Financial Statements and Independent Auditor's Report

ARARATBANK open joint stock company

31 December 2019

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Independent auditor's report

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To the shareholders of ARARATBANK Open Joint Stock Company

Opinion

We have audited the financial statements of ARARATBANK Open 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

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 and advances, 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.

Goodwill impairment assessment

Starting from 2017, the Bank had Goodwill as a result of business combination. Management has to assess goodwill for impairment on a yearly basis using a discounted cash flow model to determine the value in use of goodwill balances. This requires the use of a number of key assumptions and judgments, including the estimated future cash flows, long-term growth rates, profitability levels and discount rates applied. Furthermore, in case of business combinations occurring during the reporting period, management applies judgement in allocating the goodwill to the appropriate cash-generating units (CGUs).

We focused on this area in light of the amounts involved and the level of judgment and estimation required.

Our procedures in relation to management's impairment assessment included:

– Assessing the valuation methodology;
– Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
– Reconciling input data to supporting evidence, such as approved budgets and considering the

reasonableness of these budgets.

We found the assumptions made by management in relation to the value in use calculations to be reasonable based on available evidence.

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

22 April 2020

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	8	16,097,745	15,814,734
Interest and similar expense	8	(9,165,993)	(8,860,575)
Net interest income		6,931,752	6,954,159
Fee and commission income	9	1,998,473	1,565,536
Fee and commission expense	9	(800,361)	(818,476)
Net fee and commission income		1,198,112	747,060
Gains less losses from foreign currency transactions	10	1,061,016	1,267,106
Net losses on financial instruments at fair value through profit or loss		(27,959)	(303,443)
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		188,254	273,233
Other operating net income	11	31,957	341,182
Impairment (losses)/reversal	12	(39,596)	390,783
Personnel expenses	13	(3,676,079)	(3,472,922)
Goodwill impairment	6	(350,000)	(2,510,864)
Depreciation of property and equipment and amortization of intangible assets	22	(915,003)	(647,551)
Other expenses	14	(1,572,129)	(1,850,655)
Profit before income tax		2,830,325	1,188,088
Income tax expense	15	(566,678)	(673,284)
Profit for the year		2,263,647	514,804

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2019	2018
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instrument)			
Net unearned gains/(losses) from net change in fair value		321,099	(196,404)
Changes in allowance for expected credit losses		78,642	22,695
Reclassification to the statement of profit or loss		(153,416)	(247,413)
Income tax related to the above		(16,886)	88,763
Net gains/(losses) on financial investments at fair value through other comprehensive income		229,439	(332,359)
Other comprehensive income for the year, net of tax		229,439	(332,359)
Total comprehensive income for the year		2,493,086	182,445
Earnings per share	16	1.29	0.29

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 79.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
Assets			
Cash	17	24,390,409	38,633,475
Derivative financial assets	18	689	4,071
Amounts due from financial institutions	19	10,747,641	16,937,582
Investment securities			
-Investment securities at fair value through other comprehensive income	20	38,475,185	29,184,794
-Investment securities at fair value through other comprehensive income pledged under repurchase agreements	20	-	4,175,959
Loans and advances to customers	21	135,921,392	119,978,388
Property, equipment and intangible assets	22	8,544,020	5,667,894
Goodwill	6	662,602	1,012,602
Deferred income tax assets	15	184,087	141,904
Repossessed assets	23	1,721,695	2,314,940
Other assets	24	1,798,584	2,776,875
Total assets		222,446,304	220,828,484
Liabilities and equity			
Liabilities			
Amounts due to banks	25	4,142,779	6,229,888
Derivative financial liabilities	18	7,720	12,004
Amounts due to customers	26	83,418,886	80,850,763
Other borrowings	27	77,048,866	81,567,962
Debt securities issued	28	14,005,787	13,253,993
Subordinated debt	29	1,977,270	1,990,079
Current income tax liabilities		47,497	238,796
Lease liabilities	33	2,588,778	-
Other liabilities	30	1,804,385	1,773,749
Total liabilities		185,041,968	185,917,234

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
Equity			
Share capital	31	8,803,655	8,803,655
Share premium		8,031,745	8,031,745
Fair value reserve		887,544	658,105
Retained earnings		19,681,392	17,417,745
Total equity		37,404,336	34,911,250
Total liabilities and equity		222,446,304	220,828,484

The financial statements were approved on 22 April 2020 by:

Mher Ananyan
Chairman of the Executive Board

Tigran Galstyan
Chief Accountant

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 14 to 79.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Fair value reserve	Retained earnings	Total
Balance as of 1 January 2019	8,803,655	8,031,745	658,105	17,417,745	34,911,250
Profit for the year	-	-	-	2,263,647	2,263,647
Other comprehensive income:					
Net unearned gains from net change in fair value	-	-	321,099	-	321,099
Net gains reclassified to statement of profit or loss on disposal of debt instruments at FVOCI	-	-	(153,416)	-	(153,416)
Net changes in ECL allowance on debt instruments at FVOCI	-	-	78,642	-	78,642
Income tax relating to components of other comprehensive income	-	-	(16,886)	-	(16,886)
Total comprehensive income for the year	-	-	229,439	2,263,647	2,493,086
Balance As of 31 December 2019	8,803,655	8,031,745	887,544	19,681,392	37,404,336
Balance As of 31 December 2017	8,803,655	8,031,745	886,937	17,432,975	35,155,312
Impact of adopting IFRS 9 (note 7)	-	-	103,527	(530,034)	(426,507)
Restated balance at 1 January 2018	8,803,655	8,031,745	990,464	16,902,941	34,728,805
Profit for the year	-	-	-	514,804	514,804
Other comprehensive income:					
Net unearned losses from net change in fair value	-	-	(196,404)	-	(196,404)
Net gains reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	(247,413)	-	(247,413)
Net changes in ECL allowance on debt instruments at FVOCI	-	-	22,695	-	22,695
Income tax relating to components of other comprehensive income	-	-	88,763	-	88,763
Total comprehensive income for the year	-	-	(332,359)	514,804	182,445
Balance as of 31 December 2018	8,803,655	8,031,745	658,105	17,417,745	34,911,250

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 14 to 79.

Statement of cash flows

In thousand Armenian drams

	2019	2018
Cash flows from operating activities		
Profit before tax	2,830,325	1,188,088
Adjustments for		
Amortization and depreciation	915,003	647,551
Goodwill impairment	350,000	2,510,864
Impairment losses/(reversal)	39,596	(390,783)
Changes in interest receivable	(66,951)	(56,937)
Changes in interest payable	86,118	259,143
Net loss from disposal of property and equipment	1,262	10,307
Net loss from disposal of other assets	196,998	50,906
Net gains from revaluation of non-trading financial assets and liabilities	(16,590)	(212,984)
Fair value loss on financial assets recognised in profit and loss	25,467	308,030
Cash flows from operating activities before changes in operating assets and liabilities	4,361,228	4,314,185
(Increase)/decrease in operating assets		
Derivative financial assets	(26,369)	41,741
Amounts due from financial institutions	6,053,765	(4,684,815)
Loans and advances to customers	(16,703,480)	(2,538,833)
Repossessed assets	593,245	1,234,636
Other assets	818,859	(610,450)
Increase/(decrease) in operating liabilities		
Amounts due to banks	(4,002,708)	4,120,688
Amounts due to customers	3,037,559	(14,274,279)
Other liabilities	42,964	(77,945)
Net cash used in operating activities before income tax	(5,824,937)	(12,475,072)
Income tax paid	(817,046)	(768,894)
Net cash used in operating activities	(6,641,983)	(13,243,966)
Cash flows from investing activities		
Investment securities	(5,026,256)	(4,508,600)
Purchase of property and equipment and intangible assets	(951,803)	(636,136)
Proceeds from sale of property and equipment	9,561	-
Net cash used in investing activities	(5,968,498)	(5,144,736)

Statement of cash flows (continued)

In thousand Armenian drams

	2019	2018
Cash flow from financing activities		
Proceeds from debt securities	751,794	4,441,227
Borrowings (repaid)/received from financial institutions	(1,932,477)	12,899,741
Repayment of lease liabilities	(396,786)	-
Subordinated debt received	-	1,989,444
Net cash from/(used in) financing activities	(1,577,469)	19,330,412
Net increase/(decrease) in cash and cash equivalents	(14,187,950)	941,710
Cash at the beginning of the year	38,633,475	38,044,426
Effect of ECL	209	(1,394)
Exchange differences on cash and cash equivalents	(55,325)	(351,267)
Cash at the end of the year (note 17)	24,390,409	38,633,475
Supplementary information:		
Interest received	16,030,794	15,757,797
Interest paid	(9,079,875)	(8,601,432)

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 14 to 79.

Notes to the financial statements

1 Principal activities

ARARATBANK OJSC (the “Bank”) is an opened joint-stock company, which is regulated by the legislation of RA and is the legal successor of “Haykap Bank” CJSC founded in 1991. The Bank conducts its business under license number 4, granted on 20 September 1991, by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits from the public and extends credit, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International, Diners Club payment systems.

Its main office is in Yerevan and its 59 branches are located in different regions of Armenia and Nagorno Karabakh. The registered office of the Bank is located at: Buzand St., bldg. 87, prem. 85, Yerevan.

In 2017 according to the contract of merger the Bank acquired control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia.

The average number of persons employed by the Bank during the year was 1,017.

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.

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 at 1 January 2019:

- Right-of-use assets of AMD 1,214,134 thousand were recognised and presented in the statement of financial position within Property and equipment".
- Additional lease liabilities of AMD 1,214,134 thousand were recognisedand presented in the statement of financial position within "Other liabilities".
- The adoption of IFRS 16 had no impact on the Bank's retained earnings.

The following is a reconciliation of total operating lease commitments as of 31 December 2018 to the lease liabilities recognised as of 1 January 2019:

In thousand Armenian drams

Total operating lease commitments as of 31 December 2018	449,168
Reasonable certain to be exercised lease term payments	1,303,267
Recognition exemptions:	
• Lease of low value property	(94,722)
• Leases with remaining lease term of less than 12 months	(49,747)
Operating lease liabilities before discounting	1,607,966
Discounted using incremental borrowing rate	(393,832)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	1,214,134

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 9%.

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

Other new standards and amendments described below and applied for the first time in 2019, did not have a material impact on the annual consolidated 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 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* (Ammenndment 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 Business combinations

The Bank applies the acquisition method in accounting for business combinations. The consideration transferred by The Bank to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Bank, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

4.2 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 creditimpaired 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 4.5.6.

Fee and commission income

Loan 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 income from financial instruments measured at fair value through profit or loss

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends.

4.3 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 and liabilities and gains and losses resulting from translation of non-trading assets are recognised in the statement of profit or loss and other comprehensive income in gains less losses from trading in foreign currencies. 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 gains less losses from foreign currency translation.

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

	31 December 2019	**31 December 2018**
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65

4.4 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.

4.5 Financial instruments

4.5.1 Recognition and initial measurement

The Bank initially recognises loans and advances, 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.

4.5.2 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 at 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 at 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 at 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.

4.5.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.5.4), 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 at 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.

4.5.4 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 4.5.3) 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 4.5.6), 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.

4.5.5 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.

4.5.6 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
- 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 38.1.2.

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 38.1.2.

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 4.5.3) 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

Loss 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 Group 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.

4.6 Cash

Cash 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.

Cash are carried at amortised cost.

4.7 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 and advances 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 other financial institutions are carried net of any allowance for impairment losses.

4.8 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.

4.9 Loans and advances

Loans and advances 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.

4.10 Investment securities

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

- debt securities measured at FVOCI; and
- equity investment securities designated as at 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.

4.11 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 other financial institutions or loans and advances 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.

4.12 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”.

4.13 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 defies anted scope of the contract,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess 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, plant and equipment and lease liabilities have been included in the other liabilities.

Accounting policy applicable before 1 January 2019

Operating - Bank as 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.

4.14 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.

4.15 Property and equipment

Property and equipment are recorded at historical cost 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. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	30	3.33
Computers	3-8	33.33-12.5
Vehicles	8	12.5
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).

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.

4.16 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in The Bank from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 *"Operating Segments"*.

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.17 Intangible assets

Intangible assets include computer software, licences and other.

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 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.

Computer software development costs are recognised as an expense as incurred.

4.18 Repossessed assets

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

4.19 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.

4.20 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.

4.21 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 as provided in note 4.20.

4.22 Equity

Share capital

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

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.

Fair value reserve for investments securities at FVOCI

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

4.23 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.

4.24 Segment reporting

In terms of IFRS 8 the Bank's operations are not separated to operating segments and are a complete business unit. The Bank's chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Bank's assets are mainly distributed in the territory of the Republic of Armenia. The Bank's income is derived from the Armenian sources.

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 assesse of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.5.2).

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 35).

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 (refer to note 34).

Impairment of financial instruments

The Bank assess of 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 38), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.5.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 32.

Goodwill impairment

The Bank assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units.

6 Business combination

Goodwill from acquisition

In 2017 according to the contract of merger the Bank acquired 100% of shares and control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia. As a result of the acquisition, Goodwill was recognized.

In thousand Armenian drams

Compensation transferred	15,129,999
Fair value of identifiable net assets	10,725,662
Goodwill	4,404,337
Goodwill impairment	(880,871)
Goodwill balance after impairment as at 31 December 2017	3,523,466
Goodwill impairment	(2,510,864)
Goodwill balance after impairment as at 31 December 2018	1,012,602
Goodwill impairment	(350,000)
Goodwill balance after impairment as at 31 December 2019	662,602

7 Transition disclosure-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	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash				
Opening balance	38,044,426			
Remeasurement		-	(2,003)	
Closing balance				38,042,423
Amounts due from financial institutions				
Opening balance	12,425,722			
Remeasurement		-	(42,957)	
Closing balance				12,382,765
Loans and advances to customers including lease receivables				
Opening balance	119,167,143			
Remeasurement		-	(471,214)	
Closing balance				118,695,929

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
Other financial assets				
Opening balance	1,486,426			
Remeasurement		-	(8,863)	
Closing balance				1,477,563
Total amortised cost	171,123,717	-	(525,037)	170,598,680
Available-for-sale investment securities				
Opening balance	29,238,238			
To FVOCI – Equity		(87,122)	-	
To FVOCI – Debt		(29,151,116)	-	
Closing balance		(29,238,238)		-
FVOCI-debt				
Opening balance	-			
From available-for-sale		29,151,116	-	
Closing balance				29,151,116
FVOCI-equity				
Opening balance	-			
From available-for-sale		87,122	-	
Closing balance				87,122
Total FVOCI	-	29,238,238	-	29,238,238
FVTPL				
Financial derivatives	21,534	-	-	21,534
Total FVTPL	21,534	-	-	21,534
Financial liabilities				
FVTPL				
Financial derivatives	3,253	-	-	3,253
Total FVTPL	3,253	-	-	3,253
Amortised cost				
Amounts due to financial institutions	3,708,928	-	-	3,708,928
Amounts due to customers	95,811,913	-	-	95,811,913
Other borrowings	66,843,616	-	-	66,843,616
Debt securities issued	8,733,830	-	-	8733,830
Other liabilities	1,683,330	-	-	1,683,330
Total amortised cost	176,781,617	-	-	176,781,617

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

In thousand Armenian drams	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	886,937
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	103,527
Opening balance under IFRS 9 (1 January 2018)	990,464
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	17,432,975
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(636,662)
Deferred tax in relation to the above	106,628
Opening balance under IFRS 9 (1 January 2018)	16,902,941
Total change in equity due to adopting IFRS 9	(426,507)

The following table reconciles:

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

In thousand Armenian drams	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash	-	2,003	2,003
Amounts due from financial institutions	25,273	42,957	68,230
Available-for-sale investment securities per IAS 39/ Financial assets at FVOCI under IFRS 9	-	103,527	103,527
Loans and advances to customers including lease receivables per IAS 39/ Financial assets at amortised cost under IFRS 9	2,033,077	471,214	2,504,291
Other financial assets	24,145	8,863	33,008
	2,082,495	628,564	2,711,059
Financial guarantee contracts issued	-	8,098	8,098
	-	8,098	8,098
Total impairment allowance	2,082,495	636,662	2,719,157

8 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Amounts due from financial institutions	292,479	270,241
Investment securities at FVOCI	2,596,905	2,449,849
Loans and advances to customers	12,519,893	12,231,362
Reverse repurchase transactions	688,468	863,282
Total interest and similar income	16,097,745	15,814,734
Amounts due to banks	100,382	158,627
Amounts due to customers	2,551,176	2,887,667
Other borrowings	5,340,705	4,895,075
Debt securities issued	812,904	781,436
Subordinated debt	128,015	6,712
Repurchase transactions	97,396	131,058
Lease liabilities	135,415	-
Total interest and similar expense	9,165,993	8,860,575

9 Fee and commission income and expense

In thousand Armenian drams	2019	2018
Payment settlement operations	1,350,900	1,059,404
Plastic cards operations	637,021	488,324
Guarantees and letters of credit	10,552	17,808
Total fee and commission income	1,998,473	1,565,536
Plastic cards operations	560,623	634,376
Payment settlement operations	205,713	155,303
Guarantees	3,078	9,996
Stock exchange services	30,947	18,801
Total fee and commission expense	800,361	818,476

10 Gains less losses from foreign currency transactions

In thousand Armenian drams	2019	2018
Gains less losses from trading in foreign currencies	1,044,426	1,054,122
Gains less losses from revaluation of assets and liabilities in foreign currency	16,590	212,984
Total net trading income	1,061,016	1,267,106

11 Other operating income and expenses

In thousand Armenian drams	2019	2018
Fines and penalties received	470,744	428,909
Gains from operations of precious metals	50,371	135,139
Securities registration services	58,577	53,216
Other income	70,506	82,133
Total other income	650,198	699,397
Operating expenses on cash collection	141,980	103,211
Payments to the State Deposit Guarantee Fund	148,972	70,667
Net loss from disposal of other assets	196,998	50,906
Depositary services	40,161	39,680
Operating expenses on payment cards	33,640	22,343
Payments to the Financial System Mediator	22,813	21,567
Net loss from disposal of property and equipment	1,262	10,307
Factoring expenses	-	10,304
Other expenses	32,415	29,230
Total other operating expenses	618,241	358,215
Total other net operating income	31,957	341,182

12 Impairment losses/(reversal)

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
					2019
Cash	17	(209)	-	-	(209)
Amounts due from financial institutions	19	(75,016)	-	-	(75,016)
Investment securities measured at FVOCI	20	78,642	-	-	78,642
Loans and advances to customers	21	(62,001)	919,986	(802,441)	55,544
Other assets	24	(19,890)	-	-	(19,890)
Financial guarantees	32	525	-	-	525
Total impairment losses/(reversal)		(77,949)	919,986	(802,441)	39,596

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
					2018
Cash	17	(609)	-	-	(609)
Amounts due from financial institutions	19	38,940	-	-	38,940
Investment securities measured at FVOCI	20	22,695	-	-	22,695
Loans and advances to customers	21	(127,385)	212,368	(535,790)	(450,807)
Other assets	24	(9,040)	-	-	(9,040)
Financial guarantees	32	8,038	-	-	8,038
Total impairment losses/(reversal)		(67,361)	212,368	(535,790)	(390,783)

13 Personnel expenses

In thousand Armenian drams	2019	2018
Compensations of employees, related taxes included	3,630,910	3,435,541
Other	45,169	37,381
Total personal expenses	3,676,079	3,472,922

14 Other expenses

In thousand Armenian drams	2019	2018
Operating lease*	-	475,601
Property and equipment and intangible assets maintenance	300,085	245,913
Security	313,577	290,706
Advertising and marketing costs	118,801	123,599
Taxes, other than income tax	183,573	237,476
Communications	137,137	114,993
Business trip expenses	40,057	52,567
Office supplies	74,280	69,282
Utilities and office maintenance expenses	82,831	75,248
Consulting and other services	24,969	25,418
Representative expenses	21,092	19,190
Insurance	28,974	20,911
Membership fees	10,750	13,517
Expenses of short term and low value assets leases *	144,469	-
Other expenses	91,534	86,234
Total other expense	1,572,129	1,850,655

*The absence of comparable information is due to the application of IFRS 16 (refer to note 33).

15 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	625,747	738,374
Deferred tax	(59,069)	(65,090)
Total income tax expense	566,678	673,284

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. Deferred income tax is calculated using the principal tax rate of 20%.

In 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia will be reduced from 20 to 18%. This change resulted in a gain of AMD 33,008 thousand related to the remeasurement of deferred tax assets and liabilities of the Bank being recognised during the year ended 31 December 2019.

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	2,830,325		1,188,088	
Income tax at the rate of 20%	566,065	20	237,618	20
Non-deductible expenses	(29,077)	(1)	502,104	42
Foreign exchange gains	(3,318)	-	(42,597)	(4)
Effect of the unrecognized deferred tax	-	-	(23,841)	(2)
Impact of tax rate changes	33,008	1	-	-
Total income tax expense	566,678	20	673,284	56

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2018	Recognized in profit or loss	Recognized in other comprehen-sive income	31 December 2019		
				Net	Deffered tax asset	Deffered tax liability
Cash	279	(3,394)	-	(3,115)	-	(3,115)
Amounts due from financial institutions	(33,670)	18,611	-	(15,059)	-	(15,059)
Investments in securities	(132,971)	36,876	(16,886)	(112,981)	-	(112,981)
Loans and advances to customers	117,882	22,215	-	140,097	140,097	-
Property and equipment	21,772	50,049	-	71,821	71,821	-
Other assets	7,733	(10,622)	-	(2,889)	-	(2,889)
Amounts due to customers	12,656	(1,266)	-	11,390	11,390	-
Lease liabilities	-	(47,046)	-	(47,046)	-	(47,046)
Other liabilities	148,223	(6,354)	-	141,869	141,869	-
Net deferred tax asset/(liability)	141,904	59,069	(16,886)	184,087	365,177	(181,090)

In thousand Armenian drams	31 December 2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehen-sive income	31 December 2018		
					Net	Deffered tax asset	Deffered tax liability
Cash	-	401	(122)	-	279	279	-
Amounts due from financial institutions	(2,922)	8,591	(39,339)	-	(33,670)	-	(33,670)
Investments in securities	(221,734)		-	88,763	(132,971)	-	(132,971)
Loans and advances to customers	17,422	94,243	6,217	-	117,882	117,882	-
Property and equipment	(23,841)	-	45,613	-	21,772	21,772	-
Other assets	-	1,773	5,960	-	7,733	7,733	-
Amounts due to customers	12,656	-	-	-	12,656	12,656	-
Other liabilities	99,842	1,620	46,761	-	148,223	148,223	-
Net deferred tax asset/(liability)	(118,577)	106,628	65,090	88,763	141,904	308,545	(166,641)

16 Earnings per share

In thousand Armenian drams	2019	2018
Profit for the year	2,263,647	514,804
Weighted average number of ordinary shares	1,760,731	1,760,731
Earnings per share – basic	1.29	0.29

17 Cash

In thousand Armenian drams	31 December 2019	31 December 2018
Cash on hand	9,718,914	8,422,779
Correspondent account with the CBA	12,823,585	25,305,465
Correspondent accounts with banks	1,849,095	4,906,625
	24,391,594	38,634,869
Less loss allowance	(1,185)	(1,394)
Total cash	24,390,409	38,633,475

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 9,544,938 thousand (2018: 18%, AMD 10,705,794 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. Mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2019 the Bank does not have a nostro account (31 December 2018: either) the balance of which exceeds 10% of equity.

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

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as at 1 January	1,394	2,003
Net remeasurement of loss allowance	(209)	(609)
Balance at 31 December	1,185	1,394

18 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	31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	479,613	-	87
Foreign exchange forward contracts	2,589,184	689	7,633
Total derivative financial instruments		689	7,720

In thousand Armenian drams	31 December 2018		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	4,587,295	645	6,373
Foreign exchange forward contracts	2,745,450	3,426	5,631
Total derivative financial instruments		4,071	12,004

19 Amounts due from financial institutions

In thousand Armenian drams	31 December 2019	31 December 2018
Amounts due from banks		
Loans	116,585	2,368,743
Credit card settlement deposit with the CBA	944,000	942,500
Reverse repurchase agreements	8,209,521	6,895,841
Other accounts	108,947	147,589
Total amounts due from banks	9,379,053	10,354,673
Amounts due from other financial institutions		
Loans	1,028,908	2,229,767
Reverse repurchase agreements	-	4,178,164
Blocked deposits with financial institutions	371,834	282,148
Total gross amounts due from other financial institutions	1,400,742	6,690,079
Total amounts due from financial institutions	10,779,795	17,044,752
Less allowance of impairment on amounts due from financial institutions	(32,154)	(107,170)
Total amounts due from financial institutions	10,747,641	16,937,582

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

As of 31 December 2019 blocked deposits with financial institutions in the amount of AMD 79,161 thousand (2018: AMD 78,060 thousand) which represents a blocked deposit for membership in Master Card payment system, as well as a blocked AMD 189,002 thousand for membership in Visa payment system (2018: AMD 190,598 thousand) and AMD 103,671 thousand for membership in Interactive Brokers LLC brokerage company (2018: AMD 13,491 thousand).

As of 31 December 2019 the Bank has no contract party financial institution (31 December 2018: one) the balance of which exceeds 10% of equity. The balance of the account as of 31 December 2018 was AMD 4,457,751 thousand.

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

In thousand Armenian drams	2019	2018
	12-month ECL	12-month ECL
ECL allowance as at 1 January	107,170	68,230
Net remeasurement of loss allowance	(75,016)	38,940
Balance at 31 December	32,154	107,170

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

In thousand Armenian drams	2019		2018	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state securities	8,529,870	8,209,521	10,736,617	10,397,624
Corporate bonds	-	-	685,288	676,381
Total assets pledged and loans under reverse repurchase agreements	8,529,870	8,209,521	11,421,905	11,074,005

20 Investment securities

In thousand Armenian drams	31 December 2019	31 December 2018
Investment securities measured at FVOCI		
RA state bonds	23,498,663	22,040,034
Corporate bonds	14,889,400	7,057,638
Equity investments	87,122	87,122
Total investment securities measured at FVOCI	38,475,185	29,184,794
Debt investment securities measured at FVOCI pledged under repurchase agreements		
RA state bonds	-	4,175,959
Total investment securities measured at FVOCI pledged under repurchase agreements	-	4,175,959

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 at 1 January	126,222	103,527
Net remeasurement of loss allowance	78,642	22,695
Balance at 31 December	204,864	126,222

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI pledged under repurchase agreements 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 state bonds	4.74%-15.36%	2020-2047	4.74%-16.35%	2019-2047
Corporate bonds	2.99%-12.75%	2020-2025	3.30%-12.75%	2019-2025

21 Loans and advances to customers

In thousand Armenian drams	31 December 2019			31 December 2018		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	19,673,309	(91,694)	19,581,615	17,429,256	(123,661)	17,305,595
Consumer lending	32,846,020	(455,327)	32,390,693	22,607,583	(330,637)	22,276,946
Reverse sale-and-repurchase agreements	-	-	-	106,091	(80)	106,011
Commercial lending						
Financial lease receivables	146,672	(2,024)	144,648	284,490	(6,236)	278,254
Trading	29,351,148	(354,608)	28,996,540	23,763,005	(337,676)	23,425,329
Industry	10,701,295	(335,930)	10,365,365	16,923,305	(344,059)	16,579,246
Agriculture	4,281,555	(7,408)	4,274,147	3,041,043	(11,220)	3,029,823
Construction	11,491,458	(1,238,726)	10,252,732	10,027,108	(289,456)	9,737,652
Other	30,807,368	(891,716)	29,915,652	28,363,697	(1,124,165)	27,239,532
Total	139,298,825	(3,377,433)	135,921,392	122,545,578	(2,567,190)	119,978,388

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 600,425 thousand (2018: AMD 1,420,131 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2019 the Bank has two borrowers or groups of related borrowers (2018: three), whose loan balances exceed 10% of equity. The total amount of such loans as of 31 December 2019 is AMD 8,463,202 thousand (2018: AMD 12,882,706 thousand).

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
Mortgage and consumer lending				
ECL allowance as at 1 January	227,187	72,228	154,963	454,378
Changes due to financial assets recognised in opening balance that have:				
-Transfer to 12-month ECL	1,885	(469)	(1,416)	-
-Transfer to Lifetime ECL not credit-impaired	(860)	9,893	(9,033)	-
-Transfer to Lifetime ECL credit-impaired	(1,433)	(411)	1,844	-
Net remeasurement of loss allowance	(127,271)	(47,927)	(277,075)	(452,273)
Net remeasurement of loss allowances on new financial assets originated	238,329	12,933	131,564	382,826
Recoveries	-	-	1,171,228	1,171,228
Amounts written off during the year	-	-	(1,009,138)	(1,009,138)
Balance at 31 December	337,837	46,247	162,937	547,021

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	638,639	1,405,603	68,570	2,112,812
Changes due to financial assets recognised in opening balance that have:				
-Transfer to 12-month ECL	6,277	(4,578)	(1,699)	-
-Transfer to Lifetime ECL not credit-impaired	(23,014)	23,014	-	-
-Transfer to Lifetime ECL credit-impaired	(20)	(1,982)	2,002	-
Net remeasurement of loss allowance	(406,382)	584,871	(657,647)	(479,158)
Net remeasurement of loss allowances on new financial assets originated	233,323	370,109	717	604,149
Recoveries	-	-	1,186,033	1,186,033
Amounts written off during the year	-	-	(593,424)	(593,424)
Balance at 31 December	448,823	2,377,037	4,552	2,830,412

In thousand Armenian drams	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
				2018
Mortgage and consumer lending				
ECL allowance as at 1 January	232,977	37,734	89,770	360,481
Changes due to financial assets recognised in opening balance that have:				
-Transfer to 12-month ECL	4,066	(3,561)	(505)	-
-Transfer to Lifetime ECL not credit-impaired	(675)	1,885	(1,210)	-
-Transfer to Lifetime ECL credit-impaired	(1,293)	(29,797)	31,090	-
Net remeasurement of loss allowance	(124,308)	62,028	(651,905)	(714,185)
Net remeasurement of loss allowances on new financial assets originated	116,420	3,939	38,451	158,810
Recoveries	-	-	1,833,034	1,833,034
Amounts written off during the year	-	-	(1,183,762)	(1,183,762)
Balance at 31 December	227,187	72,228	154,963	454,378

In thousand Armenian drams	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
				2018
Commercial lending				
ECL allowance as at 1 January	677,892	1,357,593	108,325	2,143,810
Changes due to financial assets recognised in opening balance that have:				
-Transfer to 12-month ECL	81,501	(81,501)	-	-
-Transfer to Lifetime ECL not credit-impaired	(151)	4,276	(4,125)	-
-Transfer to Lifetime ECL credit-impaired	(1,106)	(21,166)	22,272	-
Net remeasurement of loss allowance	(472,571)	145,279	77,638	(249,654)
Net remeasurement of loss allowances on new financial assets originated	353,074	1,122	26	354,222
Recoveries	-	-	825,270	825,270
Amounts written off during the year	-	-	(960,836)	(960,836)
Balance at 31 December	638,639	1,405,603	68,570	2,112,812

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages. Further analysis of economic factors is outlined in note 38.1.2

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. As of 31 December 2018 fair value of assets pledged and gross carrying value of loans under reverse repurchase agreements 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 securities	-	-	117,656	106,091
Total securities purchased and loans under repurchase agreements	-	-	117,656	106,091

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Gross investment in finance leases, receivable:		
Not later than 1 year	891	3,296
Later than 1 year and not later than 5 years	167,614	331,398
	168,505	334,694
Unearned future finance income on finance leases		
Not later than 1 year	(113)	(494)
Later than 1 year and not later than 5 years	(21,720)	(49,710)
	(21,833)	(50,204)
Net investment in finance leases	146,672	284,490

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 2,552 thousand at 31 December 2019 (2018: AMD 4,273 thousand).

Implied interest rate of the lease amounts to 8-12% (2018: 8%-12%).

At 31 December 2019 and 2018 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to note 35.

Maturity analysis of loans and advances to customers are disclosed in note 37.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 38. The information on related party balances is disclosed in note 34.

22 Property, equipment and intangible assets

In thousand Armenian drams	Land and buildings	Leasehold improve-ment	Computers and communi-cation	Vehicles	Office Supplies	Intangible assets	Right-of-use assets Land and buildings	Total
Cost								
As of 1 January 2018	4,290,762	345,301	2,797,409	150,602	1,587,000	1,197,278	-	10,368,352
Additions	14,698	77,946	322,292	22,890	82,604	115,706	-	636,136
Disposals	-	(13,973)	(8,699)	-	(41,644)	-	-	(64,316)
As of 31 December 2018	4,305,460	409,274	3,111,002	173,492	1,627,960	1,312,984	-	10,940,172
Impact of adopting IFRS 16	-	-	-	-	-	-	1,214,134	1,214,134
Additions	13,512	77,838	254,124	87,065	411,056	106,946	1,636,015	2,586,556
Disposals	-	(50,595)	(109,371)	(19,650)	(57,885)	-	-	(237,501)
As of 31 December 2019	4,318,972	436,517	3,255,755	240,907	1,981,131	1,419,930	2,850,149	14,503,361
Accumulated depreciation								
As of 1 January 2018	686,234	194,927	2,051,445	127,036	1,191,750	427,328	-	4,678,720
Expenses for the year	119,133	16,236	248,881	15,976	141,288	106,037	-	647,551
Disposals	-	(5,795)	(8,699)	-	(39,499)	-	-	(53,993)
As of 31 December 2018	805,367	205,368	2,291,627	143,012	1,293,539	533,365	-	5,272,278
Expenses for the year	119,803	14,486	266,507	7,226	102,049	114,788	290,144	915,003
Disposals	-	(42,446)	(109,270)	(19,650)	(56,574)	-	-	(227,940)
As of 31 December 2019	925,170	177,408	2,448,864	130,588	1,339,014	648,153	290,144	5,959,341
Carrying amount								
As of 31 December 2019	3,393,802	259,109	806,891	110,319	642,117	771,777	2,560,005	8,544,020
As of 31 December 2018	3,500,093	203,906	819,375	30,480	334,421	779,619	-	5,667,894

As of 31 December 2019 non-financial assets included software licenses for Microsoft software (AMD 539,749 thousand in 2018) at the amount of AMD 467,718 thousand.

Fully depreciated and amortized items

As of 31 December 2019 fixed assets and intangible assets included fully depreciated and amortized assets in amount of AMD 1,243,071 thousand (2018: AMD 1,467,189 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.

Fixed assets in the phase of installation

As of 31 December 2019 fixed assets included assets in the phase of installation in the amount of AMD 7,782 thousand (2018: AMD 169,564 thousand) which are not amortized and are classified by their types.

Contractual commitments

As of 31 December 2019 the Bank had no contractual commitments in respect of acquisition of property and equipment and intangible assets (2018: AMD 38,485 thousand and intangible assets amounting to AMD 7,444 thousand).

23 Repossessed assets

Details of financial and 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	31 December 2019	31 December 2018
Real estate	1,721,632	2,314,877
Other assets	63	63
Total repossessed assets	1,721,695	2,314,940

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

24 Other assets

In thousand Armenian drams	31 December 2019	31 December 2018
Receivables under money transfer systems	823,627	1,445,613
Other financial assets	139,550	88,928
	963,177	1,534,541
Less loss allowance	(21,599)	(38,662)
Total other financial assets	941,578	1,495,879
Prepayments	389,442	695,675
Precious metals	410,654	527,204
Materials	56,389	57,597
Other	521	520
Total non-financial assets	857,006	1,280,996
Total other assets	1,798,584	2,776,875

An analysis of changes in the ECLs on other assets is as follows:

In thousand Armenian drams	2019	2018
	ECL	ECL
ECL allowance as at 1 January	38,662	33,008
Net remeasurement of loss allowance	(19,890)	(9,040)
Net recovery	2,827	14,694
Balance at 31 December	21,599	38,662

25 Amounts due to banks

In thousand Armenian drams	31 December 2019	31 December 2018
Loans from the CBA	545,441	1,157,143
Repurchase agreements from the CBA	-	4,002,707
Loans from commercial banks	3,597,151	1,069,850
Loro accounts	187	188
Total amounts due to banks	4,142,779	6,229,888

As of 31 December 2018 liability in amount of AMD 4,002,707 thousand, from amounts due to the CBA under repurchase agreements, is secured with the securities acquired by reverse repurchase agreements.

Other loans item from CBA include loans received within the scope of various international projects.

As of 31 December 2019 the Bank has no counterparty (2018: either), whose account and deposit balances exceed 10% of the Bank's equity

During 2019 and 2018 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

26 Amounts due to customers

In thousand Armenian drams	31 December 2019	31 December 2018
Current accounts and demand deposits		
Individuals	18,993,890	16,230,185
Legal entities	23,440,248	25,412,122
Government of the Republic of Armenia and state institutions	1,427,369	512,705
Time deposits		
Individuals	34,651,150	31,969,901
Legal entities	4,906,229	6,725,850
Total amounts due to customers	83,418,886	80,850,763

Time deposits have fixed interest rates.

As of 31 December 2019, the Bank has customer deposit balances of AMD 1,083,615 thousand (2018: AMD 1,855,359 thousand) that serve as collateral for loans from the Bank.

As of 31 December 2019 the Bank has two customers or groups of related customers, whose account and deposit balances exceed 10% of the Bank's equity (2018: two). As of 31 December 2019 the balances amount to AMD 10,592,550 thousand (2018: AMD 11,839,526 thousand).

27 Other borrowings

In thousand Armenian drams	31 December 2019	31 December 2018
Borrowings from international and other financial institutions	69,348,009	75,033,202
Borrowings from RA Government	102,796	530,845
Borrowings from resident financial institutions	7,598,061	6,003,915
Total other borrowings	77,048,866	81,567,962

As of 31 December 2019 the Bank has seven counterparties (2018: eight), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2019 is AMD 65,494,293 thousand (2018: AMD 69,480,958 thousand).

Borrowings from resident financial institutions are secured by collateral from the Bank's collateral for the right to claim loans provided to customers.

These borrowings have fixed and the others have variable interest rates.

During 2019 and 2018 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

28 Debt securities issued

In thousand Armenian drams	31 December 2019	31 December 2018
Bonds	14,005,787	13,253,993
Total debt securities issued	14,005,787	13,253,993

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

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
02.10.2017	USD	25	200,000	5.75	02.01.2022	5,000,000
04.12.2017	USD	25	200,000	5.5	04.03.2022	5,000,000
22.01.2018	USD	25	320,000	5.25	22.04.2022	8,000,000
11.06.2018	USD	25	120,000	5.25	11.09.2022	3,000,000
23.07.2018	AMD	10,000	100,000	9.5	23.07.2021	1,000,000,000
19.06.2019	USD	25	120,000	5.5	19.09.2023	3,000,000
29.10.2019	USD	25	114,189	5.5	29.01.2024	2,854,725

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

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

29 Subordinated debt

In thousand Armenian drams	31 December 2019	31 December 2018
Subordinated debt provided by related party	1,977,270	1,990,079
Total subordinated debt	1,977,270	1,990,079

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.

During 2018 The Bank has received a subordinated debt in amount of US dollar 4,100 thousand maturing in 2025. The interest rate is 6.5%.

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

30 Other liabilities

In thousand Armenian drams	31 December 2019	31 December 2018
Due to personnel	778,468	781,055
Accounts payables	243,960	322,183
Other financial liabilities	580,823	450,116
Total other financial liabilities	1,603,251	1,553,354
Tax liabilities	184,473	204,259
ECL for guarantee*	16,661	16,136
Total other non-financial liabilities	201,134	220,395
Total other liabilities	1,804,385	1,773,749

*Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on financial guarantees refer to note 32.

31 Equity

As of 31 December 2019 the Bank's registered and paid-in share capital was AMD 8,803,655 thousand. In accordance with the Bank's statues, the share capital consists of 1,760,731 shares. All shares have a nominal value of AMD 5,000.

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

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Flash LLC	6,402,640	72.73%
Barsegh Beglaryan	1,991,940	22.63%
Rural Impulse Fund JSC	377,660	4.28%
Other shareholders	31,415	0.36%
	8,803,655	100%

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.

32 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.

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	**31 December 2019**	**31 December 2018**
Liabilities in respect of loans and credit lines	4,847,162	4,394,030
Liabilities in respect of credit cards	6,049,704	5,820,752
Undrawn overdrafts	1,448,145	910,060
Guarantees and letters of credit	2,419,179	3,051,980
Factoring contracts	10	171
Total commitments and contingent liabilities	14,764,200	14,176,993

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 21).

An analysis of changes in the ECLs on financial guarantees and letters of credit included in other liabilities (refer to note 30) is as follows:

In thousand Armenian drams	**2019**	**2018**
	12-month ECL	**12-month ECL**
Financial guarantees and letters of credit		
ECL allowance as at 1 January	16,136	8,098
Net remeasurement of loss allowance	525	8,038
Balance at 31 December	16,661	16,136

Operating lease commitments – Bank as a lessee (Policy applicable from 1 January 2019)

In the normal course of business, the Bank enters into commercial lease agreements for for office premises.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	31 December 2018
Not later than 1 year	449,168
Total operating lease commitments	449,168

Information on the Bank's capital commitments is disclosed in notes 22

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.

33 Leases

The Bank has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets, 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 22).

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. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. 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 options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Office building	1	9.7 years	9.7 years	-	-	-	-
Branches	35	1.3-6 years	4.56 years	-	-	-	-

Below is additional information on right-of-use assets by classes:

Right-of-use assets leased	Balance as of 1 January	Additions	Depreciation	Balance as of 31 December
Branches	1,214,134	-	(249,514)	964,620
Head office	-	1,636,015	(40,630)	1,595,385
Total	1,214,134	1,636,015	(290,144)	2,560,005

Lease liabilities

Lease liabilities are presented in the statement of financial position in the line of other liabilities.

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

In thousand Armenian drams	31 December 2019
As of 1 January - effect of adoption of IFRS 16	1,214,134
Additions	1,636,015
Accretion of interest	135,415
Payments	(396,786)
Total lease liabilities as of 31 December	2,588,778

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9% (2018 n/a).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2019 (refer to note 37).

As of 31 December 2018, for the Bank's operating lease commitments refer to note 32.

Lease payments not recognised as a liability

The Bank has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

As of 31 December 2019 the Company had future commitments on short-term leases and the total amount of these commitments was AMD 49,747 thousand.

34 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 businessman Barsegh Beglaryan, who is the owner of the Bank’s shareholder “Flash” LLC.

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 withthem	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans and advances to customers				
Loans outstanding at 1 January gross	50,328	229,224	1,732,957	273,806
Loans issued during the year	97,019	494,338	1,910,085	623,035
Loan repayments during the year	(84,636)	(604,827)	(3,592,714)	(667,617)
Loans outstanding at 31 December gross	62,711	118,735	50,328	229,224
Less: allowance for loan impairment	(1,652)	(3,767)	(544)	(2,476)
Loans outstanding at 31 December	61,059	114,968	49,784	226,748
Reverse repurchase agreements				
At 1 January	-	54,520	-	-
Loans issued during the year	-	1,048,347	-	8,739,124
Loan repayments during the year	-	(1,102,867)	-	(8,684,604)
At 31 December	-	-	-	54,520
Right-of-use assets				
Leased office premises				
At 1 January	-	-	-	-
Application of IFRS 16	-	149,266	-	-
Leased during the year	1,619,563	-	-	-
Amortized during the year	(37,664)	(48,427)	-	-
Derecognition of related party	-	(100,839)	-	-
At 31 December	1,581,899	-	-	-
Amounts due to customers				
Deposits at 1 January	9,594,539	186,388	5,608,309	396,932
Deposits received during the year	156,990,398	9,712,338	158,574,296	14,662,668
Deposits repaid during the year	(158,118,685)	(9,230,349)	(154,588,066)	(14,873,212)
Deposits at 31 December	8,466,252	668,377	9,594,539	186,388
Lease liabilities				
At 1 January	-	-	-	-
Application of IFRS 16	-	149,366	-	-
Assumed during the year	1,619,563	-	-	-
Discount depreciation during the year	37,798	11,160	-	-
Repayment during the year	(60,000)	(55,387)	-	-
Derecognition of related party	-	(105,139)	-	-
At 31 December	1,597,361	-	-	-

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key manage-ment personnel and parties related withthem	Shareholders and parties related with them	Key manage-ment personnel and parties related with them
Subordinated debt	1,977,270	-	1,990,079	-
Guarantees issued	1,706,571	-	2,163,149	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	6,047	13,058	36,148	53,924
Impairment charge/(reversal)	1,108	1,291	(17,219)	(1,833)
Gains less losses from trading in foreign currencies	30,281	238	(14,633)	255
Gains less losses from foreign currency revaluation	(13,186)	4,083	(27,261)	(312)
Interest expenses on amounts due to customers	(74,406)	(22,198)	(78,699)	(15,777)
Interest expense on subordinated debt	(128,015)	-	(6,712)	-
Interest expense on lease	(37,798)	(11,160)	-	-
Operating lease expenses	-	-	(17,400)	(55,386)
Amortisation of right-of-use assets	(37,664)	(48,427)	-	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate of 6%-20% (2018: 6%-20%)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and bonuses	463,020	311,040
Total key management compensation	463,020	311,040

35 Fair value measurement

The Board of the Bank determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

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).

35.1 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 teach fair value measurement is categorised.

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	24,390,409	-	24,390,409	24,390,409
Amounts due from financial institutions	-	10,747,641	-	10,747,641	10,747,641
Loans and advances to customers	-	135,907,137	-	135,907,137	135,921,392
Other assets	-	941,578	-	941,578	941,578
Financial liabilities					
Amounts due to banks	-	4,142,779	-	4,142,779	4,142,779
Amounts due to customers	-	83,418,886	-	83,418,886	83,418,886
Other borrowings	-	77,048,866	-	77,048,866	77,048,866
Issued debt securities	-	14,005,787	-	14,005,787	14,005,787
Subordinated debt	-	1,977,270	-	1,977,270	1,977,270
Lease liabilities		2,588,778		2,588,778	2,588,778
Other liabilities	-	1,603,251	-	1,603,251	1,603,251

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	38,633,475	-	38,633,475	38,633,475
Amounts due from financial institutions	-	16,937,582	-	16,937,582	16,937,582
Loans and advances to customers	-	119,605,995	-	119,605,995	119,978,388
Other assets	-	1,495,879	-	1,495,879	1,495,879
Financial liabilities					
Amounts due to banks	-	6,229,888	-	6,229,888	6,229,888
Amounts due to customers	-	80,850,763	-	80,850,763	80,850,763
Other borrowings	-	81,567,962	-	81,567,962	81,567,962
Issued debt securities	-	13,253,993	-	13,253,993	13,253,993
Subordinated debt	-	1,990,079	-	1,990,079	1,990,079
Other liabilities	-	1,553,354	-	1,553,354	1,553,354

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 and advances to customers

The fair value of floating rate instruments is normally their carrying amount. 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 4.5% to 24% per annum (2018: 4% to 24% 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.

Due to customers

The fair value of deposits from 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.

35.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**31 December 2019**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment securities at FVOCI (include securities pledged under repurchase agreements)	-	38,475,185	-	38,475,185
Derivative financial assets	-	689	-	689
Total	-	38,475,874	-	38,475,874
Financial liabilities				
Derivative financial liabilities	-	7,720	-	7,720
Total	-	7,720	-	7,720
	-		-	
Net fair value	-	38,468,154	-	38,468,154

In thousand Armenian drams				**31 December 2018**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment securities at FVOCI (include securities pledged under repurchase agreements)	-	33,360,753	-	33,360,753
Derivative financial assets		4,071	-	4,071
Total	-	33,364,824	-	33,364,824
Financial liabilities				
Derivative financial liabilities	-	12,004	-	12,004
Total	-	12,004	-	12,004
Net fair value	-	33,352,820	-	33,352,820

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

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.

36 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					
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 19)	8,209,521	-	8,209,521	(8,209,521)	-	-

In thousand Armenian drams	31 December 2018					
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 19, 21)	11,180,096	-	11,180,096	(11,180,096)	-	-
Financial liabilities						
Securities pledged under repurchase agreements (Note 20, 25)	4,002,707	-	4,002,707	(4,175,959)	-	(173,252)

37 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 38.3 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
Assets							
Cash	24,390,409	-	24,390,409	-	-	-	24,390,409
Derivative financial assets	689	-	689	-	-	-	689
Amounts due from financial institutions	10,032,829	365,532	10,398,361	348,472	808	349,280	10,747,641
Investment securities							
- Investment securities at fair value through other comprehensive income	1,271,750	10,071,373	11,343,123	24,331,994	2,800,068	27,132,062	38,475,185
Loans and advances to customers	5,001,053	39,403,359	44,404,412	61,130,878	30,386,102	91,516,980	135,921,392
Other assets	941,578	-	941,578	-	-	-	941,578
	41,638,308	49,840,264	91,478,572	85,811,344	33,186,978	118,998,322	210,476,894

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**
Liabilities							
Amounts due to banks	2,500,452	1,281,332	3,781,784	360,995	-	360,995	4,142,779
Derivative financial liabilities	7,720	-	7,720	-	-	-	7,720
Amounts due to customers	46,069,887	35,650,025	81,719,912	1,642,442	56,532	1,698,974	83,418,886
Other borrowings	1,194,557	15,995,477	17,190,034	54,343,751	5,515,081	59,858,832	77,048,866
Debt securities issued	100,605	17,737	118,342	13,887,445	-	13,887,445	14,005,787
Subordinated debt	10,500	-	10,500	-	1,966,770	1,966,770	1,977,270
Lease liabilities	26,853	309,147	336,000	1,214,022	1,038,756	2,252,778	2,588,778
Other liabilities	1,603,251	-	1,603,251	-	-	-	1,603,251
	51,513,825	53,253,718	104,767,543	71,448,655	8,577,139	80,025,794	184,793,337
Net position	(9,875,517)	(3,413,454)	(13,288,971)	14,362,689	24,609,839	38,972,528	25,683,557
Accumulated gap	(9,875,517)	(13,288,971)		1,073,718	25,683,557		

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**
Assets							
Cash	38,633,475	-	38,633,475	-	-	-	38,633,475
Derivative financial assets	4,071	-	4,071	-	-	-	4,071
Amounts due from financial institutions	13,702,718	3,096,771	16,799,489	135,978	2,115	138,093	16,937,582
Investment securities							
- Investment securities at fair value through other comprehensive income	-	5,676,094	5,676,094	21,092,841	2,415,859	23,508,700	29,184,794
Securities pledged under reverse repurchase agreements	-	-	-	4,175,959	-	4,175,959	4,175,959
Loans and advances to customers	4,965,279	35,135,642	40,100,921	53,897,918	25,979,549	79,877,467	119,978,388
Other assets	1,495,879	-	1,495,879	-	-	-	1,495,879
	58,801,422	43,908,507	102,709,929	79,302,696	28,397,523	107,700,219	210,410,148

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
Liabilities							
Amounts due to banks	4,135,735	1,277,419	5,413,154	816,734	-	816,734	6,229,888
Derivative financial liabilities	12,004	-	12,004	-	-	-	12,004
Amounts due to customers	43,881,221	34,937,301	78,818,522	1,973,621	58,620	2,032,241	80,850,763
Other borrowings	950,226	15,145,807	16,096,033	60,501,220	4,970,709	65,471,929	81,567,962
Debt securities issued	104,574	1,990,669	2,095,243	11,158,750	-	11,158,750	13,253,993
Subordinated debt	6,711	-	6,711	-	1,983,368	1,983,368	1,990,079
Other liabilities	1,553,354	-	1,553,354	-	-	-	1,553,354
	50,643,825	53,351,196	103,995,021	74,450,325	7,012,697	81,463,022	185,458,043
Net position	8,157,597	(9,442,689)	(1,285,092)	4,852,371	21,384,826	26,237,197	24,952,105
Accumulated gap	8,157,597	(1,285,092)		3,567,279	24,952,105		

38 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.

Risk management structure

Risk management is performed in the different levels of the Bank's structure.

Board of Directors

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

Executive Board

The Executive Board is responsible for the control of risk management process.

Audit and Risk Management Committee

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

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for the liquidity and market risk management, for the assets and liabilities management and makes decisions in respect of these risks within the scope of its authority.

Credit committee

The Credit Committees make decisions on accepting credit risk within the scope of their authority and are responsible for maintaining limits established for controlling credit risk.

Risk Management Department

The Risk Management Department is responsible for disclosure, assessment, analysis, monitoring and controlling of the Bank’s risks. It is also responsible for the creation of appropriate risk assessment reporting database.

Internal audit

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

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, with additional emphasis on selected industries. 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 Executive Board. The report includes aggregate credit exposure, hold limit exceptions, foreign currency risk, liquidity ratios and stress-tests. On a monthly basis detailed reporting of concentration of economic sectors takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. Assets and Liabilities Management Committee and Credit Committee receive a detailed risk report on a monthly basis which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

A daily briefing is given to the Executive Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR investments and liquidity, plus any other risk developments.

Risk mitigation

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

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.

38.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 Directors and Management.

38.1.1 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 38.1.2.

In thousand Armenian drams	31 December 2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
High	24,391,594	-	-	24,391,594
Gross carrying amount	24,391,594	-	-	24,391,594
Loss allowance	(1,185)	-	-	(1,185)
Net carrying amount	24,390,409	-	-	24,390,409
Amounts due from financial institutions				
High	189,002	-	-	189,002
Standard	10,590,793	-	-	10,590,793
Gross carrying amount	10,779,795	-	-	10,779,795
Loss allowance	(32,154)	-	-	(32,154)
Net carrying amount	10,747,641	-	-	10,747,641
Investment securities at FVOCI (include securities pledged under repurchase agreements)				
High grade	292,899	-	-	292,899
Standard grade	38,182,286	-	-	38,182,286
Fair value	38,475,185	-	-	38,475,185
Loss allowance	(204,864)			(204,864)
Mortgage and consumer loans				
High	51,607,602	-	-	51,607,602
Standard	210,725	238,197	-	448,922
Substandard	-	149,702	-	149,702
Non-performing	-	-	313,103	313,103
Gross carrying amount	51,818,327	387,899	313,103	52,519,329
Loss allowance	(337,837)	(46,247)	(162,937)	(547,021)
Net carrying amount	51,480,490	341,652	150,166	51,972,308

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High	77,804,903	-	-	77,804,903
Standard	61,228	5,458,074	-	5,519,302
Substandard	-	3,419,548	-	3,419,548
Non-performing	-	-	35,743	35,743
Gross carrying amount	77,866,131	8,877,622	35,743	86,779,496
Loss allowance	(448,823)	(2,377,037)	(4,552)	(2,830,412)
Net carrying amount	77,417,308	6,500,585	31,191	83,949,084
Other financial assets				
Standard	963,177	-	-	963,177
Gross carrying amount	963,177	-	-	963,177
Loss allowance	(21,599)	-	-	(21,599)
Net carrying amount	941,578	-	-	941,578
Loan commitments and financial guarantee				
High grade	14,764,200	-	-	14,764,200
	14,764,200	-	-	14,764,200
Loss allowance*	(16,661)	-	-	(16,661)

In thousand Armenian drams				31 December 2018
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
High	38,634,869	-	-	38,634,869
Gross carrying amount	38,634,869	-	-	38,634,869
Loss allowance	(1,394)	-	-	(1,394)
Net carrying amount	38,633,475	-	-	38,633,475
Amounts due from financial institutions				
High	190,598	-	-	190,598
Standard	16,854,154	-	-	16,854,154
Gross carrying amount	17,044,752	-	-	17,044,752
Loss allowance	(107,170)	-	-	(107,170)
Net carrying amount	16,937,582	-	-	16,937,582
Investment securities at FVOCI (include securities pledged under repurchase agreements)				
High grade	341,870	-	-	341,870
Standard grade	33,018,883	-	-	33,018,883
Fair value	33,360,753	-	-	33,360,753
Loss allowance	(126,222)			(126,222)

In thousand Armenian drams	31 December 2018			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer loans				
High	38,840,857	-	-	38,840,857
Standard	333,807	338,133	-	671,940
Substandard	-	126,333	-	126,333
Non-performing	-	-	503,800	503,800
Gross carrying amount	39,174,664	464,466	503,800	40,142,930
Loss allowance	(227,187)	(72,228)	(154,963)	(454,378)
Net carrying amount	38,947,477	392,238	348,837	39,688,552
Loans to commercial customers				
High	76,270,686	-	-	76,270,686
Standard	22,780	5,864,412	-	5,887,192
Substandard	-	12,599	-	12,599
Non-performing	-	-	232,171	232,171
Gross carrying amount	76,293,466	5,877,011	232,171	82,402,648
Loss allowance	(638,639)	(1,405,603)	(68,570)	(2,112,812)
Net carrying amount	75,654,827	4,471,408	163,601	80,289,836
Other financial assets				
Standard	1,534,541	-	-	1,534,541
Gross carrying amount	1,534,541	-	-	1,534,541
Loss allowance	(38,662)	-	-	(38,662)
Net carrying amount	1,495,879	-	-	1,495,879
Loan commitments and financial guarantee				
High grade	14,176,993	-	-	14,176,993
	14,176,993	-	-	14,176,993
Loss allowance*	(16,136)	-	-	(16,136)

*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.

38.1.2 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 4.5.6).

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 and advances to customers

The criteria for Loans and advances 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 at 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 at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne 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 at 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 BB (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 at 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 BB (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 forborne 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 and advances to customers and loan commitments and financial guarantee.

	Grade	12 month PD range
Loans to mortgage and consumer customers	High, Standard	0.10-3.43%
	Substandard	12.49-29.45%
	Non-Performing	86.49-100%
Loans to commercial customers	High, Standard	1.13-3.16%
	Substandard	17.51-63.89%
	Non-Performing	94.10-100%

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-	Hight	0.001-0.04%
BBB+ to B-	Standard	0.052-7.48%
CCC+ to CC	Low	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 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, moveable property, 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 forborne 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 forborne 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 forborne 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 forborne 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 forborne 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 forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne 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 forborne 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 4.5.4.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

In thousand Armenian drams

	2019	**2018**
Amortised costs of financial assets modified during the period	-	169,391
Net modification loss	-	(47,938)

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 4.5.6, 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
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan)

38.1.3 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

Industry sectors

The analysis of loan portfolio by industry sectors is represented in note 21.

38.1.4 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, 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.

As of 31.12.2019 allowance for ECL on loans at the total amount of 24,755,763 thousand has not been recognized because of collaterals (As of 31.12.2018: AMD 15,015,945 thousand).

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 and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances 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 and advances to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Real estate	92,283,456	83,032,658
Movable property	773,543	869,017
Inventories	485,270	341,307
Guarantees of enterprises and individuals	11,353,907	7,591,539
Precious metals, gold	10,248,743	7,683,788
Cash flows	16,057,891	14,601,358
Cash	347,564	195,349
Securities	148,572	486,781
Other collateral	7,599,879	7,743,781
Total loans and advances, gross	139,298,825	122,545,578

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.

38.2 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.

Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

38.2.1 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 The Board of the Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Average interest rates

The following table demonstrates applicable average interest rates as of 31 December 2019 and 2018 for interest bearing assets and liabilities.

	2019 Average effective interest rate, %			2018 Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Amounts due from financial institutions	5.73	6.29	5.63	6.51	3.38	6.98
Debt investment securities	9.18	5.33	4.10	11.3	4.9	5.74
Loans to customers	12.44	8.85	6.26	12.10	9.66	6.15
Interest bearing liabilities						
Amounts due to banks	7.14	2.34	2.88	6.62	-	2.66
Current accounts and deposits from customers						
-Current accounts and demand deposits	0.1	0.1	-	0.1	0.1	-
-Term deposits	8.47	4.29	2.55	8.71	4.34	2.72
Other borrowings	8.70	6.42	4.33	8.85	6.61	4.33
Debt securities issued	9.83	5.55	-	9.84	5.66	-
Subordinated debt	-	6.50	-	-	6.70	-

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 at 31 December 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 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	31 December 2019					
			Sensitivity of equity			
Currency	Change in basis points	Sensitivity of net interest income	Up to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+3	-	(58,619)	(751,178)	(439,761)	(1,249,558)
USD	+3	-	(133)	-	(340)	(473)
EUR	+2	(51,907)	-	-	-	(51,907)
AMD	(3)	-	58,619	745,984	439,761	1,244,364
USD	(3)	-	133	-	126	259
EUR	(2)	51,907	-	-	-	51,907

In thousand Armenian drams	31 December 2018					
			Sensitivity of equity			
Currency	Change in basis points	Sensitivity of net interest income	Up to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+3	-	(38,170)	(849,523)	(223,169)	(1,110,862)
USD	+3	-	-	(223,428)	-	(223,428)
USD	+2	(282,943)	-	-	-	(282,943)
AMD	(3)	-	38,170	849,523	223,169	1,110,862
USD	(3)	-	-	223,428	-	223,428
USD	(2)	282,943	-	-	-	282,943

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 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). 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	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	55,329	+5	56,472
EUR	+5	(1,135)	+5	(44,154)

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

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Assets					
Cash	14,307,708	8,326,583	1,006,215	749,903	24,390,409
Amounts due from financial institutions	9,332,990	1,293,205	4,861	116,585	10,747,641
Investment securities	25,661,904	11,904,280	909,001	-	38,475,185
Loans and advances to customers	38,914,643	89,500,778	7,505,971		135,921,392
Other assets	281,488	439,140	85,825	135,125	941,578
	88,498,733	111,463,986	9,511,873	1,001,613	210,476,205

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Liabilities					
Amounts due to banks	545,532	2,447,830	1,149,417	-	4,142,779
Amounts due to customers	40,102,141	33,662,533	4,827,106	4,827,106	83,418,886
Other borrowings	14,422,049	60,475,414	2,151,403	-	77,048,866
Debt securities issued	1,018,414	12,987,373	-		14,005,787
Subordinated debt	-	1,977,270	-	-	1,977,270
Lease liabilities	2,588,778	-	-	-	2,588,778
Other liabilities	868,130	507,572	180,618	46,931	1,603,251
Total	59,545,044	112,057,992	8,308,544	4,874,037	184,785,617
Total effect of derivative financial instruments	78,651	1,700,588	(1,226,027)	(560,243)	(7,031)
Net position as of 31 December 2019	29,032,340	1,106,582	(22,698)	(4,432,667)	25,683,557
Commitments and contingent liabilities as of 31 December 2019	6,185,419	7,616,789	940,236	21,756	14,764,200
Total financial assets	85,817,114	114,641,272	8,685,424	1,262,267	210,406,077
Total financial liabilities	57,776,503	119,304,554	7,800,849	564,133	185,446,039
Total effect of derivative financial instruments	(4,012,370)	5,792,728	(883,071)	(905,220)	(7,933)
Net position as of 31 December 2018	24,028,241	1,129,446	1,504	(207,086)	24,952,105
Commitments and contingent liabilities as of 31 December 2018	6,461,981	6,620,284	1,071,097	23,631	14,176,993

38.3 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 basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The 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 17. 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	
	31 December 2019, %	31 December 2018, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	25.91	29.83
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	135.26	147.62

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities of 31 December 2019 based on contractual undiscounted repayment obligations. Refer to note 37 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 months	More than 5 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities						
Amounts due to banks	2,500,565	1,322,119	395,689	-	4,218,373	4,142,779
Amounts due to customers	46,072,495	36,703,510	1,841,280	80,424	84,697,709	83,418,886
Other borrowings	1,273,963	19,530,595	61,745,696	6,340,369	88,890,623	77,048,866
Debt securities issued	100,605	17,737	13,890,910	-	14,009,252	14,005,787
Subordinated debt	10,500	-	-	2,611,224	2,621,724	1,977,270
Lease liabilities	48,093	529,026	2,308,478	1,322,701	4,208,298	2,588,778
Other liabilities	1,603,251	-	-	-	1,603,251	1,603,251
Total undiscounted non-derivative financial liabilities	51,609,472	58,102,987	80,182,053	10,354,718	200,249,230	184,785,617
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	2,582,240	-	-	-	2,582,240	2,582,240
Outflow	(2,589,184)	-	-	-	(2,589,184)	(2,589,184)
Foreign exchange swap contracts						
Inflow	480,008	-	-	-	480,008	479,613
Outflow	(479,700)	-	-	-	(479,700)	(479,700)
Commitments and contingent liabilities	13,804,477	907,063	52,660	-	14,764,200	14,764,200

In thousand Armenian drams						31 December 2018
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 months	More than 5 year	Total gross amount outflow	Total
Non-derivative liabilities						
Amounts due to banks	4,142,131	1,354,586	919,762	-	6,416,479	6,229,888
Amounts due to customers	43,884,457	35,986,678	2,159,834	85,496	82,116,465	80,850,763
Other borrowings	1,037,297	18,718,386	69,724,076	5,679,976	95,159,735	81,567,962
Debt securities issued	104,574	2,102,742	11,580,363	-	13,787,679	13,253,993
Subordinated debt	6,711	-	-	2,762,182	2,768,893	1,990,079
Other liabilities	1,553,354	-	-	-	1,553,354	1,553,354
Total undiscounted non-derivative financial liabilities	50,728,524	58,162,392	84,384,035	8,527,654	201,802,605	185,446,039
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	2,743,245	-	-	-	2,743,245	2,743,245
Outflow	(2,745,450)	-	-	-	(2,745,450)	(2,745,450)
Foreign exchange swap contracts						
Inflow	4,588,610	-	-	-	4,588,610	4,587,294
Outflow	(4,601,075)	-	-	-	(4,601,075)	(4,593,022)
Commitments and contingent liabilities	11,606,617	626,525	1,943,851	-	14,176,993	14,176,993

38.4 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 Risk Management department, Board, Executive Management. 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.

39 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						**31 December 2019**
	Amounts due to RA banks	**Debt securities issued**	**Other borrowings**	**Subordi-nated debt**	**Lease liabilities**	**Total**
As of 1 January 2019	2,226,993	13,253,993	81,567,962	1,990,079	-	99,039,027
Cash-flows	*1,926,962*	*751,794*	*(3,859,439)*	*-*	*(396,786)*	*(1,577,469)*
Repayments	(21,064,683)	(4,342,530)	(20,621,905)	-	(396,786)	(46,425,904)
Proceeds	22,991,645	5,094,324	16,762,466	-	-	44,848,435
Non-cash	*(11,363)*	*-*	*(659,657)*	*(12,809)*	*2,985,564*	*2,301,735*
Transition to IFRS 16	-	-	-	-	1,214,134	1,214,134
Increase in lease liabilities					1,636,015	1,636,015
Foreign exchange gain	(12,839)	-	(659,657)	(16,605)	-	(689,101)
Accrued interest	1,476	-	-	3,796	135,415	140,687
As of 31 December 2019	4,142,592	14,005,787	77,048,866	1,977,270	2,588,778	99,763,293

In thousand Armenian drams					**31 December 2018**
	Amounts due to RA banks	**Debt securities issued**	**Other borrowings**	**Subordinated debt**	**Total**
As of 1 January 2018	3,706,790	8,733,830	66,843,616	-	79,284,236
Cash-flows	*(1,481,935)*	*4,441,227*	*14,381,676*	*1,989,444*	*19,330,412*
Repayments	(26,082,682)	(7,270,948)	(16,726,895)	-	(50,080,525)
Proceeds	24,600,747	11,712,175	31,108,571	1,989,444	69,410,937
Non-cash	*2,138*	*78,936*	*342,670*	*635*	*424,379*
Foreign exchange (gain)/loss	8,992	15,475	(68,190)	(6,076)	(49,799)
Accrued interest	(6,854)	63,461	410,860	6,711	474,178
As of 31 December 2018	2,226,993	13,253,993	81,567,962	1,990,079	99,039,027

40 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, polices 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 waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
In thousand Armenian drams	**31 December 2019**	**31 December 2018**
Tier 1 capital	33,741,399	33,305,195
Tier 2 capital	2,614,721	1,611,548
Total regulatory capital	36,356,120	34,916,743
Risk-weighted assets	239,816,094	215,402,486
Capital adequacy ratio	15.16%	16.21%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2017 the Board of RA the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2018.

41 Analysis by segment

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 "Operating Segments".

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.

42 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 14 April 2020. These financial statements do not reflect the potential impact of the above.