

Financial Statements and Independent Auditor's Report

“ARMSWISSBANK” CLOSED JOINT STOCK COMPANY

31 December 2019



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Independent auditor's report

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To the shareholders of “ARMSWISSBANK” CLOSED JOINT STOCK COMPANY

Opinion

We have audited the financial statements of “ARMSWISSBANK” CLOSED JOINT STOCK COMPANY (the “Bank”), which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- *Allowance for expected credit loss*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 37.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank’s financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank’s expected credit loss model, the identification of

exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2019. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2019, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

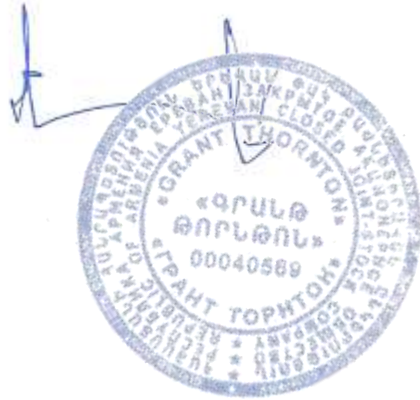
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Armen Hovhannisyan
Chief Executive Officer of "Grant Thornton" CJSC/
Engagement Partner

8 May 2020



Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2019	2018
Interest and similar income	7	22,701,678	18,252,054
Interest and similar expense	7	(14,143,305)	(10,873,540)
Net interest income		8,558,373	7,378,514
Fee and commission income	8	253,808	235,298
Fee and commission expense	8	(131,698)	(122,542)
Net fee and commission income		122,110	112,756
Net trading income	9	294,804	312,143
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		4,272,379	1,695,643
Other income	10	272,157	113,702
Impairment losses	11	(768,784)	(1,505,539)
Staff costs	12	(1,366,981)	(1,103,324)
Depreciation of property and equipment	20	(170,229)	(131,652)
Amortization of intangible assets	21	(16,252)	(21,925)
Other expenses	13	(523,689)	(521,591)
Profit before income tax		10,673,888	6,328,727
Income tax expense	14	(2,146,085)	(1,274,939)
Profit for the year		8,527,803	5,053,788
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Adjustment due to change in tax rate (Note 14)		24,593	-
		24,593	-
<i>Items that will be reclassified subsequently to profit or loss</i>			
<i>Movement in fair value reserve (debt instruments)</i>			
Net change in fair value during the year		6,535,856	3,977,785
Reclassification to the statement of profit or loss		(4,385,532)	(1,695,643)
Changes in allowance for expected credit losses		238,564	43,962
Income tax relating to items that will be reclassified		(430,000)	(456,429)
Adjustment due to change in tax rate (Note 14)		274,981	-
Net gains on financial investments at fair value through other comprehensive income		2,233,869	1,869,675
Other comprehensive income for the year, net of tax		2,258,462	1,869,675
Total comprehensive income for the year		10,786,265	6,923,463

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 78.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
<i>Assets</i>			
Cash and cash equivalents	15	24,328,959	18,215,567
Amounts due from financial institutions	17	2,072,086	3,677,170
Loans to customers	18	96,611,921	73,630,277
<i>Investment securities</i>			
-Investment securities at fair value through other comprehensive income	19	67,487,498	42,040,559
-Investment securities at amortised cost	19	60,572,411	56,495,115
- Securities pledged under repurchase agreements	19	26,458,580	32,945,467
Property and equipment	20	1,989,716	1,986,277
Intangible assets	21	64,153	71,477
Repossessed assets	22	1,161,904	866,251
Other assets	23	1,402,245	476,637
Total assets		282,149,473	230,404,797
<i>Liabilities and equity</i>			
<i>Liabilities</i>			
Amounts due to CBA	24	3,412,007	20,665,778
Derivative financial liabilities	16	969	-
Amounts due to financial institutions	25	47,734,267	29,126,454
Amounts due to customers	26	120,840,386	93,895,419
Debt securities issued	27	32,489,020	27,173,064
Subordinated debt	28	13,353,624	13,398,279
Current income tax liabilities		1,143,955	436,400
Deferred income tax liabilities	14	2,408,573	2,395,810
Other liabilities	29	1,031,962	470,855
Total liabilities		222,414,763	187,562,059

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
<i>Equity</i>			
Share capital	30	10,000,200	8,752,800
Share premium		6,205,548	1,347,241
Statutory general reserve		20,000,000	16,000,000
Other reserves		12,765,206	10,506,744
Retained earnings		10,763,756	6,235,953
Total equity		59,734,710	42,842,738
Total liabilities and equity		282,149,473	230,404,797

The financial statements were approved on 8 May 2020 by:

Gevorg Machanyan

Chief Executive Officer

Sedrak Baghdasaryan

Chief Accountant

02574955

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 78.

Statement of changes in equity

In thousand Armenian drams

	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property	Retained earnings	Total
Balance as of 31 December 2018	8,752,800	1,347,241	16,000,000	9,396,634	1,110,110	6,235,953	42,842,738
Profit for the year	-	-	-	-	-	8,527,803	8,527,803
Other comprehensive income:							
Net change in fair value of debt instrument at FVOCI -	-	-	-	6,535,856	-	-	6,535,856
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	-	-	(4,385,532)	-	-	(4,385,532)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	238,564	-	-	238,564
Income tax relating to components of other comprehensive income	-	-	-	(430,000)	-	-	(430,000)
Adjustment due to change in tax rate	-	-	-	274,981	24,593	-	299,574
Total comprehensive income for the year	-	-	-	2,233,869	24,593	8,527,803	10,786,265
Increase in share capital	1,247,400	4,858,307	-	-	-	-	6,105,707
Dividends to shareholders	-	-	4,000,000	-	-	(4,000,000)	-
Total transactions with owners	1,247,400	4,858,307	4,000,000	-	-	(4,000,000)	6,105,707
Balance as of 31 December 2019	10,000,200	6,205,548	20,000,000	11,630,503	1,134,703	10,763,756	59,734,710
Balance as of 31 December 2017	8,752,800	1,347,241	3,000,000	8,075,559	1,110,110	14,682,693	36,968,403
Impact of adopting IFRS 9 (note 6.2)	-	-	-	(548,600)	-	(500,528)	(1,049,128)
Restated balance as of 1 January 2018	8,752,800	1,347,241	3,000,000	7,526,959	1,110,110	14,182,165	35,919,275
Profit for the year	-	-	-	-	-	5,053,788	5,053,788
Other comprehensive income:							
Net change in fair value of debt instrument at FVOCI	-	-	-	3,977,785	-	-	3,977,785
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	-	-	(1,695,643)	-	-	(1,695,643)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	43,962	-	-	43,962
Income tax relating to components of other comprehensive income	-	-	-	(456,429)	-	-	(456,429)
Total comprehensive income for the year	-	-	-	1,869,675	-	5,053,788	6,923,463
Distribution to reserve	-	-	13,000,000	-	-	(13,000,000)	-
Total transactions with owners	-	-	13,000,000	-	-	(13,000,000)	-
Balance as of 31 December 2018	8,752,800	1,347,241	16,000,000	9,396,634	1,110,110	6,235,953	42,842,738

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 78.

Statement of cash flows

In thousand Armenian drams

	2019	2018
<i>Cash flows from operating activities</i>		
Profit before tax	10,673,888	6,328,727
<i>Adjustments for</i>		
Impairment charge of financial assets	768,784	1,505,539
Amortization and depreciation allowances	186,481	153,577
Interest receivable	(587,715)	(1,132,094)
Interest payable	294,175	258,768
Foreign currency translation net loss	3,843	32,860
Net (gain)/loss from changes in fair value of derivatives	-	253
Cash flows from operating activities before changes in operating assets and liabilities	11,339,456	7,147,630
<i>(Increase)/decrease in operating assets</i>		
Amounts due from financial institutions	1,608,520	(2,435,092)
Loans to customers	(24,466,353)	(15,517,472)
Other assets	(919,581)	(151,646)
<i>Increase/(decrease) in operating liabilities</i>		
Repurchase agreements with the CBA	(17,999,992)	17,999,992
Amounts due to financial institutions	7,700,627	7,522,088
Amounts due to customers	27,264,794	29,228,426
Derivative liabilities	969	-
Other liabilities	431,186	(63,950)
Net cash flow from operating activities before income tax	4,959,626	43,729,976
Income tax paid	(1,556,193)	(1,238,135)
Net cash from operating activities	3,403,433	42,491,841
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(20,623,474)	(45,411,219)
Purchase of property and equipment	(42,909)	(131,870)
Purchase of intangible assets	(8,929)	(7,700)
Proceeds from sale of PPE and Intangibles	-	18,990
Net cash used in investing activities	(20,675,312)	(45,531,799)

Statement of cash flows (continued)

In thousand Armenian drams

	<u>2019</u>	<u>2018</u>
<i>Cash flow from financing activities</i>		
Proceeds from issue of share capital	6,105,707	-
Loans received/(redeemed) from the CBA	742,877	(43,070)
Loans received/(redeemed) from other financial institutions	10,925,864	(1,151,261)
Net increase of debt securities issued	5,567,520	9,777,704
Subordinate debt redeemed	105	(337)
Payment of lease liabilities	(36,480)	-
Net cash from financing activities	<u>23,305,593</u>	<u>8,583,036</u>
Net increase in cash and cash equivalents	<u>6,033,714</u>	<u>5,543,078</u>
Cash and cash equivalents at the beginning of the year	18,215,567	13,088,527
ECL on cash	(3,744)	(1,424)
Exchange differences on cash and cash equivalents	83,422	(414,614)
Cash and cash equivalents at the end of the year (note 15)	<u>24,328,959</u>	<u>18,215,567</u>
Supplementary information:		
Interest received	22,113,963	17,119,960
Interest paid	(13,849,130)	(11,132,308)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 78.

Notes to the financial statements

1 Principal activities

ARMSWISSBANK CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia in Yerevan. The Bank is regulated by the legislation of RA and conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan.

The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability. Continuing with the robust expansion in 2018, annual economic growth remained strong in 2019. Main contributors to the economy were trade, services and manufacturing industries.

Management of the Bank believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Bank.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost with the exception of buildings, which are stated at revalued amount).

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank’s functional currency and the Bank’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Bank recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Based on the above, as of 1 January 2019:

- Right-of-use assets of AMD 130,759 thousand were recognised and presented in the statement of financial position within Property and equipment".
- Additional lease liabilities of AMD 130,759 thousand (included in "Other liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Company's retained earnings.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018	<u>163,717</u>
Reasonable certain to be exercised lease term payments	-
Operating lease liabilities before discounting	<u>163,717</u>
Discounted using incremental borrowing rate	(32,958)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	<u><u>130,759</u></u>

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 11.2%.

The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The quantitative impact of applying IFRS 16 as of 1 January 2019 is disclosed in note 6.1.

Other new standards and amendments described below and applied for the first time in 2019, did not have a material impact on the annual financial statements of the Bank.

- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).*

3.5 Standards and interpretations not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- Conceptual Framework for Financial Reporting
- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform* (Amendment to IFRS 9 and IFRS 7)

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount

of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to note 4.4.6.

Fee and commission income

Origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

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

Net trading income

Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65

4.3 Taxation

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

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as of FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;

- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as of FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4.4.6 Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 37.1.2.

Based on the above process, the Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. the Bank records an allowance for the LTECLs.
- 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 income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

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

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

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

The PD, the EAD and the LGD are further explained in note 37.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
 - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
 - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
 - the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments

maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from financial institutions are carried net of any allowance for impairment losses.

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans

Loans are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.9 Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as of FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as of FVOCI.

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

- interest revenue using the effective interest method;
- ECL and reversals; and

- foreign exchange gains and losses.

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

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in “Net trading income”.

4.12 Leases

As described in note 3.4, the Bank has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

Bank as a lessee

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank,
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Bank as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in the other liabilities.

Accounting policy applicable before 1 January 2019

Operating - Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

4.13 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated at fair value less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	<u>Useful life (years)</u>	<u>Rate (%)</u>
Building	30	3.3
Computer and communication means	6	16.67
Vehicles	7	14.29
Other fixed assets	8	12.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis (applicable before 1 January 2019). Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

Buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.15 Intangible assets

Intangible assets include computer software and licences.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.16 Repossessed assets

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

4.17 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.18 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note [4.18](#)

4.20 Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Fair value reserve for investments securities at FVOCI

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

4.21 Fiduciary activities

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

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

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Business models and SPPI

The Bank assesses the business model within which the assets are held and assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 34).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Bank expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. 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 judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (see note 33).

Impairment of financial instruments

The Bank assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 37.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations, refer to note 31.

6 Transition disclosure

6.1 IFRS 16

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019
Right-of-use assets – property and equipment	130,759
Deferred tax liability	(26,152)
Lease liabilities	130,759
Deferred tax asset	26,152
Total change in equity due to adopting IFRS 16	<u>-</u>

The following is a reconciliation of total operating lease commitments as of 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised as of 1 January 2019:

Total operating lease commitments disclosed as of 31 December 2018	<u>163,717</u>
Discounted using incremental borrowing rate	(32,958)
Operating lease liabilities	130,759
Reasonably certain extension options	-
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	<u>130,759</u>

6.2 IFRS 9

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi- cation	Remea- surement /ECL/	Remea- surement /Other/	IFRS 9 carrying amount 1 January 2018
<i>Financial assets</i>					
<i>Amortised cost</i>					
<i>Cash and cash equivalents</i>					
Opening balance	13,088,527				
Remeasurement		-	(1,851)	-	
Closing balance					13,086,676
<i>Amounts due from financial institutions</i>					
Opening balance	1,289,016				
Remeasurement		-	(54,715)	-	
Closing balance					1,234,301
<i>Loans and advances to customers including lease receivables</i>					
Opening balance	61,863,425				
Remeasurement		-	(451,360)	-	
Closing balance					61,412,065
<i>Investment securities</i>					
Opening balance	-				
From available-for-sale		14,786,545	(12,611)	(774,568)	
Closing balance					13,999,366
<i>Other assets - other financial assets</i>					
Opening balance	188,856				
Remeasurement		-	(8,029)	-	
Closing balance					180,827
Total amortised cost	76,429,824	14,786,545	(528,566)	(774,568)	89,913,235
<i>Available-for-sale</i>					
<i>Investment securities</i>					
Opening balance	82,598,302				
To FVOCI – Equity		(74,935)	-	-	
To amortised cost		(14,786,545)	-	-	
To FVOCI – Debt		(67,736,822)	-	-	
Closing balance		(82,598,302)	-	-	-
<i>FVOCI-debt</i>					
<i>Investment securities</i>					
Opening balance	-				
From available-for-sale		67,736,822	-	-	
Closing balance					67,736,822

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi- cation	Remea- surement /ECL/	Remea- surement /Other/	IFRS 9 carrying amount 1 January 2018
<i>FVOCI-equity</i>					
<i>Investment securities</i>					
Opening balance	-				
From available-for-sale		74,935	-	-	
Closing balance					74,935
Total FVOCI	82,598,302	(14,786,545)	-	-	67,811,757
<i>FVTPL</i>					
Financial derivatives	645	-	-	-	645
Total FVTPL	645	-	-	-	645
<i>Financial liabilities</i>					
<i>Amortised cost</i>					
Amounts due to CBA	2,681,088	-	-	-	2,681,088
Amounts due to financial institutions	23,094,375	-	-	-	23,094,375
Amounts due to customers	65,106,750	-	-	-	65,106,750
Debt securities issued	17,600,637	-	-	-	17,600,637
Subordinated debt	13,402,138	-	-	-	13,402,138
Other liabilities- other financial liabilities	408,544	-	-	-	408,544
Total amortised cost	122,293,532	-	-	-	122,293,532
<i>FVTPL</i>					
Derivative financial liabilities	392	-	-	-	392
Total FVTPL	392	-	-	-	392

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows.

In thousand Armenian drams	Reserves and retained earnings
<i>Fair value reserve</i>	
Closing balance under IAS 39 (31 December 2017)	8,075,559
Reclassification of debt securities from available-for-sale to amortised cost	(774,568)
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	71,054
Deferred tax in relation to the above	154,914
Opening balance under IFRS 9 (1 January 2018)	7,526,959
<i>Retained earnings</i>	
Closing balance under IAS 39 (31 December 2017)	14,682,693
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(607,896)
Deferred tax in relation to the above	107,368
Opening balance under IFRS 9 (1 January 2018)	14,182,165
Total change in equity due to adopting IFRS 9	(1,049,128)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as of 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as of 1 January 2018.

In thousand Armenian drams	Loan loss provision under IAS 39 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
<i>Impairment allowance for</i>			
Cash and cash equivalents	-	1,851	1,851
Amounts due from financial institutions	-	54,715	54,715
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	1,574,827	451,360	2,026,187
Held to maturity per IAS 39/Debt instruments at amortised cost under IFRS 9:	-	12,611	12,611
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	71,054	71,054
Other assets	-	8,029	8,029
	<u>1,574,827</u>	<u>599,620</u>	<u>2,174,447</u>
Financial guarantee contracts issued	-	8,276	8,276
	-	8,276	8,276
Total impairment allowance	<u>1,574,827</u>	<u>607,896</u>	<u>2,182,723</u>

7 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Loans to customers	7,834,036	6,509,974
Investment securities at FVOCI	7,364,380	3,928,616
Investment securities at amortised cost	6,913,614	7,297,818
Income from factoring	316,057	248,747
Lease receivables	29,854	-
Amounts due from financial institutions	99,276	146,819
Reverse repurchase transactions	138,122	114,178
Other interest income	6,339	5,902
Total interest and similar income	<u>22,701,678</u>	<u>18,252,054</u>
Amounts due to customers	8,455,249	7,152,452
Repurchase transactions	1,741,237	626,778
Amounts due to financial institutions	1,502,530	1,543,241
Debt securities issued	2,429,674	1,551,069
Lease liabilities	13,476	-
Other interest expenses	1,139	-
Total interest and similar expense	<u>14,143,305</u>	<u>10,873,540</u>

8 Fee and commission income and expense

In thousand Armenian drams	2019	2018
Cash operations	39,949	27,540
Wire transfer fees	103,978	96,125
Guarantees and letters of credit	33,235	42,543
Brokerage operations	59,416	61,574
Plastic cards operations	13,966	4,647
Other fees and commissions	3,264	2,869
Total fee and commission income	253,808	235,298
Wire transfer fees	41,310	30,322
Received guarantees	-	1,204
Brokerage operations	61,992	59,105
Other fees and commissions	28,396	31,911
Total fee and commission expense	131,698	122,542

9 Net trading income

In thousand Armenian drams	2019	2018
Net gain from derivatives	4,158	7,151
Net gain from transactions in foreign currencies	290,646	304,992
Total net trading income	294,804	312,143

10 Other income

In thousand Armenian drams	2019	2018
Net gains from operations with precious metals	3,855	11,900
Income from sale of repossessed assets	12,422	558
Income from dividends	5,103	4,996
Income from financial intermediation	16,460	22,603
Insurance compensation	-	25,606
Income from allocation of securities	229,201	43,691
Other income	5,116	4,348
Total other income	272,157	113,702

11 Impairment losses/(reversal)

In thousand Armenian drams					2019
	Note	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
Cash and cash equivalents	15	3,744	-	-	3,744
Amounts due from financial institutions	17	(19,422)	-	-	(19,422)
Loans to customers	18	(47,249)	516,861	(84,727)	384,885
Investment securities measured at FVOCI	19	238,564	-	-	238,564
Investment securities measured at amortised cost	19	144,109	-	-	144,109
Other assets	23	(7,141)	-	-	(7,141)
Financial guarantees and loan commitment	31	24,045	-	-	24,045
Total impairment losses/(reversal)		<u>336,650</u>	<u>516,861</u>	<u>(84,727)</u>	<u>768,784</u>

In thousand Armenian drams					2018
	Note	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total 2018
Cash and cash equivalents	15	(427)	-	-	(427)
Amounts due from financial institutions	17	11,250	-	-	11,250
Loans and advances to customers	18	(153,312)	626,703	930,237	1,403,628
Investment securities measured at FVOCI	19	43,962	-	-	43,962
Investment securities measured at amortised cost	19	47,616	-	-	47,616
Other assets	23	2,037	-	-	2,037
Financial guarantees	31	(2,527)	-	-	(2,527)
Total impairment losses/(reversal)		<u>(51,401)</u>	<u>626,703</u>	<u>930,237</u>	<u>1,505,539</u>

12 Staff costs

In thousand Armenian drams			2019	2018
Compensations of employees, related taxes included			1,356,122	1,096,098
Staff training costs			5,216	5,199
Other			5,643	2,027
Total staff costs			<u>1,366,981</u>	<u>1,103,324</u>

13 Other expenses

In thousand Armenian drams	2019	2018
Net loss from foreign currency translation of non-trading assets	3,843	32,860
Net losses from operations with precious metals	-	4,016
Communications	60,480	101,890
Fixed and intangible assets maintenance and repair	109,021	51,252
Representative expenses	49,797	33,275
Consulting and other services	12,789	16,847
Taxes, other than income tax, duties	7,916	33,516
Payments to Deposit Guarantee Fund	64,807	37,047
Operating lease*	-	25,280
Insurance expenses	30,930	24,745
Business trip expenses	28,575	19,836
Security	8,560	7,680
Fees to financial system mediator	23,537	16,198
Office supplies	14,949	16,103
Loan extension and repayment fees	27,201	16,341
Loss from disposal of property and equipment	-	11,826
ACRA expenses	6,783	6,418
ArCa expenses	34,423	30,583
Advertising costs	8,761	11,035
Cash collection expenses	1,440	2,413
Other expenses	29,877	22,430
Total other expense	523,689	521,591

14 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	2,263,748	1,348,035
Deferred tax	(117,663)	(73,096)
Total income tax expense	2,146,085	1,274,939

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2019	Effective rate (%)	2018	Effective rate (%)
Profit before tax	10,673,888		6,328,727	
Income tax at the rate of 20%	2,134,778	20	1,265,745	20
Non-deductible expenses	9,369	-	2,410	-
Foreign exchange losses	930	-	6,784	-
Privilege for disabled employees	(7,608)	-	-	-
Effect of changed tax rate	8,616	-	-	-
Income tax expense	<u>2,146,085</u>	<u>20</u>	<u>1,274,939</u>	<u>20</u>

Changes in tax rates and factors affecting the future tax charge

As a result of changes in the tax code of the Republic of Armenia in December 2019, a reduction of income tax rate from 20% to 18% is expected to take effect for the periods beginning on 1 January 2020. Accordingly, deferred tax balances as of 31 December 2019 have been recognised at 18% (as of 31 December 2018: 20%). This change resulted in a loss AMD 8,616 thousand recognised in profit or loss related to the remeasurement of deferred tax assets and gain AMD 299,574 thousand recognised in other comprehensive income related to the remeasurement of deferred tax liability of the Bank during the year ended 31 December 2019.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(4,748)	(1,868)	-	(6,616)	-	(6,616)
Amounts due from financial institutions	7,499	(497)	-	7,002	7,002	-
Loans and advances to customers	146,808	(12,883)	-	133,925	133,925	-
Investment securities at FV through OCI (AFS)	(2,320,401)	63,644	(155,019)	(2,411,776)	-	(2,411,776)
Investment securities at amortised cost (HTM)	12,045	24,735	-	36,780	36,780	-
Property and equipment	(245,927)	(5,121)	24,593	(226,455)	-	(226,455)
Other assets	11,464	(9,505)	-	1,959	1,959	-
Other provisions	(28,613)	3,560	-	(25,053)	-	(25,053)
Lease liabilities	-	19,396	-	19,396	19,396	-
Other liabilities	26,063	36,202	-	62,265	62,265	-
Deferred tax asset (liability)	<u>(2,395,810)</u>	<u>117,663</u>	<u>(130,426)</u>	<u>(2,408,573)</u>	<u>261,327</u>	<u>(2,669,900)</u>

In thousand Armenian drams	2017				2018		
	Net deferred tax	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in equity	Net deferred tax	Deferred tax asset	Deferred tax Liability
Cash and cash equivalents	(1,604)	370	(3,514)	-	(4,748)	-	(4,748)
Amounts due from financial institutions	(4,751)	10,943	1,307	-	7,499	7,499	-
Loans and advances to customers	-	90,272	56,536	-	146,808	146,808	-
Investment securities at FV through OCI (AFS)	(2,018,886)	154,914	-	(456,429)	(2,320,401)	-	(2,320,401)
Investment securities at amortised cost (HTM)	-	2,522	9,523	-	12,045	12,045	-
Property and equipment	(277,527)	-	31,600	-	(245,927)	-	(245,927)
Other assets	(2,669)	1,606	12,527	-	11,464	11,464	-
Other provisions	(15,602)	1,655	(14,666)	-	(28,613)	-	(28,613)
Other liabilities	46,280	-	(20,217)	-	26,063	26,063	-
Deferred tax asset (liability)	<u>(2,274,759)</u>	<u>262,282</u>	<u>73,096</u>	<u>(456,429)</u>	<u>(2,395,810)</u>	<u>203,879</u>	<u>(2,599,689)</u>

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2019	31 December 2018
Cash on hand	2,155,378	2,100,657
Correspondent account with the CBA	17,747,800	13,299,569
Correspondent accounts with banks	3,055,208	1,714,746
Deposits for less than 90 days	1,375,741	1,102,019
	<u>24,334,127</u>	<u>18,216,991</u>
Less loss allowance	(5,168)	(1,424)
Total cash and cash equivalents	<u>24,328,959</u>	<u>18,215,567</u>

As of 31 December 2019 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 2% (2018: 2%) of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 13,781,523 thousand (2018: 18%, AMD 11,363,997 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2019 the amounts of correspondent accounts with financial institutions in amounts of AMD 3,452,419 thousand (78%) (2018: AMD 1,484,676 thousand (87%)) were due from two commercial banks (2018: 1 commercial bank), which represent significant concentration.

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

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>12-month ECL</u>	<u>12-month ECL</u>
ECL allowance as of 1 January	1,424	1,851
Net remeasurement of loss allowance	3,744	(427)
Balance at 31 December	<u>5,168</u>	<u>1,424</u>

16 Derivative financial instruments

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

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below.

In thousand Armenian drams	<u>31 December 2019</u>			<u>31 December 2018</u>		
	<u>Notional amount</u>	<u>Fair value of assets</u>	<u>Fair value of liabilities</u>	<u>Notional amount</u>	<u>Fair value of assets</u>	<u>Fair value of liabilities</u>
<i>Foreign exchange contracts</i>						
Swaps – foreign currency	561,147	-	969	-	-	-
Total derivative financial instruments	<u>561,147</u>	<u>-</u>	<u>969</u>	<u>-</u>	<u>-</u>	<u>-</u>

17 Amounts due from financial institutions

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
	Loans to financial institutions	394,144
Deposited funds in the CBA	360,000	360,000
Deposited funds in banks	129,336	129,413
Deposited funds in other financial institutions	940,346	831,433
Reverse repurchase agreements with credit companies	280,453	-
Other amounts	14,350	7,136
	<u>2,118,629</u>	<u>3,743,135</u>
Less loss allowance	(46,543)	(65,965)
Total amounts due from financial institutions	<u>2,072,086</u>	<u>3,677,170</u>

Deposited funds with the CBA include a guaranteed deposit for settlements via ArCa payment system.

Deposited funds with the financial institutions in the amount of AMD 679,700 thousand (2018: 634,165 thousand) represent financial instruments in the Central Depository of Armenia for the fulfillment of the obligations assumed by the market maker contract.

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

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>12-month ECL</u>	<u>12-month ECL</u>
ECL allowance as of 1 January	65,965	54,715
Net remeasurement of loss allowance	(19,422)	11,250
Balance as of 31 December	<u>46,543</u>	<u>65,965</u>

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2019 are presented as follows:

In thousand Armenian drams	<u>2019</u>		<u>2018</u>	
	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>
RA Government bonds in foreign currency	281,149	280,453	-	-
Total assets pledged and loans under reverse repurchase agreements	<u>281,149</u>	<u>280,453</u>	<u>-</u>	<u>-</u>

18 Loans to customers

In thousand Armenian drams	<u>31 December 2019</u>			<u>31 December 2018</u>		
	<u>Gross carrying amount</u>	<u>ECL allowance</u>	<u>Carrying amount</u>	<u>Gross carrying amount</u>	<u>Impairment allowance</u>	<u>Carrying amount</u>
<i>Mortgage and consumer lending</i>						
Mortgage	11,658,499	(189,796)	11,468,703	7,953,092	(169,047)	7,784,045
Consumer lending	2,441,448	(184,821)	2,256,627	1,979,090	(116,415)	1,862,675
Credit cards	335,263	(9,974)	325,289	151,265	(3,993)	147,272
Reverse sale-and-repurchase agreements	2,618,459	(16,312)	2,602,147	327,162	(808)	326,354
<i>Commercial lending</i>						
Trading	14,345,704	(319,655)	14,026,049	9,648,492	(186,392)	9,462,100
Manufacturing	32,553,479	(775,779)	31,777,700	26,824,151	(479,122)	26,345,029
Agriculture	10,832,540	(270,499)	10,562,041	9,001,989	(264,589)	8,737,400
Construction	10,382,582	(65,149)	10,317,433	7,355,211	(312,516)	7,042,695
Financial lease receivables	582,406	(12,018)	570,388	-	-	-
Other	12,922,404	(216,860)	12,705,544	12,010,408	(87,701)	11,922,707
Total	<u>98,672,784</u>	<u>(2,060,863)</u>	<u>96,611,921</u>	<u>75,250,860</u>	<u>(1,620,583)</u>	<u>73,630,277</u>

The ECL allowance in these tables includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

During the year ended 31 December 2019 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2019 the carrying amount of such assets was AMD 492,214 thousand (2018: AMD 348,103 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2019 the weighted average effective interest rate on loans to customers is 11.77% for loans in AMD (2018: 11.99%) and 8.59% for loans in USD, EUR and RUB (2018: 9.52%).

As of 31 December 2019, the Bank had a concentration of loans represented by AMD 42,108,899 thousand due from the ten largest borrowers and parties related with them (42.6% of gross loan portfolio) (2018: AMD

32,292,427 thousand or 42.9%). An allowance of AMD 1,053,196 thousand (2018: AMD 695,411 thousand) was made against these loans.

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams	2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Mortgage and consumer lending</i>				
ECL allowance as of 1 January	87,876	177,502	24,885	290,263
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	42,944	(42,944)	-	-
Transfer to Lifetime ECL not credit-impaired	(2,372)	21,523	(19,151)	-
Transfer to Lifetime ECL credit-impaired	(243)	(7,596)	7,839	-
Net remeasurement of loss allowance	(43,828)	6,153	538,298	500,623
New loans originated	145,841	6,986	-	152,827
Recoveries	-	-	12,165	12,165
Amounts written off during the year	-	-	(554,975)	(554,975)
Balance as of 31 December	<u>230,218</u>	<u>161,624</u>	<u>9,061</u>	<u>400,903</u>

In thousand Armenian drams	2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Commercial lending</i>				
ECL allowance as of 1 January	715,265	567,633	47,422	1,330,320
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	295,404	(295,404)	-	-
Transfer to Lifetime ECL not credit-impaired	(4,646)	4,646	-	-
Transfer to Lifetime ECL credit-impaired	(3,157)	(10,329)	13,486	-
Net remeasurement of loss allowance	(753,753)	(236,833)	(624,882)	(1,615,468)
New loans originated	604,491	740,555	1,857	1,346,903
Recoveries	-	-	668,426	668,426
Amounts written off during the year	-	-	(70,221)	(70,221)
Balance as of 31 December	<u>853,604</u>	<u>770,268</u>	<u>36,088</u>	<u>1,659,960</u>

In thousand Armenian drams

2018

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Mortgage and consumer lending</i>				
ECL allowance as of 1 January	104,219	42,983	5,621	152,823
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	870	(870)	-	-
- Transfer to Lifetime ECL not credit-impaired	(4,899)	4,899	-	-
- Transfer to Lifetime ECL credit-impaired	-	(2,842)	2,842	-
Net remeasurement of loss allowance	(48,863)	28,148	134,469	113,754
New loans originated	36,549	105,184	-	141,733
Recoveries	-	-	32,261	32,261
Amounts written off during the year	-	-	(150,308)	(150,308)
Balance as of 31 December	87,876	177,502	24,885	290,263

In thousand Armenian drams

2018

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Commercial lending</i>				
ECL allowance as of 1 January	841,077	90,989	941,298	1,873,364
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	18,196	(18,196)	-	-
Transfer to Lifetime ECL not credit-impaired	(1,469)	1,469	-	-
Transfer to Lifetime ECL credit-impaired	(1,541)	-	1,541	-
Net remeasurement of loss allowance	448,009	251,695	-	699,704
New loans originated	(589,007)	241,676	795,768	448,437
Recoveries	-	-	833,544	833,544
Amounts written off during the year	-	-	(2,524,729)	(2,524,729)
Balance as of 31 December	715,265	567,633	47,422	1,330,320

As of 31 December 2019 carrying amount of loans new originated amounted to AMD 56,813,690 thousand (2018: AMD 43,998,773 thousand).

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in note 37.1.2.

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. Fair value of assets pledged and carrying value of loans under reverse repurchase agreements. As of 31 December 2019 are presented as follows:

In thousand Armenian drams	31 December 2019		31 December 2018	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds	2,647,911	2,602,147	346,054	326,354
Total assets pledged and loans under reverse repurchase agreements	<u>2,647,911</u>	<u>2,602,147</u>	<u>346,054</u>	<u>326,354</u>

As of 31 December 2019 and 2018 the estimated fair value of loans to customers approximates its carrying value. Refer to note 34.

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

Credit, currency and interest rate analyses of loans to customers are disclosed in note 37. The information on related party balances is disclosed in note 33.

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	2019	2018
Gross investment in finance leases, receivable:		
Not later than 1 year	144,709	-
Later than 1 year and not later than 5 years	529,525	-
Later than 5 years	110,082	-
	<u>784,316</u>	<u>-</u>
Unearned future finance income on finance leases	(201,910)	-
Allowance	(12,018)	-
Net investment in finance leases	<u>570,388</u>	<u>-</u>

Implied interest rate of the lease amounts to 11.57%.

19 Investment securities

In thousand Armenian drams	31 December 2019	31 December 2018
<i>Investment securities measured at amortised cost</i>	60,772,660	56,549,319
Less loss allowance	(200,249)	(54,204)
Total investment securities at amortised cost	<u>60,572,411</u>	<u>56,495,115</u>
Investment securities measured at amortised cost pledged under repurchase agreements	1,515,274	6,227,338
Less loss allowance	(4,087)	(6,023)
Total investment securities at amortised pledged under repurchase agreements	<u>1,511,187</u>	<u>6,221,315</u>

The pledged securities are those financial assets pledged under repurchase agreements with other banks with the right to sell or re-pledge by the counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. The total amount

of financial assets that have been pledged as collateral for liabilities, including amounts reflected above, as of 31 December 2019 was AMD 26,462,667 thousand (2018: AMD 32,951,490 thousand), refer to notes 24, 25, 26.

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

In thousand Armenian drams	2019	2018
	12-month ECL	12-month ECL
ECL allowance as of 1 January	60,227	12,611
Net remeasurement of loss allowance	144,109	47,616
Balance as of 31 December	<u>204,336</u>	<u>60,227</u>

In thousand Armenian drams	31 December 2019	31 December 2018
<i>Investment securities measured at FVOCI</i>		
Investment securities measured at FVOCI – debt instruments	67,419,823	41,969,806
Investment securities designated as at FVOCI – equity investments	67,675	70,753
Total investment securities measured at FVOCI	<u>67,487,498</u>	<u>42,040,559</u>

<i>Debt investment securities measured at FVOCI pledged under repurchase agreements</i>	<u>24,947,393</u>	<u>26,724,152</u>
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An analysis of changes in the ECLs on debt investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	2019	2018
	12-month ECL	12-month ECL
ECL allowance as of 1 January	115,016	71,054
Net remeasurement of loss allowance	238,564	43,962
Balance as of 31 December	<u>353,580</u>	<u>115,016</u>

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

All debt securities have fixed coupons.

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

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA Government bonds	7.12-16.62	2021-2047	7.24-16.9	2019-2036
RA Government bonds in foreign currency	3.84-6.63	2025-2029	5.73-6.63	2025
RA corporate bonds	4.33-12.50	2020-2022	11.74	2019-2029

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

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA Government bonds	10.63-10.69	2047	10.63-10.69	2047

20 Property and equipment

In thousand Armenian
drams

	Buildings	Leasehold improve- ment	Machinery and equipment	Vehicles	Fixtures and fittings	Right-of- use assets	Total
						Buildings	
<i>Cost / revalued amount</i>							
As of 1 January 2018	2,016,722	222,470	80,269	133,484	25,333	-	2,478,278
Additions	-	56,224	43,846	11,738	20,062	-	131,870
Disposals	-	(34,415)	-	(1,275)	-	-	(35,690)
As of 31 December 2018	2,016,722	244,279	124,115	143,947	45,395	-	2,574,458
<i>Impact of adopting IFRS 16 (note 3.4)</i>							
	-	-	-	-	-	130,759	130,759
Additions	881	31,906	132	9,990	-	-	42,909
Disposals	-	(5,903)	-	(1,628)	-	-	(7,531)
As of 31 December 2019	2,017,603	270,282	124,247	152,309	45,395	130,759	2,740,595
<i>Accumulated depreciation</i>							
As of 1 January 2018	142,970	159,280	61,547	102,657	10,025	-	476,479
Expenses for the year	84,280	24,172	8,457	11,569	3,174	-	131,652
Disposals	-	(18,675)	-	(1,275)	-	-	(19,950)
As of 31 December 2018	227,250	164,777	70,004	112,951	13,199	-	588,181
Expenses for the year	84,394	25,217	14,462	10,337	6,786	29,033	170,229
Disposals	-	(5,903)	-	(1,628)	-	-	(7,531)
As of 31 December 2019	311,644	184,091	84,466	121,660	19,985	29,033	750,879
<i>Carrying amount</i>							
As of 31 December 2018	1,789,472	79,502	54,111	30,996	32,196	-	1,986,277
As of 31 December 2019	1,705,959	86,191	39,781	30,649	25,410	101,726	1,989,716

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser at 08 February 2016 using a combination of the market, income and cost methods resulting in a revaluation of AMD 1,387,637 thousand. Management have based their estimate of the fair value of the buildings on the results of the independent appraisal.

For the fair value hierarchy of property and equipment see note [34.3](#).

The management believes that as of 31 December 2019 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of buildings that would have been recognised under the historic cost, the carrying amounts will be presented as follows:

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Historic cost	748,647	748,647
Accumulated amortization	(210,037)	(185,197)
Carrying amount	<u>538,610</u>	<u>563,450</u>

Fully depreciated items

As of 31 December 2019 fixed assets included fully depreciated assets in amount of AMD 202,643 thousand (2018: AMD 205,632 thousand).

Restrictions on title of fixed assets

As of 31 December 2019 the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2019 the Bank had a initial contract for acquisition of a new office building, the contractual amount of a new building is AMD 1,500,000 thousand payables (2018:nil). In 2019, the bank has already paid AMD 500,000 thousand as an advance payment (refer to note 23). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

21 Intangible assets

In thousand Armenian drams	<u>Computer software</u>	<u>Licenses</u>	<u>Total</u>
<i>Cost</i>			
At 1 January 2018	105,008	67,393	172,401
Additions	3,029	4,671	7,700
Disposals	(10,950)	(4,326)	(15,276)
At 31 December 2018	<u>97,087</u>	<u>67,738</u>	<u>164,825</u>
Additions	5,367	3,562	8,929
Disposals	(2,153)	(1,737)	(3,890)
At 31 December 2019	<u>100,301</u>	<u>69,563</u>	<u>169,864</u>
<i>Accumulated amortisation</i>			
At 1 January 2018	76,222	7,227	83,449
Amortisation charge	13,277	8,648	21,925
Disposals	(9,277)	(2,749)	(12,026)
At 31 December 2018	<u>80,222</u>	<u>13,126</u>	<u>93,348</u>
Amortisation charge	7,782	8,470	16,252
Disposals	(2,152)	(1,737)	(3,889)
At 31 December 2019	<u>85,852</u>	<u>19,859</u>	<u>105,711</u>
<i>Carrying amount</i>			
At 31 December 2018	<u>16,865</u>	<u>54,612</u>	<u>71,477</u>
At 31 December 2019	<u>14,449</u>	<u>49,704</u>	<u>64,153</u>

Contractual commitments

As of 31 December 2019 the Bank did not have any contractual commitments (2018: either).

Restrictions on title of intangible assets

As of 31 December 2019, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

22 Repossessed assets

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

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Property and land	805,035	483,664
Other assets	356,869	382,587
Total repossessed assets	<u>1,161,904</u>	<u>866,251</u>

23 Other assets

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Debtors and other receivables	98,143	195,894
Other financial assets	5,248	149,789
	<u>103,391</u>	<u>345,683</u>
Less loss allowance	(3,412)	(11,503)
Total other financial assets	<u>99,979</u>	<u>334,180</u>
Prepayments	1,075,199	872
Gold in vault	114,016	104,910
Accrued expenses	101,326	25,120
Materials	9,048	8,744
Other assets	2,677	2,811
Total non-financial assets	<u>1,302,266</u>	<u>142,457</u>
Total other assets	<u>1,402,245</u>	<u>476,637</u>

Prepayments include an advance payment of AMD 500,000 thousand made by the Bank to a related party as a guarantee for construction of Bank's new building with total amount of AMD 1,500,000 thousand (refer to note 20).

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	<u>2019</u>	<u>2018</u>
	<u>ECL</u>	<u>ECL</u>
<i>Other financial assets</i>		
ECL allowance as of 1 January	11,503	8,029
Net remeasurement of loss allowance	(7,141)	2,037
Net write-off	(950)	1,437
Balance as of 31 December	<u>3,412</u>	<u>11,503</u>

24 Amounts due to the CBA

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Loans under repurchase agreements	-	18,012,340
GAF loans	3,412,007	2,653,438
	<u>3,412,007</u>	<u>20,665,778</u>

German-Armenian fund loans received within the scope of loan projects of “Lending to Armenia SMEs” and “Development of the renewable energies”.

The Bank didn't have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: nil).

25 Amounts due to financial institutions

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Loans from international financial institutions	15,748,747	4,732,024
Loans from financial institutions RA	2,373,648	2,343,951
Deposits from financial institutions	5,162,563	7,806,654
Current accounts of other financial institutions	814,285	1,769,827
Letter of credit	1,058,545	864,877
Correspondent accounts of other banks	23,987	20,990
Loans under repurchase agreements	22,543,366	11,584,335
Other liabilities	9,126	3,796
Total amounts due to financial institutions	<u>47,734,267</u>	<u>29,126,454</u>

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development, responsAibility SICAV (Lux) Financial Inclusion Fund and responsAibility Micro and SME Finance Fund.

Deposits from financial institutions have fixed interest rates. Loans from financial institutions have fixed interest rates.

As of 31 December 2019 the weighted average effective interest rate on amounts due to financial institutions is 7.71% for amounts attracted in AMD (2018: 7.77%) and 4.55% and 2.39% for amounts attracted in USD and EUR (2018: for USD 5.64%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: either).

26 Amounts due to customers

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Government of the RA</i>		
Other liabilities	20,000	20,000
	<u>20,000</u>	<u>20,000</u>
<i>Corporate customers</i>		
Current/Settlement accounts	14,519,266	13,276,703
Time deposits	71,061,788	61,938,099
	<u>85,581,054</u>	<u>75,214,802</u>
<i>Retail customers</i>		
Current/Demand accounts	13,645,105	2,761,024
Time deposits	21,594,227	15,608,917
Loans under repurchase agreements	-	290,676
	<u>35,239,332</u>	<u>18,660,617</u>
Total amounts due to customers	<u><u>120,840,386</u></u>	<u><u>93,895,419</u></u>

All customer deposits carry fixed interest rates.

RA government amounts represent loans received within the scope of “Accrediting economic stability” program.

As of 31 December 2019 included in amounts due to customers are deposits amounting to AMD 9,713,755 thousand (2018: AMD 7,783,815 thousand) held as security against letters of credit issued, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

At 31 December 2019 the aggregate balance of top ten customers of the Bank (including relating parties, see note 33) amounts to AMD 102,794,007 thousand (2018: AMD 52,734,613 thousand) or 85.1% of total customer accounts (2018: 56.2%).

As of 31 December 2019 the weighted average effective interest rates on amounts due to customers was 11.46% for amounts attracted in AMD (2018: 9.38%) and 4.92% and 2.57% for amounts attracted in USD and EUR respectively (2018: 4.47% and 1.97%).

27 Debt securities issued

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Non-current bonds	32,489,020	27,173,064
Total debt securities issued	<u><u>32,489,020</u></u>	<u><u>27,173,064</u></u>

The Bank has not repurchased any of its own debt during the year (2018: nil).

As of 31 December 2019, the Bank had issued interest-bearing bonds with following terms:

Type of bonds	Date of issue	Currency	Face value by currency	Quantity	%	Maturity of bonds	Total face value by currency
AMSWISB23ER3	27.04.16	USD	1,000	5,000	8.50	27.04.2020	5,000,000
AMSWISB26ER6	15.06.17	AMD	50,000	40,000	12.75	15.06.2021	2,000,000,000
AMSWISB27ER4	24.05.18	AMD	50,000	120,000	11.50	24.05.2023	6,000,000,000
AMSWISB25ER8	15.06.17	EUR	100	100,000	5.00	15.06.2023	10,000,000
AMSWISB24ER1	15.06.17	USD	100	100,000	6.75	15.06.2024	10,000,000
AMSWISB29ER0	22.11.18	USD	100	100,000	6.00	22.11.2024	10,000,000
AMSWISB28ER2	24.05.18	USD	100	60,000	6.50	24.05.2025	6,000,000
AMSWISB2AER6	02.05.19	USD	833	6,000	6.50	02.05.2025	5,000,000
AMSWISB2BER4	02.05.19	EUR	75	40,000	4.00	02.05.2023	3,000,000

The Bank has not repurchased any of its own debt during the year (2018: Nil).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: nil).

The bonds issued by the Bank are listed in the Armenian Securities Exchange.

28 Subordinated debt

In thousand Armenian drams	31 December 2019	31 December 2018
Subordinated debt provided by legal entities	13,353,624	13,398,279
Total subordinated debt	<u>13,353,624</u>	<u>13,398,279</u>

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: nil).

The balance of subordinated debt obtained from legal entities as of 31 December 2019 is as follows:

31 December 2019				
Year of provision	Currency	%	Maturity, year	Amount, thousand Armenian drams
2015	US dollar	3	9	2,399,683
2016	US dollar	8	7	2,409,014
2016	Armenian dram	14	7	8,064,438
2016	US dollar	3	7	480,489
Total subordinated liabilities				<u>13,353,624</u>

29 Other liabilities

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Accounts payables	284,879	191,174
Lease liabilities*	107,755	-
Due to personnel	342,998	125,147
Total other financial liabilities	<u>735,632</u>	<u>316,321</u>
Tax payable, other than income tax	224,911	146,885
Received advance payments	38,107	-
Provisions**	29,794	5,749
Other	3,518	1,900
Total other non-financial liabilities	<u>296,330</u>	<u>154,534</u>
Total other liabilities	<u><u>1,031,962</u></u>	<u><u>470,855</u></u>

* As of 31 December 2019, property and equipment includes lease liabilities of 107,755 AMD related to leased office premises (refer to note 32).

**Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on loan commitments and financial guarantees refer to note 31.

30 Equity

As of 31 December 2019 the Bank's registered and paid-in share capital was AMD 10,000,200 thousand. In accordance with the Bank's statutes, the share capital consists of 16,667 ordinary shares, all of which have a par value of AMD 600 thousand each.

The respective shareholdings as of 31 December 2019 and 2018 may be specified as follows:

In thousand Armenian drams	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<u>Paid-in share capital</u>	<u>% of total paid-in capital</u>	<u>Paid-in share capital</u>	<u>% of total paid-in capital</u>
"HVS Holding" S.a.r.l.	8,752,800	87.53	8,752,800	100
"FMTM Distribution" LTD	1,247,400	12.47	-	-
	<u>10,000,200</u>	<u>100</u>	<u>8,752,800</u>	<u>100</u>

In 2019 the Bank increased its share capital by AMD 1,247,400 thousand (2018:nil).

As of 31 December 2019, the Bank did not possess any of its own shares.

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

31 Contingent liabilities and commitments

Tax and legal matters

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

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

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Therefore, the Bank has not made any respective provision related to such tax and legal matters.

Loan commitment and financial guarantee

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	<u>31 December 2019</u>	<u>31 December 2018</u>
Undrawn loan commitments	3,857,459	3,166,360
Guarantees	1,829,400	1,938,212
Unused part of factoring limit	3,593,149	2,407,441
Total commitments and contingent liabilities	<u>9,280,008</u>	<u>7,512,013</u>

An analysis of changes in the ECLs on financial guarantee as follow: An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (note 18).

In thousand Armenian drams	<u>2019</u>	<u>2018</u>
	<u>12-month ECL</u>	<u>12-month ECL</u>
<i>Financial guarantees</i>		
ECL allowance as of 1 January	5,749	8,276
Net remeasurement of loss allowance	24,045	(2,527)
Balance as of 31 December	<u>29,794</u>	<u>5,749</u>

Operating lease commitments – Bank as a lessee (Applicable before 01 January 2019)

In the normal course of business, the Bank enters into commercial lease agreements for office equipment, head office and branch facilities.

At 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	<u>31 December 2018</u>
Not later than 1 year	36,480
Later than 1 year and not later than 5 years	127,237
Total operating lease commitments	<u>163,717</u>

Information on the Bank's capital commitments is disclosed in notes 20 and 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 Leases

The Bank has leases for the head office. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 20).

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security. The Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets

The table below describes the nature of the Bank's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use assets leased	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with termination options
Buildings	3	3.5 years	3.5 years	-	3

Lease liabilities

Lease liabilities are presented in the statement of financial position in the line of other liabilities (refer to note 29):

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

In thousand Armenian drams	<u>31 December 2019</u>
As of 1 January - effect of adoption of IFRS 16	130,759
Accretion of interest	13,476
Payments	(36,480)
Total lease liabilities as of 31 December	<u>107,755</u>

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 11.2% (2018 n/a).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2019 (refer to note 36).

As of 31 December 2018, for the Bank's operating lease commitments refer to note 31.

33 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
<i>Statement of financial position</i>				
<i>Cash and cash equivalents</i>				
At 1 January	-	-	-	-
Increase	4,082,332	-	-	-
Decrease	(2,078,168)	-	-	-
Cash and cash equivalents outstanding at 31 December gross	2,004,164			
Less: allowance for impairment	(380)			
At 31 December	<u>2,003,784</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Loans to customers</i>				
Loans outstanding at 1 January gross	7,184,937	455,371	6,016,200	444,012
Loans issued during the year	12,309,967	504,659	5,717,637	380,716
Loan repayments during the year	(9,908,000)	(191,908)	(4,548,900)	(369,357)
Loans outstanding at 31 December gross	9,586,904	768,122	7,184,937	455,371
Less: allowance for loan impairment	(356,702)	(44,423)	(71,849)	(4,554)
Loans outstanding at 31 December	<u>9,230,202</u>	<u>723,699</u>	<u>7,113,088</u>	<u>450,817</u>
<i>Amounts due to financial institutions</i>				
At 1 January	-	-	12,500	-
Increase	2,642,656	-	-	-
Decrease	(2,634,410)	-	(12,500)	-
At 31 December	<u>8,246</u>	<u>-</u>	<u>-</u>	<u>-</u>

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
<i>Amounts due to customers</i>				
Deposits at 1 January	52,224,433	134,235	30,621,315	175,461
Deposits received during the year	76,723,876	8,030,350	118,183,764	5,145,605
Deposits repaid during the year	(61,294,748)	(7,943,018)	(96,580,646)	(5,186,831)
Deposits at 31 December	<u>67,653,561</u>	<u>221,567</u>	<u>52,224,433</u>	<u>134,235</u>
<i>Debt securities issued</i>				
At January 1	11,980,249	521,321	10,576,164	207,452
Increase	3,253,743	323,847	3,985,731	363,814
Decrease	(2,657,997)	(161,865)	(2,581,646)	(49,945)
At December 31	<u>12,575,995</u>	<u>683,304</u>	<u>11,980,249</u>	<u>521,321</u>
<i>Subordinated debt</i>				
At January 1	13,398,279	-	13,325,100	-
Increase	299,865	-	1,805,463	-
Decrease	(344,520)	-	(1,732,284)	-
At December 31	<u>13,353,624</u>	<u>-</u>	<u>13,398,279</u>	<u>-</u>
Undrawn loan commitments	172,053	20,491	-	-
<i>Statement of profit or loss and other comprehensive income</i>				
Interest income on cash and cash equivalents	4,164	-	-	-
Interest income on loans to customers	667,833	44,050	538,798	41,918
Interest expense on amounts due to customers	(5,806,536)	(4,173)	(5,113,832)	(12,337)
Interest expense on debt securities issued	(1,005,526)	(47,297)	(847,878)	(26,334)
Interest expense on subordinated debt	(1,463,475)	-	(1,400,975)	-
Impairment charge for credit losses	(284,853)	(39,869)	(48,475)	(4,326)

The loans issued to directors and other key management personnel during the year are repayable over 2020-2034 years and have weighted average interest rate of 7.18% (2018: 10.43%).

At 31 December 2019 55.9% of amounts (2018: 52.6%) due to customers represent current and term deposits attracted from the shareholder (from the ultimate controlling party of the Bank Vardan Sirmakes) and his related parties, annual interest expenses paid with regard to this amounts form 68.7% of total interest expenses from deposits (2018: 71.5%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and bonuses	376,907	485,682
Total key management compensation	<u>376,907</u>	<u>485,682</u>

34 Fair value measurement

The Bank's Board determines the policies and procedures for both recurring fair value measurement, such as unquoted securities measured at fair value through OCI, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External appraisals are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external appraisals is decided upon annually by the Board.

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

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

34.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	24,328,959	-	24,328,959	24,328,959
Amounts due from financial institutions	-	2,072,086	-	2,072,086	2,072,086
Loans to customers	-	96,605,703	-	96,605,703	96,611,921
Investments securities measured at amortised cost (including securities pledged under repurchase agreements)	-	70,669,202	-	70,669,202	62,083,598
Other assets	-	99,979	-	99,979	99,979
<i>Financial liabilities</i>					
Amounts due to the CBA	-	3,412,007	-	3,412,007	3,412,007
Amounts due to financial institutions	-	47,734,267	-	47,734,267	47,734,267
Amounts due to customers	-	120,840,386	-	120,840,386	120,840,386
Debt securities issued	-	32,489,020	-	32,489,020	32,489,020
Subordinated debt	-	13,353,624	-	13,353,624	13,353,624
Other financial liabilities	-	735,632	-	735,632	735,632

In thousand Armenian drams

31 December 2018

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	18,215,567	-	18,215,567	18,215,567
Amounts due from financial institutions	-	3,677,170	-	3,677,170	3,677,170
Loans to customers	-	73,630,277	-	73,630,277	73,630,277
Investments securities measured at amortised cost (including securities pledged under repurchase agreements)	-	67,007,972	-	67,007,972	62,716,430
Other financial assets	-	334,180	-	334,180	334,180
<i>Financial liabilities</i>					
Amounts due to the CBA	-	20,665,778	-	20,665,778	20,665,778
Amounts due to financial institutions	-	29,126,454	-	29,126,454	29,126,454
Amounts due to customers	-	93,895,419	-	93,895,419	93,895,419
Debt securities issued	-	27,173,064	-	27,173,064	27,173,064
Subordinated debt	-	13,398,279	-	13,398,279	13,398,279
Other financial liabilities	-	316,321	-	316,321	316,321

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 4% to 21% per annum (2018: 5% to 22% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraisers.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

34.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2019			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Listed shares and bonds	35,956	5,356,507	-	5,392,463
Unlisted bonds	1,241,981	85,768,729	-	87,010,710
Unlisted equity investments	-	31,718	-	31,718
Derivative financial liabilities	-	969	-	969
Total	1,277,937	91,157,923	-	92,435,860

In thousand Armenian drams	31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Listed shares and bonds	6,436,711	1,233,597	-	7,670,308
Unlisted bonds	-	61,062,685	-	61,062,685
Unlisted equity investments	-	31,718	-	31,718
Total	6,436,711	62,328,000	-	68,764,711

There have been no transfers between levels 1 and 2 in the reporting period.

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

Quoted investments

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

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquoted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

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

34.3 Fair value measurement of non-financial assets

In thousand Armenian drams	31 December 2019			
	Level 1	Level 2	Level 3	Total
<i>Non-financial assets</i>				
Property and equipment				
<i>Buildings</i>	-	2,017,603	-	2,017,603
Total	-	2,017,603	-	2,017,603

In thousand Armenian drams	31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Non-financial assets</i>				
Property and equipment				
<i>Buildings</i>	-	2,016,722	-	2,016,722
Total	-	2,016,722	-	2,016,722

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property appraisals. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative *approach* that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The building was revalued on 08 February 2016.

35 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	31 December 2019					
	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities in the statement of financial position	Net amount of financial assets/liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
			Financial instruments	Cash collateral received	Net	
<i>Financial assets</i>						
Reversal and repurchase agreements (Note 17, 18)	2,898,912	-	2,898,912	-	-	-
<i>Financial liabilities</i>						
Loans under repurchase agreements (Note 25)	22,543,366	-	22,543,366	(26,462,667)	-	(3,919,301)

In thousand Armenian drams

31 December 2018

	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities in the statement of financial position	Net amount of financial assets/liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
<i>Financial assets</i>						
Reversal and repurchase agreements (Note 18)	327,162	-	327,162	-	-	-
<i>Financial liabilities</i>						
Loans under repurchase agreements (Note 24, 25, 26)	29,887,351	-	29,887,351	(32,951,490)	-	(3,064,139)

36 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. Refer to note 37.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams

31 December 2019

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Cash and cash equivalents	24,328,959	-	24,328,959	-	-	-	24,328,959
Amounts due from financial institutions	1,845,186	162,994	2,008,180	63,906	-	63,906	2,072,086
Loans to customers	3,465,151	25,363,454	28,828,605	53,181,189	14,602,127	67,783,316	96,611,921
<i>Investment securities</i>							
- Investment securities at fair value through other comprehensive income	24,037	320,752	344,789	7,203,456	59,939,253	67,142,709	67,487,498
- Investments securities at amortised cost	-	1,811,203	1,811,203	-	58,761,208	58,761,208	60,572,411
- Securities pledged under repurchase agreements	20,489,632	5,968,948	26,458,580	-	-	-	26,458,580
Other financial assets	99,979	-	99,979	-	-	-	99,979
	50,252,944	33,627,351	83,880,295	60,448,551	133,302,588	193,751,139	277,631,434

In thousand Armenian drams

31 December 2019

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Liabilities</i>							
Amounts due to the CBA	302,714	270,898	573,612	2,006,735	831,660	2,838,395	3,412,007
Derivative financial liabilities	-	969	969	-	-	-	969
Amounts due to financial institutions	21,875,201	16,274,798	38,149,999	9,077,800	506,468	9,584,268	47,734,267
Amounts due to customers	28,990,383	14,051,517	43,041,900	58,364,721	19,433,765	77,798,486	120,840,386
Debt securities issued	36,864	2,597,076	2,633,940	24,578,380	5,276,700	29,855,080	32,489,020
Subordinated debt	76,924	-	76,924	13,276,700	-	13,276,700	13,353,624
Lease liabilities	2,012	23,633	25,645	82,110	-	82,110	107,755
Other financial liabilities (except Lease liabilities)	552,873	75,004	627,877	-	-	-	627,877
	<u>51,836,971</u>	<u>33,293,895</u>	<u>85,130,866</u>	<u>107,386,446</u>	<u>26,048,593</u>	<u>133,435,039</u>	<u>218,565,905</u>
Net position	<u>(1,584,027)</u>	<u>333,456</u>	<u>(1,250,571)</u>	<u>(46,937,895)</u>	<u>107,253,995</u>	<u>60,316,100</u>	<u>59,065,529</u>
Accumulated gap	<u>(1,584,027)</u>	<u>(1,250,571)</u>		<u>(48,188,466)</u>	<u>59,065,529</u>		

In thousand Armenian drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
Cash and cash equivalents	18,215,567	-	18,215,567	-	-	-	18,215,567
Amounts due from financial institutions	3,315,820	223,184	3,539,004	138,166	-	138,166	3,677,170
Loans and advances to customers	5,413,904	17,355,387	22,769,291	40,907,930	9,953,056	50,860,986	73,630,277
Investment securities							
- Investment securities at fair value through other comprehensive income	17,893	3,654,465	3,672,358	5,303,915	33,064,286	38,368,201	42,040,559
- Investments securities at amortised cost	-	2,066,911	2,066,911	-	54,428,204	54,428,204	56,495,115
- Securities pledged under repurchase agreements	32,133,510	811,957	32,945,467	-	-	-	32,945,467
Other financial assets	334,180	-	334,180	-	-	-	334,180
	<u>59,430,874</u>	<u>24,111,904</u>	<u>83,542,778</u>	<u>46,350,011</u>	<u>97,445,546</u>	<u>143,795,557</u>	<u>227,338,335</u>

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
<i>Liabilities</i>							
Amounts due to the CBA	18,243,250	228,053	18,471,303	1,523,074	671,401	2,194,475	20,665,778
Amounts due to financial institutions	12,661,004	12,934,197	25,595,201	2,960,885	570,368	3,531,253	29,126,454
Amounts due to customers	17,319,873	18,955,946	36,275,819	47,583,847	10,035,753	57,619,600	93,895,419
Debt securities issued	-	1,475,742	1,475,742	13,053,156	12,644,166	25,697,322	27,173,064
Subordinated debt	-	-	-	10,978,336	2,419,943	13,398,279	13,398,279
Other financial liabilities	316,321	-	316,321	-	-	-	316,321
	<u>48,540,448</u>	<u>33,593,938</u>	<u>82,134,386</u>	<u>76,099,298</u>	<u>26,341,631</u>	<u>102,440,929</u>	<u>184,575,315</u>
Net position	<u>10,890,426</u>	<u>(9,482,034)</u>	<u>1,408,392</u>	<u>(29,749,287)</u>	<u>71,103,915</u>	<u>41,354,628</u>	<u>42,763,020</u>
Accumulated gap	<u>10,890,426</u>	<u>1,408,392</u>		<u>(28,340,895)</u>	<u>42,763,020</u>		

37 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

Risk management structure

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

Board of the Bank

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

Management

The Management has the responsibility to monitor the overall risk process.

Credit Committee

The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

Risk Management Department

The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank's risk limits.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank's activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

37.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of the Bank.

37.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of internal rating grades is included in note 37.1.2.

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard *	24,334,127	-	-	24,334,127
Gross carrying amount	24,334,127	-	-	24,334,127
Loss allowance	(5,168)	-	-	(5,168)
Net carrying amount	<u>24,328,959</u>	<u>-</u>	<u>-</u>	<u>24,328,959</u>
<i>Amounts due from banks and financial institutions</i>				
Standard *	2,118,629	-	-	2,118,629
Gross carrying amount	2,118,629	-	-	2,118,629
Loss allowance	(46,543)	-	-	(46,543)
Net carrying amount	<u>2,072,086</u>	<u>-</u>	<u>-</u>	<u>2,072,086</u>
<i>Loans to mortgage and consumer customers</i>				
High grade	15,821,815	-	-	15,821,815
Standard grade	-	1,181,180	-	1,181,180
Non-performing grade	-	-	50,674	50,674
Gross carrying amount	15,821,815	1,181,180	50,674	17,053,669
Loss allowance	(230,218)	(161,624)	(9,061)	(400,903)
Net carrying amount	<u>15,591,597</u>	<u>1,019,556</u>	<u>41,613</u>	<u>16,652,766</u>
<i>Loans to commercial customers</i>				
High grade	75,102,887	-	-	75,102,887
Standard grade	-	6,167,837	-	6,167,837
Substandard grade	-	194,909	-	194,909
Non-performing grade	-	-	153,482	153,482
Gross carrying amount	75,102,887	6,362,746	153,482	81,619,115
Loss allowance	(853,604)	(770,268)	(36,088)	(1,659,960)
Net carrying amount	<u>74,249,283</u>	<u>5,592,478</u>	<u>117,394</u>	<u>79,959,155</u>
<i>Debt investment securities at amortised cost</i>				
Standard grade	62,287,934	-	-	62,287,934
Gross carrying amount	62,287,934	-	-	62,287,934
Loss allowance	(204,336)	-	-	(204,336)
Net carrying amount	<u>62,083,598</u>	<u>-</u>	<u>-</u>	<u>62,083,598</u>
<i>Debt investment securities at FVOCI</i>				
Standard	92,367,216	-	-	92,367,216
Carrying amount-fair value	92,367,216	-	-	92,367,216
Loss allowance	(353,580)	-	-	(353,580)

In thousand Armenian drams		31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	
<i>Other financial assets</i>					
Standard grade	103,391	-	-	103,391	
Gross carrying amount	103,391	-	-	103,391	
Loss allowance	(3,412)	-	-	(3,412)	
Net carrying amount	99,979	-	-	99,979	
<i>Loan commitments and financial guarantee</i>					
Standard grade	9,280,008	-	-	9,280,008	
	9,280,008	-	-	9,280,008	
Loss allowance*	29,794	-	-	29,794	

In thousand Armenian drams		31 December 2018			
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total	
<i>Cash and cash equivalents</i>					
Standard	18,216,991	-	-	18,216,991	
Gross carrying amount	18,216,991	-	-	18,216,991	
Loss allowance	(1,424)	-	-	(1,424)	
Net carrying amount	18,215,567	-	-	18,215,567	
<i>Amounts due from financial institutions</i>					
Standard	3,743,135	-	-	3,743,135	
Gross carrying amount	3,743,135	-	-	3,743,135	
Loss allowance	(65,965)	-	-	(65,965)	
Net carrying amount	3,677,170	-	-	3,677,170	
<i>Loans and advances to mortgage and consumer customers</i>					
High	8,677,079	-	-	8,677,079	
Standard	-	1,624,833	-	1,624,833	
Substandard	-	31,218	-	31,218	
Non-performing	-	-	77,479	77,479	
Gross carrying amount	8,677,079	1,656,051	77,479	10,410,609	
Loss allowance	(87,876)	(177,502)	(24,885)	(290,263)	
Net carrying amount	8,589,203	1,478,549	52,594	10,120,346	
<i>Loans and advances to commercial customers</i>					
High grade	61,604,404	-	-	61,604,404	
Standard	38,962	3,086,564	-	3,125,526	
Substandard	-	4,962	-	4,962	
Non-performing	-	-	105,359	105,359	
Gross carrying amount	61,643,366	3,091,526	105,359	64,840,251	
Loss allowance	(715,265)	(567,633)	(47,422)	(1,330,320)	
Net carrying amount	60,928,101	2,523,893	57,937	63,509,931	

In thousand Armenian drams

31 December 2018

Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Debt investment securities at amortised cost (including securities pledged under repo agreements)</i>				
Standard	62,776,657	-	-	62,776,657
Gross carrying amount	62,776,657	-	-	62,776,657
Loss allowance	(60,227)	-	-	(60,227)
Net carrying amount	<u>62,716,430</u>	<u>-</u>	<u>-</u>	<u>62,716,430</u>
 <i>Debt investment securities at FVOCI (including securities pledged under repo agreements)</i>				
Standard	68,693,958	-	-	68,693,958
Carrying amount-fair value	68,693,958	-	-	68,693,958
Loss allowance	(115,016)	-	-	(115,016)
 <i>Other financial assets</i>				
Standard	345,683	-	-	345,683
Gross carrying amount	345,683	-	-	345,683
Loss allowance	(11,503)	-	-	(11,503)
Net carrying amount	<u>334,180</u>	<u>-</u>	<u>-</u>	<u>334,180</u>
 <i>Loan commitments and financial guarantee</i>				
Standard	7,512,013	-	-	7,512,013
	7,512,013	-	-	7,512,013
Loss allowance*	(5,749)	-	-	(5,749)

*The ECL allowance disclosed in loan commitments and financial guarantees of the above table applies only to the guarantees provided. The ECL allowance on loans includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

37.1.2 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (refer to note 4.4.6).

Significant increase in credit risk

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

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

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

Criteria for loans to customers

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forbore performing loan or forbore non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for Investment securities

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

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

Exit criteria from significant deterioration stage

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

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

	Grade	12 month PD range
Loans to mortgage and consumer customers	High	3.14-10.04%
	Standard	21.87-52.07%
	Substandard	21.87-52.07%
	Non-Performing	97.86-100%
Loans to commercial customers	High	0.25-5.50%
	Standard	3.51-85.75%
	Substandard	3.51-85.75%
	Non-Performing	76.63-100%

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

International external rating agency (S&P) rating	Grade	12 month PD
AAA to A-	High	0.001-0.04%
BBB+ to B-	Standard	0.052-7.48%
CCC+ to CC	Substandard	13.385-29.13%
D	Non-Performing	100%

Collective or individual assessment

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

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures

- The treasury, trading and interbank relationships such as Due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

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

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

Definition of default and cure

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

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

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

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

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

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

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

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

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

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

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

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

If modifications are substantial, the loan is derecognised, as explained in note [4.4.4](#).

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Real estate prices (average price in Yerevan)

37.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Bank’s main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams

	<u>Armenia</u>	<u>Other non-OECD countries</u>	<u>OECD countries</u>	<u>Total</u>
Cash and cash equivalents	21,902,689	1,530,977	895,293	24,328,959
Amounts due from financial institutions	1,768,185	48,092	255,809	2,072,086
Loans to customers	94,138,812	850,926	1,622,183	96,611,921
Investment securities				
- Investment securities at fair value through other comprehensive income	67,487,498	-	-	67,487,498
- Investment securities at amortised cost	60,572,411	-	-	60,572,411
- Securities pledged under repurchase agreements	16,462,964	-	9,995,616	26,458,580
Other financial assets	99,979	-	-	99,979
As of 31 December 2019	<u>262,432,538</u>	<u>2,429,995</u>	<u>12,768,901</u>	<u>277,631,434</u>
As of 31 December 2018	<u>223,003,849</u>	<u>2,151,287</u>	<u>2,183,199</u>	<u>227,338,335</u>

Assets have been classified based on the country in which the counterparty is located.

37.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

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

The Bank did not hold any financial instruments for which no loss allowance is recognised because of collateral.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross loan portfolio of loans to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Loans collateralized by real estate	47,695,035	44,253,348
Loans collateralized by movable property	3,770,991	4,726,334
Loans collateralized by guarantees of RA Government	10,440,915	11,794,341
Loans collateralized by guarantees of other organizations	19,661,656	3,440,083
Loans collateralized by cash	3,906,869	2,421,337
Loans collateralized by shares of other companies and investment securities	7,285,768	5,046,796
Other collateral	5,911,550	3,568,621
Total loans to customers (gross)	<u>98,672,784</u>	<u>75,250,860</u>

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

37.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

37.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2019. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, and swaps designated as cash flow hedges, as of 31 December 2019 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams		Sensitivity of equity					2019
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total	
AMD	0.5	-	-	(10,390)	(2,775,606)	(2,785,996)	
USD	0.5	-	-	-	(359,402)	(359,402)	
AMD	-0.5	-	-	10,557	2,974,349	2,984,906	
USD	-0.5	-	-	-	371,129	371,129	

In thousand Armenian drams		Sensitivity of equity					2018
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total	
AMD	0.5	(81)	-	(10,607)	(1,780,488)	(1,791,176)	
USD	0.5	-	-	-	(220,072)	(220,072)	
AMD	(0.5)	81	-	10,769	1,886,054	1,896,904	
USD	(0.5)	-	-	-	226,895	226,895	

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2019		31 December 2018	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	5	(101,953)	5	109,854
EUR	3	(8,987)	3	(208)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	10,407,428	12,449,826	1,471,705	24,328,959
Amounts due from financial institutions	1,031,219	1,038,024	2,843	2,072,086
Loans to customers	25,694,086	70,859,630	58,205	96,611,921
Investment securities				
- Investment securities at fair value through other comprehensive income	57,864,450	9,623,048	-	67,487,498
- Investments securities at amortised cost	60,572,411	-	-	60,572,411
- Securities pledged under repurchase agreements	16,462,964	9,995,616	-	26,458,580
Other assets	95,722	4,257	-	99,979
	172,128,280	103,970,401	1,532,753	277,631,434
Liabilities				
Amounts due to the CBA	3,412,007	-	-	3,412,007
Amounts due to financial institutions	32,932,002	14,802,207	58	47,734,267
Amounts due to customers	57,595,403	61,718,421	1,526,562	120,840,386
Debt securities issued	8,083,712	24,405,308	-	32,489,020
Subordinated debt	8,064,439	5,289,185	-	13,353,624
Other liabilities	639,358	96,274	-	735,632
	110,726,921	106,311,395	1,526,620	218,564,936
Total effect of derivative financial instruments	561,147	(562,116)	-	(969)
Net position as of 31 December 2019	61,962,506	(2,903,110)	6,133	59,065,529
Commitments and contingent liabilities as of 31 December 2019				
	5,941,225	3,338,783	-	9,280,008
Total financial assets	146,311,613	79,873,423	1,153,299	227,338,335
Total financial liabilities	104,402,665	79,003,495	1,169,155	184,575,315
Net position as of 31 December 2018	41,908,948	869,928	(15,856)	42,763,020
Commitments and contingent liabilities As of 31 December 2018				
	4,530,980	2,981,033	-	7,512,013

Freely convertible currencies represent mainly US dollar and EUR amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

37.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. Refer to note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

As of 31 December, these ratios were as follows:	Unaudited	
	2019, %	2018, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	57.83	58.08
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	568.53	651.48

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities as of 31 December 2019 based on contractual undiscounted repayment obligations. Refer to note 36 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams

31 December 2019

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<i>Non-derivative financial liabilities</i>						
Amounts due to the CBA	306,269	360,134	2,469,660	963,289	4,099,352	3,412,007
Amounts due to financial institutions	21,891,029	16,623,055	10,458,133	736,458	49,708,675	47,734,267
Amounts due to customers	28,991,763	14,360,686	69,656,767	26,705,155	139,714,371	120,840,386
Debt securities issued	51,945	3,500,118	30,566,891	6,992,567	41,111,521	32,489,020
Subordinated debt	119,095	1,359,885	16,432,666	-	17,911,646	13,353,624
Lease liabilities	3,040	33,440	90,756	-	127,236	107,755
Other financial liabilities (except Lease liabilities)	552,873	75,004	-	-	627,877	627,877
Total undiscounted non-derivative financial liabilities	51,916,014	36,312,322	129,674,873	35,397,469	25,3300,678	218,564,936

In thousand Armenian drams

31 December 2019

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<i>Derivative financial liabilities</i>						
Foreign exchange swap contracts						
Inflow	-	566,095	-	-	566,095	-
Outflow	-	(562,116)	-	-	(562,116)	969
Commitments and contingent liabilities	9,280,008	-	-	-	9,280,008	-

In thousand Armenian drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
<i>Non-derivative financial liabilities</i>						
Amounts due to the CBA	18,272,199	301,654	1,891,802	734,415	21,200,070	20,665,778
Amounts due to financial institutions	12,687,676	13,550,557	3,409,825	639,999	30,288,057	29,126,454
Amounts due to customers	17,521,571	19,445,260	59,336,764	56,215,411	152,519,006	93,895,419
Debt securities issued	-	1,515,899	16,420,582	17,394,636	35,331,117	27,173,064
Subordinated debt	-	-	16,535,462	2,830,468	19,365,930	13,398,279
Other liabilities	131,731	184,590	-	-	316,321	316,321
Total undiscounted non-derivative financial liabilities	48,613,177	34,997,960	97,594,435	77,814,929	259,020,501	184,575,315
Commitments and contingent liabilities	7,512,013	-	-	-	7,512,013	-

37.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;

- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

38 Reconciliation of liabilities arising from financing activities

The changes in the Bank's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	2019					
	Amounts due to the CBA	Loans from international financial institutions	Debt securities issued	Subordinat ed debt	Lease liabilities	Total
As of 1 January 2019	2,653,438	4,732,024	27,173,064	13,398,279	-	47,956,805
Impact of adopting IFRS 16 (note 3.4)	-	-	-	-	130,759	130,759
Cash-flows	<u>742,877</u>	<u>10,925,864</u>	<u>5,567,520</u>	<u>105</u>	<u>(36,480)</u>	<u>17,199,886</u>
Repayments	(429,494)	(6,332,572)	(9,392,254)	105	(36,480)	(16,190,695)
Proceeds	1,172,371	17,258,436	14,959,774	-	-	33,390,581
Non-cash	<u>15,692</u>	<u>90,859</u>	<u>(251,564)</u>	<u>(44,760)</u>	<u>13,476</u>	<u>(176,297)</u>
Foreign exchange gain/loss	-	(26,581)	(297,939)	(44,760)	-	(369,280)
Accrued interest	15,692	117,440	46,375	-	13,476	192,983
As of 31 December 2019	<u><u>3,412,007</u></u>	<u><u>15,748,747</u></u>	<u><u>32,489,020</u></u>	<u><u>13,353,624</u></u>	<u><u>107,755</u></u>	<u><u>65,111,153</u></u>

In thousand Armenian
drams

2018

	Amounts due to the CBA	Loans from international financial institutions	Debt securities issued	Subordinated debt	Total
As of 1 January 2018	2,681,088	5,888,000	17,600,637	13,402,138	39,571,863
Cash-flows	(43,070)	(1,155,930)	9,789,417	(7,381)	8,583,036
Repayments	(853,263)	(6,746,680)	(10,216,708)	(2,800,658)	(20,617,309)
Proceeds	810,193	5,590,750	20,006,125	2,793,277	29,200,345
Non-cash	15,420	(46)	(216,990)	3,522	(198,094)
Foreign exchange gain/loss	15,420	(46)	(216,990)	3,522	(198,094)
As of 31 December 2018	2,653,438	4,732,024	27,173,064	13,398,279	47,956,805

39 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

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

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

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2019 and 2018 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Unaudited	
	31 December 2019	31 December 2018
Tier 1 capital	42,337,304	32,301,274
Tier 2 capital	12,701,191	12,920,510
Total regulatory capital	55,038,495	45,221,784
Risk-weighted assets	275,836,967	289,697,526
Capital adequacy ratio	19.95%	15.61%

The Bank has complied with all externally imposed capital requirements through the period.

As of 1 January 2017 and after that period the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand.

40 Events after the reporting period

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time, it has already had a significant impact on the global economy and major financial markets. The developing situation with COVID-19 may have some impact on the volume of the operations of the Bank. It may be expressed by the inability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships and other circumstances.

On 16 March 2020 the Government of the Republic of Armenia announced a state of emergency in the country to last until 13 May 2020. These financial statements do not reflect the potential effect of the above.