthen a positive corporate culture along with providing opportunities for development.

In 2021, the internal communication process has improved dramatically, aimed at instilling corporate culture strengthening team spirit and disseminating information. Since 2021, events, team successes and other information have been covered weekly and quarterly. In addition, team meetings and discussions were organized to improve communication and informal interactions.

To create a more harmonious workplace environment, recreation areas and training points have been designed in different parts of the Central Bank, allowing for discussions in a more relaxed atmosphere.

Considering the need to introduce restrictions related to the Covid-19 pandemic, the hybrid work model has been preserved at the Central Bank, which also laid the foundation for the introduction of a flexible working schedule without disrupting the continuity of processes. Many employees were provided with laptop computers and technology to organize effective remote work.

Emphasizing the role of the young generation in solving the problems of the future, the implementation of projects

aimed at attracting young specialists will continue. The Young Professionals Program was designed in 2021 to attract young people and develop multifaceted professionals under a tailor-made program. The launch of the Program is scheduled for 2022.

During 2021, the Central Bank also worked closely with the coordinators of other ongoing talent search programs. In particular, at Dilijan Training and Research Center, together with the founders of Case Key, an international Case Key competition "Financial Problem" was held among young people aged 17-25, which was unprecedented for the realities of our country. The partnership will continue in 2022.

In 2022, it is also planned to introduce the Mentor-Mentee institution, another development project that will allow employees to share their knowledge and experience.

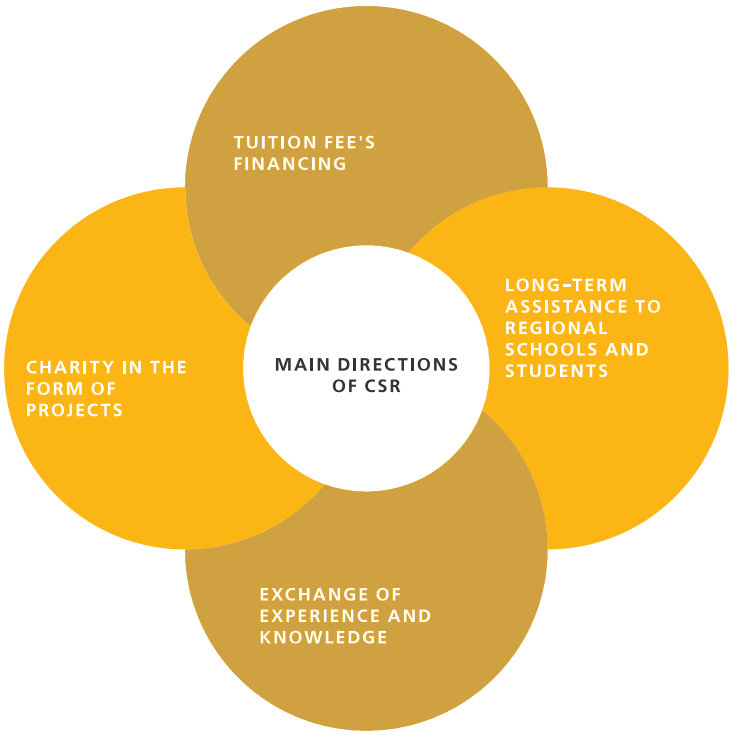
CORPORATE SOCIAL RESPONSIBILITY

Under the value system of the Central Bank, the impact of the Central Bank's activities on the social life of the society was revisited and assessed.

Based on the values of the Central Bank, the corporate social responsibility of the Central Bank is driven by an in-depth study of public problems and is aimed not at a one-time, but a regular and consistent solution to these problems.

In particular, considering the post-pandemic and post-war socio-economic situation, the staff of the Central Bank initiated a new strategy of corporate social responsibility. The strategy focuses at assisting schools and students in vulnerable villages of Armenia's regions, families of homeless students. This approach addresses not only social issues, but also the organization of various educational programs.

CORPORATE SOCIAL RESPONSIBILITY

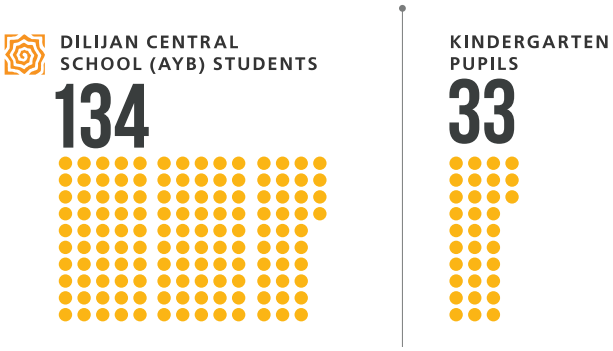


With events organized at the end of last year in the Marzes/regions of Armenia such as Gegharkunik, Shirak, Lori, Aragatsotn, and schools of 10 border villages, the staff of the Central Bank brought a kind of liveliness to the daily school life of more than seven hundred children and the belief that these relations will continue.

The Central Bank continued to work on the development of the city of Dilijan, considering it as one of the components of corporate social responsibility. Within this framework, Dilijan Central school, FabLab, and the TUMO Center for Creative Technologies functioned.

DILIJAN TRAINING AND RESEARCH CENTER

CORPORATE SOCIAL RESPONSIBILITY



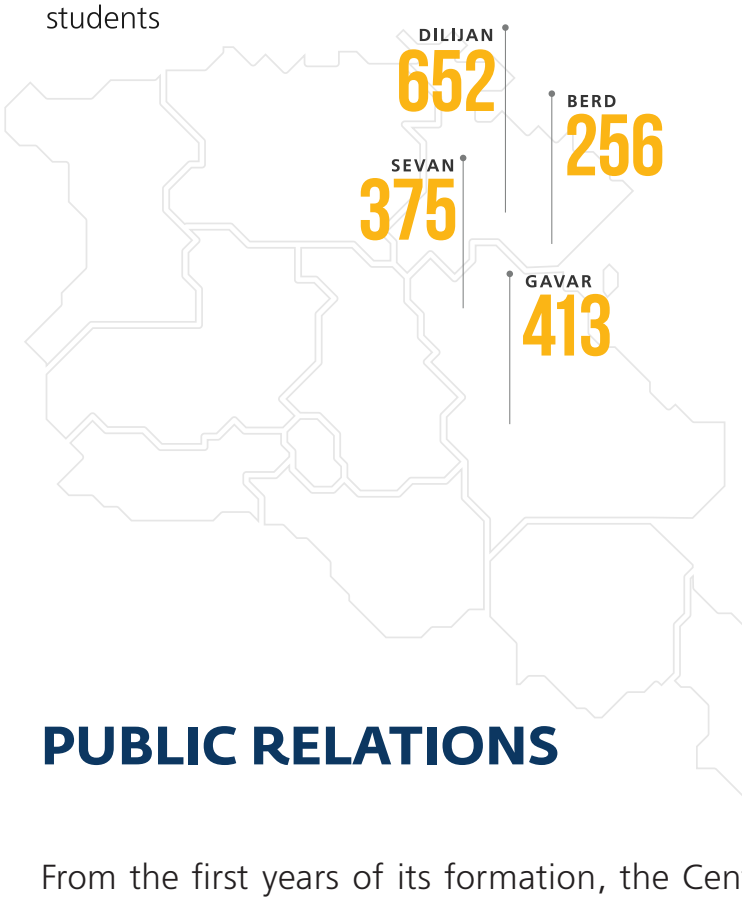
- Dilijan Central school, managed by the Ayb Foundation, has 134 students, while some of the teachers are residents of the region who have been trained in the program of the Ayb Educational Center.
- One of the cornerstones of the corporate social responsibility of the Central Bank is the dissemination of research and innovation excellence. FabLab Dilijan is an open, inclusive community of teachers, artists, architects, scientists, programmers, students, experimenters and, in general, people with a creative

thinking. With open software for today's digital manufacturing technologies, FabLab provides ample opportunities for learning. It is a program-based open - source platform for students, for education and professional development for people of all ages, and an opportunity for product innovation and entrepreneurship for local businesses.

- For Dilijan (Armenia) it is a way to solve problems at the local level and transform the community in terms of education, business development and networking. In 2021, it was decided to further integrate FabLab into the life of the community. With the help of international experts, all processes were studied for several months, and existing problems were identified. The purpose of this external evaluation is to make FabLab Dilijan more active, through the involvement of all stakeholders, cooperation with local authorities, the community, other cities and other FabLabs. The experts outlined an action plan for more effective implementation of FabLab's activities and as well as the team was expanded. The FabLab website was created to provide comprehensive information about the team and its activities[6].
- As a result of cooperation between the Central Bank of the Republic of Armenia and the "TUMO" Center for Creative Technologies, the Center has expanded and grown into a "TUMO" hub. TUMO Dilijan gives hundreds of teenagers - local and from adjacent cities - access to the unique TUMO training system, and also serves as a mini-TUMO for students in small communities in the Tavush and Gegharkunik Marzes (TUMO in a box).

6 https://fablabarmenia.com/

Number of active students



Seminars during 2021

PERMANENT SEMINARS

274
GROUPS
14
FROM THE MAIN SPHERE

STUDENT PARTICIPATION

1317

TRAINING LABORATORY

23

PUBLIC RELATIONS

From the first years of its formation, the Central Bank pursued a policy of being an open, transparent, and accountable institution.

In this sense, 2021 was a year of rethinking and setting goals, which is reflected in the published Strategy document. At the heart of strategic ambitions, public opinion is emphasized as the only means through which the policy of the Central Bank is perceived by the society. In this sense, the Central Bank should be more transparent and accountable, and able to establish a dialogue with society and the various beneficiaries.

This means that the Central Bank should be able to present to the public in comprehensible way the reasons and logic of the decisions made, as well as form a retrospective framework for measuring and analyzing the assessments by the society. It is in accordance with this logic that in 2021 the Central Bank initiated a reform of the communication process, which will be accomplished in 2022.

Communication and accountability have a significant role and importance in the activities of Central Banks. As an independent public institution, the Central Bank should work as transparently as possible since it is accountable to the society for the implementation of policies in the areas of its competence. On the other hand, the communication process of the Central Bank is aimed not only at ensuring accountability, but also is an element of policy. In particular, the achievement of its main goals - ensuring price

In today's world, policy decisions are becoming more and more complex, meaning that the communication of the logic behind the decisions is also becoming complicated. For the effective implementation of the process, t the Central Bank gradually incorporates communication issues into policy decision-making, for example, in the areas of macroprudential policy and regulation.

stability and financial stability - requires public trust in the policy of the Central Bank, which is impossible without an open and honest dialogue with people.

In specific policies, such as monetary policy, communication, in addition to its accountability function, serves also a policy tool and is included already at the stage of preparing the decision. All this requires the formation and development of communication capacities in the policy development departments, which should be implemented in 2022. These efforts will be gradually manifested in increased degree of public perceptivity and confidence in the Central Bank's policy.

At the same time, in 2021, the content of communication messaging was revised. Communication of policy decisions should be presented from the perspective of on the public good created for society. The form of communications, which should be accessible to the various beneficiaries, is also important. Types of communication include both traditional forms (press releases, the Central Bank's website) and more modern means, especially social networks.

As a result, it is expected that the communication of the Central Bank will be more human-centered and contribute to strengthening public trust in the Bank's policy.

The above changes in 2021 were reflected in the substantive formation of the Annual Report, the main reporting document of the Central Bank and its fixing at the institutional level.

In 2021, improvements to the Central Bank's website was also initiated, which will be completed in 2022. The Central Bank has become more active and responsive in social networks. Through the Central Bank's Facebook page,

information about various events has become available to the public, and citizens can quickly receive answers to their questions.

PUBLIC RELATIONS

PRESS CONFERENCES AND OTHER EVENTS



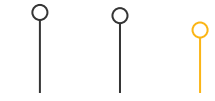
2019	2020	2021
4	8	9

INTERVIEWS



2019	2020	2021
20	22	21

PRESS RELEASES



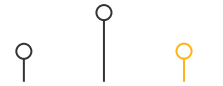
2019	2020	2021
223	215	179

WRITTEN MEDIA QUESTIONS



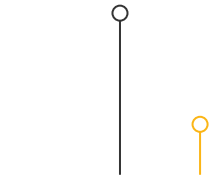
2019	2020	2021
34	60	37

QUESTIONS RECEIVED BY THE WEBSITE



2019	2020	2021
275	548	276

REQUESTS RECEIVED VIA SOCIAL NETWORKS



2020	2021
1200	416

RESPONSE TIMING (DAYS/WRITTEN MEDIA REQUESTS)



2019	2020	2021
10	9	11

ACCOUNTABILITY OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

To ensure the transparency of its operations, the Central Bank also publishes a number of periodicals that cover the Bank's activities in the field of monetary policy, financial stability, and the fight against ML/TF, money circulation.

In particular, the quarterly publication "Inflation Report" refers to the Monetary Policy Program, which includes the directions of monetary policy in the foreseeable future and forecasts of inflation and other macroeconomic indicators based on the Central Bank's assessments of the current situation and assumptions about the future, including the impact of the Central Bank's actions. "Monetary Policy Program implementation Report" section presents the results of the ongoing monetary policy and actual developments in the economy. The semi-annual periodical of the “Financial Stability Report” reflects an assessment of potential risks to the stability of the Armenian financial system and the ability of the financial system to neutralize these risks.

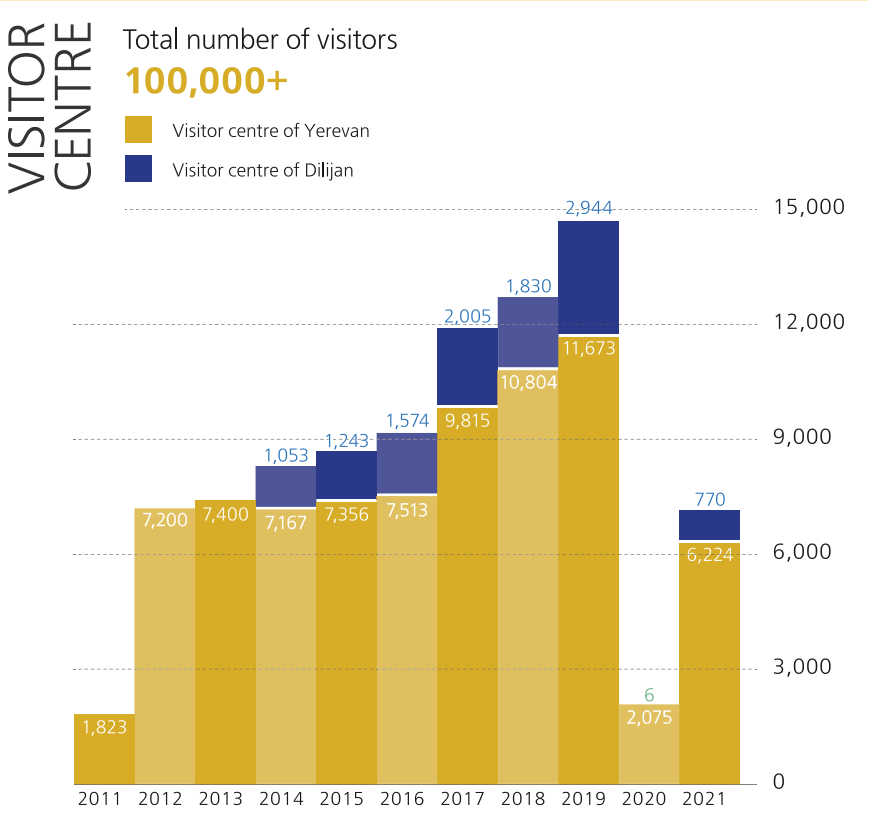
The Central Bank also shares with the public the "Annual Report of the Central Bank of the Republic of Armenia". Among its components are annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, which are audited by independent internationally recognized audit organizations. Annual periodical "Commemorative Coins of the Republic of Armenia" provides information on the issued commemorative coins of the Republic of Armenia, the results of the contests held with the participation of commemorative coins of the Republic of Armenia issued in that year and other materials related to commemorative coins. The monthly publication "Bulletin of the Central Bank of the Republic of

Armenia" contains normative and specific decisions of the Board of the Central Bank, decisions of the Governor of the Central Bank, other legal acts, as well as a statistical summary. The annual report of the Financial Monitoring Centre presents the work done in the fight against ML/TF.

VISITOR CENTRE

Despite somewhat limited visits in 2021 visits due to the coronavirus pandemic, the Centre received 9,607 visitors (8,498 in Yerevan and 1,109 in Dilijan), in contrast to 2,075 visitors in 2020 (an increase of more than 4 times). At the same time, it should be noted that the level of pre-Covid visits in 2019 has not yet been restored (11,673 visitors in Yerevan, 2,944 in Dilijan - a total of 14,617).

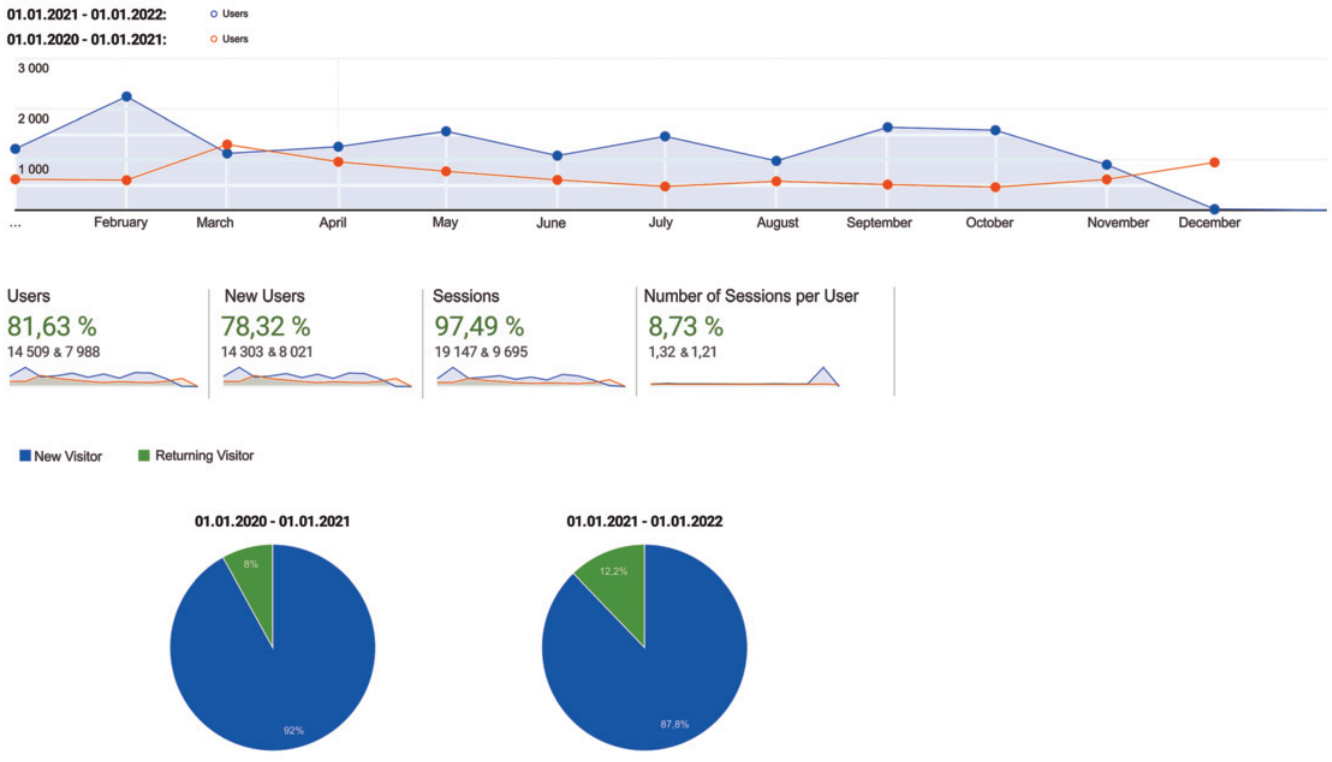
The Visitor Centre is a subdivision of the Central Bank that performs an educational and cultural function. The main goal of the Centre is to present the history of the national currency and raise public awareness of the activities and role of the Central Bank through a variety of educational tools including permanent, thematic, and interactive exhibitions.



In 2021, in the virtual areas of the Visitor Centre on Facebook and web pages were much more active. The Visitor Centre has published a number of educational, animation and information materials, in particular financial games and crossword puzzles.

The content of the virtual tour of the Visitor Centre (in Armenian, English and Russian) was updated, and an animated economic dictionary was created. Due to the above-mentioned interactive tools, the number of visitors to the website of the Central Bank Visitor Centre increased by 81.63% compared to 2020. More detailed statistics are shown in diagram 8.

Diagram 8.



Within the framework of the educational programs of the Visitor Centre, educational events were organized under the heading "One day in the Central Bank" for military personnel and cadets of educational institutions of the Ministry of

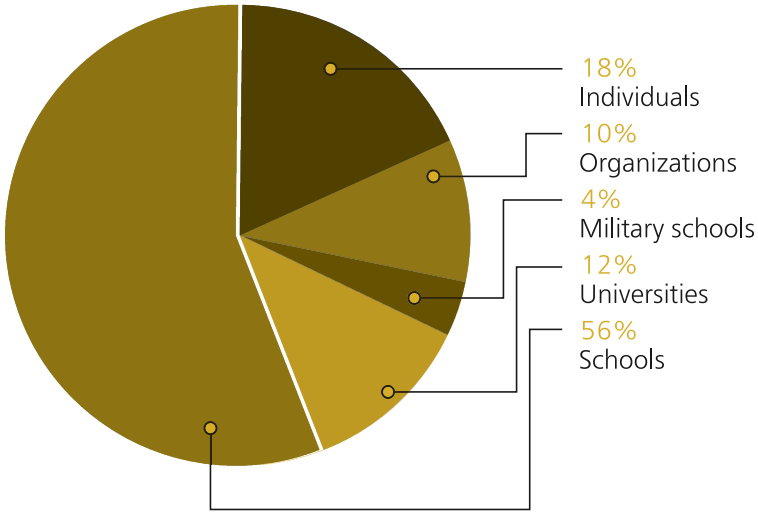
Defense of the Republic of Armenia continued. During the year, the Visitor Centre received 152 military/cadets and teachers (325 in 2019).

In 2021, the 10th anniversary of the Visitor Centre was celebrated, in connection with which a number of special projects were implemented:

1. For the first time at the site of the Visitor Centre, members of the Central Bank Board gave lectures on topical issues for students of universities and other educational institutions that are actively cooperating with the Centre. It was a unique opportunity for them to meet with the Governors of the Central Bank (top management) and discuss pressing issues, which will allow them to better understand their future specialization. It is planned to make these meetings regular.
2. Work was carried out to update the content (in Armenian and English) and the design of 16 stands presented at the exhibition of the Visitor Centre. Due to changes in the structure of the financial system, the legislative framework and the emergence of new payment and settlement tools over the past 10 years, there is a need to provide visitors with more up-to-date information with revised content and design.
3. A video was filmed and infographics have been created summarizing and presenting the activities of the Visitor Centre from 2011 to 2021 - the total number of visitors, the geography of foreign exhibitions and special programs implemented by the Visitor Centre (diagram below).

In 2021, providing literature necessary for the development of professional knowledge of Central Bank employees and the creation of a modern digital library was one of the Bank's priorities. This creates a prospect for more effective management of the unique library fund of the Central Bank, making professional literature available to all employees of the Central Bank. During 2021, the library of

Percentage of visitors to the Yerevan Visitor Centre
2011-2021



What can you find in the Visitor Centre?

Historical Coins
187

Historical banknotes
55

Banknotes and Coins of the 3rd Republic of Armenia
24/13

Commemorative and Jubilee Circulation coins
20

Collector banknotes
1

Collector coins
360

Collector medals
21

Investment medals
11

Banknotes and coins making tools
16

Professional devices for checking the security features of banknotes
6

Computer economic games
2

Unique specialized library and electronic library system
3500

Exhibition display boards
27

the Central Bank received about 250 printed and electronic professional books and about 43 titles (about 400 volumes) of foreign periodicals.

By 2022, we plan to restore the number of visits by intensifying visits from the regions (they decreased last year due to the pandemic) and receive 15,000 visitors in Yerevan and Dilijan. At the same time, we will continue developing the functionality and convenience of the library software module.

Compliance Function

In 2021, measures were undertaken for ensuring the ongoing compliance during the relationships with the customers of the CBA, foreign financial institutions and foreign Central Banks.

During the challenging year, within the framework of cooperation with international partners, the Compliance Service represented the interests of the CBA, which contributed to the strengthening of the international reputation of the CBA, as well as ensured the unhindered implementation financial transactions.

At the same time, in addition to ongoing activities, continuous efforts were made to further develop the compliance culture in the CBA, including through:

- Exploration of international experience within the field of compliance;
- Assistance on compliance issues were provided to the interested departments and management of the CBA;
- Transformation of the Compliance Service into a separate unit in line with the development vision of compliance.

The Compliance Service, as an integral part of the internal control system of the CBA, has the objective of ensuring the high-level of compliance of the functions performed by the CBA with the requirements of domestic legislation and the best international standards, thereby contributing to strengthening the reputation of the CBA.

04 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

Central Bank of the Republic of Armenia

International Financial Reporting Standards
Consolidated financial statements

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

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Independent auditor's report

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner

Marchello Gelashvili



General Director

Eric Hayrapetyan

30 March 2022



Consolidated statement of comprehensive income

For the year ended 31 December 2021

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

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

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

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

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

Consolidated statement of financial position

As at 31 December 2021

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

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

Consolidated statement of changes in equity

For the year ended 31 December 2021

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

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

Consolidated statement of cash flows

For the year ended 31 December 2021

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

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

1. General information

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

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

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

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

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

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

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

To accomplish its objectives the Central Bank:

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

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

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

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

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

1. General information (continued)

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

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

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

(b) Estimation uncertainty

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

2. Summary of significant accounting policies

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Form of presentation of the financial statements

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

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

Fair value

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

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

Assessment of impairment

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

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

Transactions with related parties

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

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

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

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

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

Leases − estimating the incremental borrowing rate

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

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

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations

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

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

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

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

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

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

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

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

(g) Basis of consolidation

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(g) Basis of consolidation (continued)

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

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

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

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

Associates

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

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

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

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

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

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

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

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

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

(i) Cash and cash equivalents

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

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms

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

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

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

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

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

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

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

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

Initial measurement

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

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

- Amortised cost;
- FVOCI;
- FVPL.

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

2. Summary of significant accounting policies (continued)

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

2. Summary of significant accounting policies (continued)

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

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

Reclassification of financial assets

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

Borrowings

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

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

2. Summary of significant accounting policies (continued)

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

Accounting for zero interest rate loans

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

Derecognition of financial assets and liabilities

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

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

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

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

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

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

(k) Leases

i. Group as a lessee

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

Right-of-use assets

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

2. Summary of significant accounting policies (continued)

(k) Leases (continued)

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

ii. Operating − Group as a lessor

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

(l) Offsetting

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

(m) Repurchase and reverse repurchase agreements

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

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

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

2. Summary of significant accounting policies (continued)

(n) Securities lending and borrowing

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

(o) Notes and coins in circulation

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

(p) Numismatic coins

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

(q) Property and equipment

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

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

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

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

Depreciation

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(s) Intangible assets

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

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

(t) Impairment

Impairment of financial assets

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

Non-financial assets

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

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(u) Provisions

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

(v) Taxation

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

(w) Issued capital

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

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

(x) Profit allocation

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

a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;

b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

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

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

2. Summary of significant accounting policies (continued)

(y) Contingencies

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

(z) Interest income and expense

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

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

(aa) Fee and commission income

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

3. New accounting pronouncements

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

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

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

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

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

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

3. New accounting pronouncements (continued)

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

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

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

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

4. Interest income

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

5. Interest expense

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

6. Net foreign exchange (loss)/gain

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

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

7. Net gain/(loss) on derivatives

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

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

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

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

9. Other income

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

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

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

10. Cost of production of banknotes, coins and numismatics

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

11. Other expenses

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

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

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

12. Placements and investments with banks and other financial institutions

Placements with banks and other financial institutions in foreign currency

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

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

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

Concentration of placements with banks and other financial institutions in foreign currency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Financial instruments at fair value through profit or loss

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

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

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

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

14. Derivative financial instruments

In thousands of Armenian Drams	***31 December 2021***	***31 December 2020***
Derivative financial assets		
Foreign currency swap contracts in foreign market	445,057	–
Total derivative financial assets	**445,057**	**–**

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

15. Investment securities

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

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

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

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

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

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

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2021	**11,578,230**	**11,578,230**
Assets repaid	(1,897,986)	**(1,897,986)**
At 31 December 2021	**9,680,244**	**9,680,244**

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2021	**58,589**	**58,589**
Assets repaid	(833)	**(833)**
Changes to models and inputs used for ECL calculations	(10,980)	**(10,980)**
At 31 December 2021	**46,776**	**46,776**

15. Investment securities (continued)

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

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

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

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

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

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

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

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

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

16. Operations with the International Monetary Fund

Assets due from the IMF

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

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

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

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

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

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

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

Liabilities due to the IMF

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

16. Operations with the International Monetary Fund (continued)

Liabilities due to the IMF (continued)

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

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

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

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

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

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

17. Property and equipment

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

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

18. Intangible assets

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

19. Other assets in domestic currency

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

20. Deposits and accounts of financial and other institutions

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

Concentration of deposits and accounts of financial and other institutions

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

21. Other borrowed funds

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

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

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

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

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

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

22. Other liabilities in domestic currency

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

23. Due to the Government of the Republic of Armenia

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

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

24. Debt securities issued

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

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

25. Management of capital

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

The size of the capital is established by the Law.

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

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

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

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

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

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

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

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

26. Commitments

Capital commitments

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

Litigation

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

27. Related party transactions

Transactions with members of the key management

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

In thousands of Armenian Drams	***2021***	***2020***
Key management including the Board members	355,836	316,936
Total	**355,836**	**316,936**

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

Transactions with the Government of the Republic of Armenia

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

	31 December 2021		***31 December 2020***	
In thousands of Armenian Drams	***Balance outstanding***	***Average contractual interest rate***	***Balance outstanding***	***Average contractual interest rate***
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income (Note15)	9,680,244	11.46%	11,578,230	11.5%
	9,680,244		**11,578,230**	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	66,055,949		73,810,843	
Profit distribution	(50,279,502)		(7,754,894)	
Balance at 31 December	15,776,447		66,055,949	
Assets at 31 December	**25,456,691**		**77,634,179**	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	401,983,788	6.18%	265,035,664	4.9%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,626,616		1,506,451	
Liabilities at 31 December	**403,610,404**		**266,542,115**	

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

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

27. Related party transactions (continued)

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

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

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

Transactions with other related parties

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

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

28. Cash and cash equivalents

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

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

29. Fair value of financial instruments

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

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements

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

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

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

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

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

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

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

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

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

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

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

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

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

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

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

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

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

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

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

29. Fair value of financial instruments (continued)

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

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

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

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

30. Risk management

Introduction

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

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

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

The Board

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

Institutional framework

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

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

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

30. Risk management (continued)

Administration and control

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

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

Asset allocation and risk management

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

Credit risk

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

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

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

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

Derivative financial instruments

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

Maximum credit risk without collateral or other credit enhancement

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

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

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

30. Risk management (continued)

Credit quality per class of financial assets

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

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

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

30. Risk management (continued)

Credit quality per class of financial assets (continued)

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

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

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

30. Risk management (continued)

Impairment assessment

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

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

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

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

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

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

Stage 1: When assets are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2.

Stage 2: When an asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.

Stage 3: Assets considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

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

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

30. Risk management (continued)

Impairment assessment (continued)

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

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

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

Exposure at default

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

Loss given default

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

Significant increase in credit risk

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

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

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

Forward-looking information and multiple economic scenarios

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

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

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

30. Risk management (continued)

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

30. Risk management (continued)

Liquidity risk and funding management

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

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

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

Analysis of financial liabilities by remaining contractual maturities

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

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

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

Market risk

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

30. Risk management (continued)

Interest rate risk

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

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

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

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

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

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

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

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

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

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

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

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

30. Risk management (continued)

Interest rate risk (continued)

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

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

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

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

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

Currency risk

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

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

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

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

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

30. Risk management (continued)

Currency risk (continued)

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

Operating risk – control over subsidiaries

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

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

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

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

31. Maturity analysis

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

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

31. Maturity analysis (continued)

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

32. Changes in liabilities arising from financing activities

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

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

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

33. Events after the reporting period

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

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

CENTRAL BANK
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