Financial Statements
and Independent Auditor's Report

"ARMECONOMBANK" OPEN JOINT STOCK COMPANY

31 December 2019

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To the shareholders of "ARMECONOMBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "ARMECONOMBANK" 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Allowance for expected credit loss

Refer to note 4 of the financial statements for a description of the accounting policies and to note 37.1 for an analysis of credit risk.

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

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

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

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

Other Matter

The financial statements of the Bank as of and for the year ended 31 December 2018 were audited by other auditors whose report dated 30 April 2019 expressed an unmodified opinion on those statements.

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Armen Hovhannisyan

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

20 May 2020

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	7	21,254,908	17,664,310
Interest and similar expense	7	(10,946,133)	(8,922,279)
Net interest income before impairment losses on interest bearing assets		10,308,775	8,742,031
Impairment losses on interest bearing assets	8	(336,781)	(435,226)
Net interest income		9,971,994	8,306,805
Net gain from financial assets and liabilities at fair value through profit or loss		676,385	169,791
Fee and commission income	9	2,483,631	2,125,762
Fee and commission expense	9	(627,209)	(489,913)
Net income from foreign currencies	10	758,011	851,058
Net gain from derecognition of financial assets measured at FVOCI		765,247	741,354
Impairment (losses)/reversal of other assets	11	(22,855)	18,969
Other income	12	302,155	268,002
Net non-interest income		4,335,365	3,685,023
Operating income		14,307,359	11,991,828
Personnel expenses		(4,687,563)	(4,144,498)
Depreciation of property and equipment	22	(1,353,219)	(665,863)
Amortization of intangible assets	23	(73,734)	(50,283)
Other expenses	13	(3,694,567)	(4,478,468)
Operating expenses		(9,809,083)	(9,339,112)
Profit before income tax		4,498,276	2,652,716
Income tax expense	14	(1,172,233)	(574,690)
Profit for the year		3,326,043	2,078,026

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

In thousand Armenian drams

	Notes	2019	2018
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		485,717	-
Income tax relating to items not reclassified		(91,222)	4,306
Adjustment due to change in tax rate		83,620	-
Net gain from items that will not be reclassified subsequently to profit or loss		478,115	4,306
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Gain on revaluation of debt instruments measured at FVOCI		1,305,635	368,625
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI		(772,630)	(633,682)
Changes in allowance for expected credit losses		(173,887)	18,811
Income tax relating to items that will be reclassified		(28,183)	49,249
Gain on financial instruments at fair value through other comprehensive income		330,935	(196,997)
Other comprehensive income for the year, net of tax		809,050	(192,691)
Total comprehensive income for the year		4,135,093	1,885,335
Earnings per share	15	1.37	1.00

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 15 to 78.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	16	44,050,205	38,158,045
Derivative financial assets	17	7,522	17,468
Amounts due from financial institutions	18	14,189,783	13,175,950
Reverse repurchase agreements	19	6,222,111	3,882,703
Loans and advances to customers	20	176,106,613	133,629,775
Investment securities	21		
-Investment securities at fair value through other comprehensive income		25,027,524	19,752,226
-Investment securities at amortised cost		479,397	-
Property and equipment	22	12,262,246	10,330,854
Intangible assets	23	525,828	506,593
Other assets	24	1,811,297	2,243,783
Total assets		280,682,526	221,697,397
Liabilities and equity			
Liabilities			
Derivative financial liabilities	17	9,313	-
Debt securities issued	25	4,452,356	2,060,960
Repurchase agreements	19	25,623,028	20,519,048
Other borrowed funds	26	91,923,477	64,200,798
Amounts due to customers	27	113,366,878	95,828,768
Current income tax liabilities		390,244	273,836
Deferred income tax liabilities	14	922,445	849,982
Subordinated debt	28	719,787	3,382,149
Other liabilities	29	3,817,289	1,568,539
Total liabilities		241,224,817	188,684,080

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2019	31 December 2018
Equity			
Share capital	30	25,635,343	22,266,343
Statutory general reserve		3,105,000	3,000,000
Fair value reserve		1,832,155	1,501,220
Other reserves		3,409,549	3,055,334
Retained earnings		5,475,662	3,190,420
Total equity		39,457,709	33,013,317
Total liabilities and equity		280,682,526	221,697,397

The financial statements were approved on 20 May 2020 by:

Aram Khachatryan
Chief Executive Officer

Mikayel Poghosyan
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 15 to 78.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 31 December 2018	22,266,343	3,000,000	1,501,220	3,055,334	3,190,420	33,013,317
Profit for the year	-	-	-	-	3,326,043	3,326,043
Other comprehensive income:						
Revaluation of property and equipment	-	-	-	485,717	-	485,717
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(123,900)	123,900	-
Net change in fair value for the year	-	-	1,305,635	-	-	1,305,635
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI	-	-	(772,630)	-	-	(772,630)
Changes in allowance for expected credit losses	-	-	(173,887)	-	-	(173,887)
Income tax relating to components of other comprehensive income	-	-	(71,824)	(91,222)	-	(163,046)
Adjustment due to change in tax rate	-	-	43,641	83,620	-	127,261
Total comprehensive income for the year	-	-	330,935	354,215	3,449,943	4,135,093
Preference shares issued	3,369,000	-	-	-	-	3,369,000
Distribution to reserve	-	105,000	-	-	(105,000)	-
Dividends to shareholders	-	-	-	-	(1,059,701)	(1,059,701)
Total transactions with owners	3,369,000	105,000	-	-	(1,164,701)	2,309,299
Balance as of 31 December 2019	25,635,343	3,105,000	1,832,155	3,409,549	5,475,662	39,457,709

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 31 December 2017	13,708,745	33,438	6,000,000	1,531,277	3,157,777	4,597,371	29,028,608
Impact of adopting IFRS 9 (note 6)	-	-	-	166,940	-	(557,248)	(390,308)
Restated balance as of 1 January 2018	13,708,745	33,438	6,000,000	1,698,217	3,157,777	4,040,123	28,638,300
Profit for the year	-	-	-	-	-	2,078,026	2,078,026
Other comprehensive income:							
Adjustment to reserve on amortization of property and equipment	-	-	-	-	(106,749)	106,749	-
Net change in fair value for the year	-	-	-	368,625	-	-	368,625
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI	-	-	-	(633,682)	-	-	(633,682)
Changes in allowance for expected credit losses	-	-	-	18,811	-	-	18,811
Income tax relating to components of other comprehensive income	-	-	-	49,249	4,306	-	53,555
Total comprehensive income for the year	-	-	-	(196,997)	(102,443)	2,184,775	1,885,335
Issue of preference shares	3,000,000	-	-	-	-	-	3,000,000
Dividends to shareholders	-	-	-	-	-	(510,318)	(510,318)
Increase in nominal value of shares	5,557,598	(33,438)	(3,000,000)	-	-	(2,524,160)	-
Total transactions with owners	8,557,598	(33,438)	(3,000,000)	-	-	(3,034,478)	2,489,682
				-	-		-
Balance as of 31 December 2018	22,266,343	-	3,000,000	1,501,220	3,055,334	3,190,420	33,013,317

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 15 to 78.

Statement of cash flows

In thousand Armenian drams

	2019	2018
Cash flows from operating activities		
Profit before tax	4,498,276	2,652,716
Adjustments for		
Depreciation allowances	1,353,219	665,863
Amortization allowances	73,734	50,283
(Gain)/loss from sale of property and equipment	(5,057)	19,421
Impairment charge of financial assets	359,636	416,257
Recoveries on loans previously written off	(24,938)	(738,080)
Foreign currency translation net loss	347,491	38,625
Net gain from financial assets and liabilities measured at FVTPL	(676,385)	(169,791)
Net gain arising from derecognition of financial assets measured at FVOCI	(765,247)	(741,354)
Interest receivable	(264,324)	(69,570)
Interest payable (*includes Interest expenses according to IFRS 16*)	399,442	808,808
Other income	-	(8,536)
Cash flows from operating activities before changes in operating assets and liabilities	5,295,847	2,924,642
(Increase)/decrease in operating assets		
Derivative financial assets	695,644	160,444
Amounts due from financial institutions	(1,098,335)	(343,308)
Reverse repurchase agreements	(2,341,684)	414,226
Loans and advances to customers	(43,469,640)	(29,768,126)
Other assets	561,445	(141,364)
Increase in operating liabilities		
Repurchase agreements	5,110,728	6,839
Amounts due to customers	17,538,661	4,388,904
Other liabilities	165,112	333,498
Net cash flow used in operating activities before income tax	(17,542,222)	(22,024,245)
Income tax paid	(1,019,147)	(768,985)
Net cash used in operating activities	(18,561,369)	(22,793,230)

Statement of cash flows (continued)

In thousand Armenian drams

	2019	2018
Cash flows from investing activities		
Purchase of investment securities	(43,010,110)	(5,512,227)
Proceeds from sale of investment securities	38,664,277	7,902,154
Purchase of property and equipment	(1,206,878)	(2,091,328)
Proceeds from sale of property and equipment	357,284	379,887
Purchase of intangible assets	(92,969)	(235,758)
Net cash from used in investing activities	(5,288,396)	442,728
Cash flow from financing activities		
Preference shares issued	3,369,000	3,000,000
Prepayment for the issuance of shares	500,500	-
Other borrowed funds	27,765,238	24,307,678
Proceeds from debt securities issued	4,027,458	999,557
Repayment of debt securities issued	(1,594,443)	-
Payment of lease liabilities	(521,466)	-
Proceeds from subordinated debt	719,787	-
Repayment of subordinated debt	(3,375,206)	(3,000,701)
Dividends paid	(909,505)	(379,731)
Net cash from financing activities	29,981,363	24,926,803
Net increase in cash and cash equivalents	6,131,598	2,576,301
Cash and cash equivalents at the beginning of the year	38,158,045	35,824,831
Effect of ECL	8,331	(36,362)
Exchange differences on cash and cash equivalents	(247,769)	(206,725)
Cash and cash equivalents at the end of the year (note 16)	44,050,205	38,158,045
Supplementary information:		
Interest received	20,990,584	18,473,118
Interest paid	(10,381,066)	(8,113,471)

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 15 to 78.

Notes to the financial statements

1 Principal activities

“ARMECONOMBANK” OJSC (the “Bank”) was incorporated in the Republic of Armenia in 1991, on the basis of USSR Armenian Republican Bank “State Social Bank” (1991-1993 “Armstatecombank” CJSC) and in 1995 restructured to an open joint stock company. The Bank is regulated by the legislation of RA and conducts its business under license number 1, granted by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits and extends credit (transfers and exchange transactions in the Republic of Armenia and abroad) as well as provides other banking services to its corporate and retail customers.

On 26 June 2018 "Moody's Investors Service" International rating agency confirmed the Bank's long-term counterpaty risk rating: B1, and long-term /short-term deposit rating: B2/NP. The forecast for all ratings is stable.

On 03 September 2019 "Moody's Investors Service" International rating agency confirmed the Bank's long-term counterpaty risk rating: Ba3, and long-term / short-term deposit rating: B1/NP. The forecast for all ratings is stable.

The Bank has 52 branches through which it carries out its activities. The registered office of the Bank is located at Amiryan str. 23/1, Yerevan.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank’s functional currency and the Bank’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Bank.

The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

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

IFRS 16 Leases

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

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

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

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

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

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 1,875,205 thousand were recognised and presented in the statement of financial position within Property and equipment”.
- Additional lease liabilities of AMD 1,875,205 thousand were recognized and presented 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	2,873,951
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	(13,172)
Operating lease liabilities before discounting	2,860,779
Discounted using incremental borrowing rate	(985,574)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	1,875,205

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.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 10.25%.

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 financial statements of the Bank.

- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).*

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

- Conceptual Framework for Financial Reporting
- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform* (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 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 4.4.6**.**

Fee and commission income

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

Dividend income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

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

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

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

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

	31 December 2019	31 December 2018
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65
AMD/1 RUB	7.77	6.97

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises loans 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.

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

In making the assessment, the Bank considers:

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

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

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

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

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

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

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

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset

that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position

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

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

Write-offs

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

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans 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.

4.7 Trading assets and liabilities

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

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

4.8 Loans 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.

4.9 Investment securities

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

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

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

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo") 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.

4.11 Securities lending and borrowing

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

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

4.12 Leases

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

Accounting policy applicable from 1 January 2019

Bank as a lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank,
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies atned 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 lease liabilities have been included in the other liabilities.

Accounting policy applicable before 1 January 2019

Operating - Bank as a lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

4.13 Precious metals

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

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

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. The Bank's land and buildings are stated at fair value less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. 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	50	2
Computers	3-5	33.3-20
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). Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

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

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

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

4.15 Intangible assets

Intangible assets include computer software, 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 and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.16 Repossessed assets

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

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

4.17 Borrowings

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

4.18 Financial guarantees and loan commitments

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

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

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

4.19 Provisions

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

4.20 Equity

Share capital

Ordinary shares 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.

Property revaluation surplus

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

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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 assess 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 4.4.2).

Measurement of fair values

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

Useful Life of property and equipment

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

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. AMD 13,172 thousand of potential lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

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 33).

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 37.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

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

6 Transition disclosure - 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 measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Financial assets						
Investment securities-debt	Available-for-sale	FVOCI	21,655,188	-	-	21,655,188
Investment securities-debt	Held-to-maturity	FVOCI	49,618	-	-	49,618
Total trading and investment securities			21,704,806	-	-	21,704,806
Allowance on credit losses			-	-	(166,940)	(166,940)
Amounts due from banks	Amortised cost	Amortised cost	13,036,368	-	(148,819)	13,036,368
Cash and correspondent accounts	Amortised cost	Amortised cost	35,824,831	-	(7,479)	35,817,352
Loans to customers	Amortised cost	Amortised cost	104,216,558	-	(228,176)	103,988,382
Reverse repurchase agreements	Amortised cost	Amortised cost	-	-	-	-
Other financial assets (trading receivables)	Available-for-sale	FVOCI	-	-	-	-
Financial liabilities						
Provisions for credit losses on off-balance sheet exposures			-	-	(103,411)	(103,411)
Total pre-tax impact of IFRS 9 adoption					(487,885)	(487,885)
Total after-tax impact of IFRS 9 adoption					(390,308)	(390,308)

The following table illustrates the impact of IFRS 9 adoption on the Bank's equity, in particular on investment revaluation reserve and retained earnings as at 1 January 2018:

In thousand Armenian drams	Investment revaluation reserve	Retained earnings
31 December 2017	1,531,277	4,597,371
Remeasurement of financial assets due to estimation of business models, net of tax	166,940	(557,248)
1 January 2018	1,698,217	4,040,123

7 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Loans and advances to customers	17,868,064	14,754,755
Amounts due from financial institutions	793,268	423,490
Reverse repurchase agreements	385,058	311,902
Investment securities at FVOCI	2,148,890	2,149,338
Investment securities at amortised cost	22,035	-
Other interest income	37,593	24,825
Total interest and similar income	21,254,908	17,664,310
Current accounts and deposits from customers	4,522,482	3,859,255
Deposits and balances in banks	3,890,761	2,843,048
Repurchase agreements	1,066,404	982,988
Subordinated debt	84,794	547,408
Loans from CBA and Government of the Republic of Armenia	545,336	423,174
Loans from international financial institutions	405,166	151,417
Debt securities issued	259,020	92,503
Lease liabilities	165,625	-
Other interest expenses	6,545	22,486
Total interest and similar expense	10,946,133	8,922,279

8 Impairment (losses)/reversal on interest bearing financial assets

	Note	Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
Amounts due from financial institutions	18	108,965	-	-	108,965	(3,203)
Loans and advances to customers	20	59,036	(3,291)	(673,183)	(617,438)	(413,212)
Investment securities	21	171,692	-	-	171,692	(18,811)
Total impairment (losses)/reversal on interest bearing financial assets		339,693	(3,291)	(673,183)	(336,781)	(435,226)

9 Fee and commission income and expense

In thousand Armenian drams	2019	2018
Wire transfer fees	1,443,016	1,679,159
Cash collection	293,341	211,079
Plastic cards operations	644,026	125,087
Guarantees and letters of credit	101,954	109,818
Foreign currency transactions and operations with securities	236	497
Other fees and commissions	1,058	122
Total fee and commission income	2,483,631	2,125,762
Plastic cards operations	323,977	190,098
Wire transfer fees	189,084	149,002
Guarantees and letters of credit	37,540	65,009
Foreign currency transactions and operations with securities	42,279	49,874
Service fees for correspondent accounts	6,420	4,076
Other fees and commissions	27,909	31,854
Total fee and commission expense	627,209	489,913

10 Net foreign currency income

In thousand Armenian drams	2019	2018
Net gain from trading in foreign currencies	1,105,502	889,683
Foreign exchange translation loss	(347,491)	(38,625)
Total net foreign currency income	758,011	851,058

11 Impairment (losses)/reversal on other assets

		2019		2018	
	Note	Stage 1	Total	Stage 1	Total
Cash and cash equivalents	16	8,331	8,331	(28,883)	(28,883)
Other financial assets	24	(67,269)	(67,269)	6,332	6,332
Guarantees	31	36,083	36,083	41,520	41,520
Total impairment (losses)/reversal on other assets		(22,855)	(22,855)	18,969	18,969

12 Other income

In thousand Armenian drams	2019	2018
Fines and penalties received	187,479	193,009
Net gain from operations of precious metals	23,746	6,281
Other income	90,930	68,712
Total other income	302,155	268,002

The largest part of other income is income from reimbursement of tax overpayment.

13 Other expenses

In thousand Armenian drams	2019	2018
Repair and maintenance of property and equipment	791,995	1,042,348
Advertising and representative costs	588,062	729,333
Operating lease expenses*	-	638,391
Expenses for cash collection services	333,884	345,000
Security	316,295	323,474
Taxes, other than income tax, duties	369,615	283,249
Plastic cards	267,080	210,888
Guarantee payments to deposit guarantee fund	207,174	203,872
Insurance costs	137,065	132,896
Office supplies	127,855	122,919
Communications	106,246	98,112
Business trip expenses	59,150	69,146
Consulting and professional services	64,617	45,714
Loss on disposal of property and equipment	-	19,421
Expenses of short term and low value assets leases *	13,172	-
Other operating expenses	312,357	213,705
Total other expense	3,694,567	4,478,468

*The absence of comparable information is due to the application of IFRS 16 (refer to note 32).

14 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	1,007,189	689,992
Adjustments of current income tax of previous years	128,366	(20,410)
Deferred tax expense/(recovery)	36,678	(94,892)
Total income tax expense	1,172,233	574,690

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%.

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

In thousand Armenian drams	2019	Effective rate (%)	2018	Effective rate (%)
Profit before tax	4,498,276		2,652,716	
Income tax at the rate of 20%	899,655	20	530,543	20
Non-taxable income from financial assets at FVOCI	(59,908)	(1)	(3,002)	-
Non-deductible expenses	176,696	4	72,368	3
Foreign exchange losses	69,498	2	7,725	-
Other non-taxable income and privileges	(3,479)	-	(12,534)	-
Adjustment due to change in tax rate	(38,595)	(1)	-	-
Adjustments of the current year in relation to the current tax of prior years	128,366	3	(20,410)	(1)
Income tax expense	1,172,233	27	574,690	22

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 38,595 thousand related to the remeasurement of deferred tax assets and liabilities of the Bank being recognised during the year ended 31 December 2019.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams				2019		
	2018	Recognized in profit or loss	Recognized in other comprehensive income	Net	Deferred tax asset	Deferred tax liability
Accrued expenses and other liabilities	146,060	(68,736)	-	77,324	77,324	-
Loans and advances to customers	131,906	(31,935)	-	99,971	99,971	-
Cash and cash equivalents	7,290	(2,227)	-	5,063	5,063	-
Investments in securities	(329,809)	(32,347)	(28,183)	(390,339)	-	(390,339)
Contingent liabilities	(30,621)	13,536	-	(17,085)	-	(17,085)
Amounts due from financial institutions	(17,398)	(26,067)	-	(43,465)	-	(43,465)
Property and equipment	(757,410)	111,098	(7,602)	(653,914)	-	(653,914)
Deferred tax asset/(liability)	(849,982)	(36,678)	(35,785)	(922,445)	182,358	(1,104,803)

In thousand Armenian drams	2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	2018 Net	2018 Deferred tax asset	2018 Deferred tax liability
Accrued expenses and other liabilities	127,876	-	18,184	-	146,060	146,060	-
Loans and advances to customers	103,503	45,635	(17,232)	-	131,906	131,906	-
Cash and cash equivalents	-	1,496	5,794	-	7,290	7,290	-
Investments in securities	(410,127)	-	31,069	49,249	(329,809)	-	(329,809)
Contingent liabilities	(10,987)	20,682	(40,316)	-	(30,621)	-	(30,621)
Amounts due from financial institutions	(16,976)	29,764	(30,186)	-	(17,398)	-	(17,398)
Property and equipment	(889,295)	-	127,579	4,306	(757,410)	-	(757,410)
Deferred tax asset/(liability)	(1,096,006)	97,577	94,892	53,555	(849,982)	285,256	(1,135,238)

15 Earnings per share

In thousand Armenian drams	2019	2018
Profit for the year	3,326,043	2,078,026
Dividends on preferred shares	(781,821)	(232,438)
Income less dividends on preferred shares	2,544,222	1,845,588
Weighted average number of ordinary shares	1,852,533	1,852,533
Earnings per share – basic	1.37	1.00

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2019	31 December 2018
Correspondent accounts with banks	4,797,956	2,709,811
Correspondent account with the CBA	17,359,028	24,178,654
Short-term deposits in the CBA	10,002,191	2,000,986
Cash on hand	11,919,061	9,304,956
	44,078,236	38,194,407
Less loss allowance	(28,031)	(36,362)
Total cash and cash equivalents	44,050,205	38,158,045

At December 31, 2019 and 2018 correspondent account with CBA includes the obligatory minimum reserve deposits with the CBA, which is computed at relevant rate in accordance with regulations by the CBA for obligations of the Bank denominated in Armenian drams. As of 31 December 2019 these funds amounted to AMD 14,546,025 thousand (as of 31 December 2018: AMD 12,920,769 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 amounts of correspondent accounts with financial institutions in amounts of AMD 3,850,956 thousand (81%) (2018: AMD 2,137,329 thousand (79%)) were due from two commercial banks, which represent significant concentration.

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

In thousand Armenian drams	2019		2018	
	12-month ECL	Total	12-month ECL	Total
ECL allowance as of 1 January	36,362	36,362	7,479	7,479
Net remeasurement of loss allowance	(8,331)	(8,331)	28,883	28,883
Balance as of 31 December	28,031	28,031	36,362	36,362

Non-cash transactions performed by the Bank during 2019 are represented by:

- repayment of loan by collaterals valued at AMD 83,798 thousand (2018: AMD 588,923 thousand) (refer to note 20).

17 Derivative financial instruments

The Bank enters into derivative financial instruments principally for trading and hedging purposes. 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			31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Foreign exchange swap contracts	7,860,161	7,522	3,106	11,614,959	16,059	-
Other derivative instruments	180,313	-	6,207	124,089	1,409	-
Total derivative financial instruments		7,522	9,313		17,468	-

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2019	31 December 2018
Loans to banks and financial institutions	11,272,076	10,052,146
Deposited funds on card clearing transactions	1,423,933	1,918,970
Payment system receivables	1,480,236	1,284,666
Deposited other funds in banks	60,713	75,992
Other amounts receivable from financial institutions	1,640	1,956
	14,238,598	13,333,730
Less loss allowance on amounts due from financial institutions	(48,815)	(157,780)
Total amounts due from financial institutions	14,189,783	13,175,950

Deposited funds on card clearing transactions include a guaranteed deposit for settlements via ArCa, Visa and Mastercard payment system.

As of 31 December 2019 the weighted average effective interest rate on loans to banks and financial institutions is 14.6% for loans in AMD (2018: 12.2 %) and 6.3% for loans in USD and EUR (2018: 7.9%).

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

In thousand Armenian drams	2019		2018	
	12-month ECL	**Total**	**12-month ECL**	**Total**
ECL allowance as of 1 January	157,780	157,780	154,577	154,577
Net remeasurement of loss allowance	(108,965)	(108,965)	3,203	3,203
Balance as of 31 December	48,815	48,815	157,780	157,780

19 Reverse repurchase/repurchase agreements

The Bank has transactions under repurchase and reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Reverse repurchase agreements

As of 31 December 2019 the Bank had reverse repurchase agreements:

In thousand Armenian drams	31 December 2019	31 December 2018
Repurchase agreements with financial institutions	6,222,111	3,882,703
Repurchase agreements with individuals (note 20)	509,519	-
Total reverse repurchase agreements	6,731,630	3,882,703

As of 31 December 2019 the fair value of assets received as collateral for these reverse repurchase agreements, representing government debt securities, amounted to AMD 6,803,448 thousand (2018: AMD 3,946,554 thousand). Average interest rate is 6.0% (2018: 6.36%).

Credit losses on reverse repurchase agreements measured at amortized cost are close to zero and therefore, have not been recognized or disclosed.

Repurchase agreements

In thousand Armenian drams	31 December 2019	31 December 2018
Debt securities measured at FVOCI pledged under repurchase agreements		
RA state bonds (own) (note 21)	20,180,825	17,454,208
RA state bonds (received as collateral) (note 20)	6,803,448	3,946,554
Total investment securities measured at FVOCI pledged under repurchase agreements	26,984,273	21,400,762
Carrying amount of associated liabilities on repurchase agreements	25,623,028	20,519,048

As of 31 December 2019 and 31 December 2018 included in carrying amount of associated liabilities for repurchase agreements were repurchase agreements signed with the Central Bank of Armenia and other financial institutions. Average interest rate is 5.66% (2018: 5.99%).

20 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	15,255,992	(55,140)	15,200,852	9,175,875	(41,571)	9,134,304
Consumer lending	76,506,105	(747,231)	75,758,874	56,919,932	(359,583)	56,560,349
Commercial lending						
Trading	35,017,371	(380,190)	34,637,181	24,010,747	(708,696)	23,302,051
Manufacture	30,061,692	(823,350)	29,238,342	19,388,879	(369,185)	19,019,694
Construction	8,360,246	(38,007)	8,322,239	7,738,895	(703)	7,738,192
Agriculture	2,441,389	(1,698)	2,439,691	1,132,017	(1,160)	1,130,857
Other	10,550,745	(41,311)	10,509,434	16,771,858	(27,530)	16,744,328
Total	178,193,540	(2,086,927)	176,106,613	135,138,203	(1,508,428)	133,629,775

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 83,798 thousand (2018: AMD 588,923 thousand). The Bank is intended to sell these assets in a short period. Refer to note 16.

As of 31 December 2019 the weighted average effective interest rate on loans and advances to customers is 14.2% for loans in AMD (2018: 13.4%) and 8.7% for loans in USD, EUR (2018: 9.0%)and 16.0% for loans in RUB (2018: 16.0%).

As of 31 December 2019, the Bank had a concentration of loans represented by AMD 32,748,537 thousand due from the ten largest third party entities and parties related with them (18.4% of gross loan portfolio) (2018: AMD 39,514,638 thousand or 29.2%). An allowance of AMD 383,537 thousand (2018: AMD 441,067 thousand) was made against these loans.

As of 31 December 2019, consumer loans also include reverse repurchase agreements with individuals with carrying amount of AMD 509,519 thousand (refer to note 19).

As of 31 December 2019, the loans to customers with a carrying amount of AMD 7,862,381 thousand (2018: AMD 4,405,847 thousand) were the transfer of rights to borrowed funds (refer to note 26)

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	2018
Mortgage and consumer lending		
ECL allowance as of 1 January	401,154	460,500
Net remeasurement of loss allowance	570,083	49,442
Recoveries	138,715	158,832
Amounts written off during the year	(307,581)	(267,620)
Balance as of 31 December	802,371	401,154

In thousand Armenian drams	2019	2018
Commercial lending		
ECL allowance as of 1 January	1,107,274	1,372,796
Net remeasurement of loss allowance	47,355	363,770
Recoveries	130,594	101,506
Amounts written off during the year	(667)	(730,798)
Balance as of 31 December	1,284,556	1,107,274

Movements among stages during 2019 and 2018 are as follows:

Gross amount	Balance as of 1 January 2019	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2019	Balance as of 31 December 2019
Stage 1	134,854,044	-	(89,618)	(1,745,597)	(67,757,653)	110,980,739	176,241,915
Stage 1	112,491	89,618	-	(2,998)	(93,664)	37,790	143,237
Stage 1	171,668	1,745,597	2,998	-	(171,137)	59,262	1,808,388
Total	135,138,203	1,835,215	(86,620)	(1,748,595)	(68,022,454)	111,077,791	178,193,540

Gross amount	Balance as of 1 January 2018	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2018	Balance as of 31 December 2018
Stage 1	104,719,081	-	(58,856)	(115,468)	(46,070,805)	76,380,092	134,854,044
Stage 1	140,754	58,856	-	(8,035)	(79,087)	3	112,491
Stage 1	252,225	115,468	8,035	-	(211,205)	7,145	171,668
Total	105,112,060	174,324	(50,821)	(123,503)	(46,361,097)	76,387,240	135,138,203

As of 31 December 2019 movements among stages on ECL are as follows:

Gross amount	Balance as of 1 January 2019	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2019	Balance as of 31 December 2019
Stage 1	1,353,074	-	(20,475)	(727,725)	(174,403)	863,567	1,294,038
Stage 1	27,822	20,475	-	(1,904)	(25,605)	10,325	31,113
Stage 1	127,532	727,725	1,904	-	(127,131)	31,746	761,776
Total	1,508,428	748,200	(18,571)	(729,629)	(327,139)	905,638	2,086,927

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

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

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

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

21 Investment securities

In thousand Armenian drams	31 December 2019	31 December 2018
Investment securities measured at amortised cost		
RA corporate bonds	481,592	-
Less loss allowance	(2,195)	-
Total investment securities at amortised cost	479,397	-
Debt securities measured at FVOCI		
RA state bonds	24,337,606	18,627,928
RA corporate bonds	600,091	1,034,529
Equity instruments	89,827	89,769
Total investment securities at FVOCI	25,027,524	19,752,226
Total investment securities	25,506,921	19,752,226

An analysis of changes in the ECLs on investment securities measured at amortised cost as follows:

In thousand Armenian drams	2019		2018	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	-	-	-	-
Net remeasurement of loss allowance	2,195	2,195	-	-
Balance as of 31 December	2,195	2,195	-	-

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

In thousand Armenian drams	2019		2018	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	227,486	227,486	208,675	208,675
Net remeasurement of loss allowance	(173,887)	(173,887)	18,811	18,811
Balance as of 31 December	53,599	53,599	227,486	227,486

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2018: either).

Investment securities measured at amortised cost by effective interest rates and maturity terms:

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA corporate bonds	8.5%	2021	-	-

Investment securities measured at FVOCI upon profitability and maturity date comprise:

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA state bonds	7.5%-13%	2020-2047	8%-13%	2019-2047
RA corporate bonds	4%-8.3%	2021	5.25%-12%	2019-2021

As of 31 December 2019 investments securities measured at FVOCI amounted to AMD 20,180,825 thousand (2018: AMD 17,454,208 thousand) were pledged as collateral under loan received from another bank (refer to note 19).

22 Property and equipment

In thousand Armenian drams	Land and buildings	Vehicles	Computers	Leasehold improve-ments	Other	Right-of-use assets Land and buildings	Total
Cost or revalued amount							
As of 1 January 2018	7,524,174	714,558	2,396,798	262,084	1,934,313	-	12,831,927
Additions	898,268	73,370	594,338	115,320	410,032	-	2,091,328
Disposals	(359,503)	(76,432)	(7,591)	-	-	-	(443,526)
Reclassifications	(1,058)	-	-	-	1,058	-	-
As of 31 December 2018	8,061,881	711,496	2,983,545	377,404	2,345,403	-	14,479,729
Impact of adopting IFRS 16	-	-	-	-	-	1,875,205	1,875,205
Balance 1 January 2019	8,061,881	711,496	2,983,545	377,404	2,345,403	1,875,205	16,354,934
Additions	308,847	77,599	566,390	78,012	176,030	69,038	1,275,916
Disposals	(480,966)	(34,121)	(154,593)	(9,000)	(215,592)	-	(894,272)
Revaluation	485,717	-	-	-	-	-	485,717
Depreciation adjustment due to revaluation	(302,254)	-	-	-	-	-	(302,254)
Reclassifications	-	-	197,543	-	(197,543)	-	-
As of 31 December 2019	8,073,225	754,974	3,592,885	446,416	2,108,298	1,944,243	16,920,041
Accumulated depreciation							
As of 1 January 2018	290,585	218,792	1,672,425	73,459	1,271,969	-	3,527,230
Expenses for the year	180,736	86,645	216,985	18,295	163,202	-	665,863
Disposals	(2,872)	(33,755)	(7,591)	-	-	-	(44,218)
As of 31 December 2018	468,449	271,682	1,881,819	91,754	1,435,171	-	4,148,875

In thousand Armenian drams	Land and buildings	Vehicles	Computers	Leasehold improve-ments	Other	Right-of-use assets Land and buildings	Total
Expenses for the year	208,273	85,001	267,692	22,990	184,949	584,314	1,353,219
Depreciation adjustment due to revaluation	(302,254)	-	-	-	-	-	(302,254)
Disposals	(165,626)	(19,427)	(152,092)	(1,156)	(203,744)	-	(542,045)
Reclassifications	-	-	152,337	-	(152,337)	-	-
As of 31 December 2019	208,842	337,256	2,149,756	113,588	1,264,039	584,314	4,657,795
Carrying amount							
As of 31 December 2018	7,593,432	439,814	1,101,726	285,650	910,232	-	10,330,854
As of 31 December 2019	7,864,383	417,718	1,443,129	332,828	844,259	1,359,929	12,262,246

Revaluation of assets

The land and buildings owned by the Bank are represented by a revalued amount. Land and buildings were evaluated by an independent appraiser in January 2019 using the comparative sales methods resulting in a revaluation of AMD 485,717 thousand. Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented with the difference between the initial cost and the accumulated depreciation, as aof 31 December 2019 the carrying amount would amount to AMD 3,695,514 thousand (2018: AMD 3,097,863 thousand).

Leased property and equipment

As of 31 December 2019, property and equipment includes right-of-use assets of AMD 1,359,929 thousand related to leased branches (refer to note 32).

Fully depreciated items

As of 31 December 2019 fixed assets included fully depreciated assets in amount of AMD 666,625 thousand (2018: AMD1,095,294 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 (2018: either).

Contractual commitments

As of 31 December 2019 the Bank had no contractual commitments in respect of acquisition of property and equipment (2018: either).

23 Intangible assets

In thousand Armenian drams	Licenses	Software	Other	Intangible assets arising from development	Total
Cost					
As of 1 January 2018	254,870	150,155	75,637	-	480,662
Additions	92,919	142,707	132	-	235,758
Disposals	(338)	-	-	-	(338)
Reclassifications	44,762	1,056	(45,818)	-	-
As of 31 December 2018	392,213	293,918	29,951	-	716,082
Additions	25,002	7,368	599	60,000	92,969
As of 31 December 2019	417,215	301,286	30,550	60,000	809,051
Accumulated amortisation					
As of 1 January 2018	109,791	36,584	13,169	-	159,544
Amortisation charge	31,091	16,177	3,015	-	50,283
Disposals	(338)	-	-	-	(338)
Reclassifications	-	1,056	(1,056)	-	-
As of 31 December 2018	140,544	53,817	15,128	-	209,489
Amortisation charge	44,649	26,005	3,080	-	73,734
As of 31 December 2019	185,193	79,822	18,208	-	283,223
Carrying amount					
As of 31 December 2018	251,669	240,101	14,823	-	506,593
As of 31 December 2019	232,022	221,464	12,342	60,000	525,828

Contractual commitments

As of 31 December 2019 the Bank had a contractual commitment totalling AMD 114,000 thousand. These commitments are related to the development and implementation of the Bank's mobile application, for which the Bank as of 31 December 2019 recognized AMD 60,000 thousand drams of intangible assets based on the provisions of IAS 38.

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

As of 31 December 2019, the cost of fully depreciated assets included in intangible assets amounted to AMD 32,216 thousand (2018: AMD 31,560 thousand).

24 Other assets

In thousand Armenian drams	31 December 2019	31 December 2018
Settlements with employees	51,324	60,378
Amounts receivable	31,919	78,470
Less loss allowance on other financial assets	(12,860)	(9,468)
Total other financial assets	70,383	129,380
Repossessed assets	590,116	802,163
Prepayments and other debtors	733,754	760,888
Materials	302,344	373,018
Precious metals	51,728	116,058
Other assets	62,972	62,276
Total non-financial assets	1,740,914	2,114,403
Total other assets	1,811,297	2,243,783

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

In thousand Armenian drams	2019		2018	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	9,468	9,468	15,800	15,800
Net remeasurement of loss allowance	67,269	67,269	(6,332)	(6,332)
Net write-off	(66,835)	(66,835)	-	-
Recovery	2,958	2,958	-	-
Balance as of 31 December	12,860	12,860	9,468	9,468

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

In thousand Armenian drams	31 December 2019	31 December 2018
Real estate	590,116	802,163
Total repossessed assets	590,116	802,163

As of the date of repossession the collateral 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.

25 Debt securities issued

In thousand Armenian drams	31 December 2019	31 December 2018
Bonds	4,452,356	2,060,960
Total debt securities issued	4,452,356	2,060,960

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
25.04.2018	USD	100	20,000	5.00	25.07.2020	2,000,000
29.01.2019	USD	100	21,000	5.25	29.01.2022	2,100,000
03.05.2019	USD	100	30,000	5.50	03.05.2022	3,000,000
03.05.2019	AMD	10,000	100,000	10.25	03.05.2022	1,000,000,000

The Bank's bonds are listed on NASDAQ OMX Armenia Stock Exchange.

The Bank has not repurchased any of its own bonds 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).

26 Other borrowed funds

In thousand Armenian drams	31 December 2019	31 December 2018
Loans from the CBA	9,258,543	6,030,003
Advances from Government of Republic of Armenia	47,504	25,314
Total loans from CBA and Government of Republic of Armenia	9,306,047	6,055,317
Loans from financial institutions	22,670,344	19,938,064
Deposits from financial institutions	21,796,419	12,942,681
Current accounts of financial institutions	1,229,822	1,079,460
Correspondent accounts of other banks	72,352	8,693
Other	140,556	116,893
Total amounts due to financial institutions	45,909,493	34,085,791
Loans from international financial institutions	36,707,937	24,059,690
Total loans from international financial institutions	36,707,937	24,059,690
Total other borrowed funds	91,923,477	64,200,798

Obligations of CBA include loans received within the scope of “Small and medium business loan project” and borrowings within the scope of "Renewable energy" and "Development of sustainable housing market" loan programs of German-Armenian fund.

As of 31 December 2019 the weighted average effective interest rate on loans from Government of Rpublic of Armenia is 7.60 % for loans in AMD (2018: 7.94 %).

As of 31 December 2019 and 31 December 2018 loans and deposits from financial institutions represent loans and deposits from resident and non-resident banks.

As of 31 December 2019 the weighted average effective interest rate on loans from financial institutions is 5.64% for loans in AMD (2018: 7.64%), and 2.89% for loans in USD, EUR and other convertible currencies (2018: 5%).

As of 31 December 2019 the weighted average effective interest rate on deposits from financial institutions is 9.77% for loans in AMD (2018: 10.58%), and 4.01% for loans in USD, EUR and other convertible currencies (2018: 4.02%).

All deposits from banks have fixed interest rates. Loans from financial institutions have variable and fixed interest rates.

As of 31 December 2019 attracted borrowings from financial institutions are secured with the the transfer of rights of loans from customers in gross amount of AMD 7,862,381 thousand (2018: AMD 4,405,847 thousand) (refer to note 20).

The Bank has not had any defaults of principal, interest or other breaches with respect to amounts due to international financial institutions for the year ended 31 December 2019 (2018: either).

As of 31 December 2019 and 2018 loans from international financial institutions, including accrued interest, with stipulated compliance with certain capital and financial covenants as per respective loan agreements are presented below:

In thousand Armenian drams	Currency	31 December 2019			31 December 2018		
		Maturity	Nominal interest rate, %	Carrying amount	Maturity	Nominal interest rate, %	Carrying amount
EBRD	AMD	4-5 years	4%-7.32%	5,814,425	5 years	7.28%	962,371
Symbiotics SA	AMD	4 years	8.83%-11.67%	4,941,443	4 years	11.67%	2,539,132
EBRD	EUR	Less than 1 year	2-2.3%	1,261,454	-	-	-
FMO	USD	4-5 years	5.19%-5.67%	9,545,038	-	-	-
DEG	USD	7 years	7.21%	4,926,242	7 years	7.52%	4,966,974
INCOFIN CVBA	USD	4 years	5.56%-7.22%	4,684,495	4 years	5.56%	4,841,134
BSTDB	USD	4-5 years	5.05%	2,394,446	-	-	-
GII	USD	4 years	5.55%	1,456,626	3-4 years	5%-5.55%	3,876,980
EFA	USD	2-3 years	6.67%	1,195,435	2-3 years	6.67%	1,201,566
GLS Alternative Investments - Mikrofinanzfonds	USD	3 years	6.67%	488,333	3 years	6.67%	491,100
Blue Orchard MicrofinanceFund LLC	USD	-		-	3 years	8.33%	812,081
Asian development Bank	USD	-		-	Less than 1 year	4.76%-5.15%	1,462,058
MSME BSA	USD	-		-	2-4 years	6.89%	2,422,967
FNSCA	USD	-		-	3 years	5%	483,327
Total				36,707,937			24,059,690

The Bank is obligated to comply with financial covenants in relation to the above borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. At December 31, 2019 the Bank had not breached these covenants (2018: either). As of 31 December the following were an exception:

- Single party exposure to capital ratio in relation to loan from DEG and EBRD;
- Ration of highly liquid assets to total assets in relation to loan from BlueOrchard Microfinance Fund LLC.

For the purposes of the Bank's liquidity position analysis as of 31 December 2018, the Bank includes all the borrowings from international financial institutions as on demand as according to agreements with international institutions there are cross default clauses, refer to note 37.3. Management is of the firm belief, however, that these loans will be repaid according to their contractual terms.

In 2019 the Bank received waivers from two out of three banks for breach of covenants. From the third bank, the management received an e-mail confirmation that this party will not request a repayment earlier.

27 Amounts due to customers

In thousand Armenian drams	31 December 2019	31 December 2018
Corporate customers		
Current/Settlement accounts	20,817,396	18,902,627
Time deposits	9,067,041	4,508,519
	29,884,437	23,411,146
Individual customers		
Current/Settlement accounts	23,526,027	20,320,693
Time deposits	59,956,414	52,096,929
	83,482,441	72,417,622
Total amounts due to customers	113,366,878	95,828,768

Deposits of corporate and individual customers carry fixed interest rates.

As of 31 December 2019 included in amounts due to corporate/individual customers are deposits amounting to AMD 4,791,467 thousand (2018: AMD 1,026,805 thousand) held as security against loans, letters of credit issued, guarantees and other related instruments. The fair value of those deposits approximates their carrying amount.

As of 31 December 2019 the aggregate balance of top ten customers of the Bank (including relating parties, refer to note 33) amounts to AMD 21,815,937 thousand (2018: AMD 21,720,218 thousand) or 19% of total customer accounts (2018: 23%).

As of 31 December 2019 the weighted average effective interest rates on amounts due to customers was 9.5% for amounts attracted in AMD (2018: 10.3%) and 4.3% for amounts attracted in USD, EUR and other freely convertible currencies (2018: 4.6%).

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

28 Subordinated debt

In thousand Armenian drams	31 December 2019	31 December 2018
Subordinated debt provided by individuals	719,787	-
Subordinate debt from the related party	-	3,382,149
Total subordinated debt	719,787	3,382,149

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.

Maturity for subordinated debt attracted by individuals is set up in 2026.

As of 31 December 2019 the annual interest rate on subordinated debt in US dollars was 6% (2018: 9.9%), subordinated debt in AMD was not available (2018: 14%).

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

The subordinated debt from related parties were used to enhance the capital strength.

29 Other liabilities

In thousand Armenian drams	31 December 2019	31 December 2018
Amounts due to individuals	328,302	305,100
Advances received from the issuance of shares (note 30)	500,500	-
Dividends payable	385,694	235,498
Amounts payable	47,974	44,882
Lease liabilities* (note 32)	1,422,777	-
Total other financial liabilities	2,685,247	585,480
Due to personnel	817,804	669,236
Tax payable, other than income tax	288,430	251,932
Provisions*	25,808	61,891
Total other non-financial liabilities	1,132,042	983,059
Total other liabilities	3,817,289	1,568,539

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

30 Equity

As of 31 December 2019 the Bank's announced and paid-in share capital was AMD 26,135,843 thousand and registered capital was AMD 25,635,343 thousand (refer to note 29). In accordance with the Bank's statues, the share capital consists of 1,852,533 ordinary shares, all of which have a par value of AMD 10,400 each and 424,600 preference shares, all of which have a par value of AMD 15,000.

The respective shareholders were as follows:

In thousand Armenian drams	31 December 2019		31 December 2018	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Saribek Sukiasyan	8,135,958	31.74	5,457,078	24.51
Khachatur Sukiasyan	4,638,533	18.09	4,638,533	20.83
Robert Sukiasyan	4,241,337	16.54	3,060,046	13.74
Eduard Sukiasyan	3,253,158	12.69	3,253,158	14.61
Other shareholders	5,366,357	20.94	5,857,528	26.31
	25,635,343	100	22,266,343	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.

In 2019 the shareholders of the Bank increased its share capital by issuing preference shares in amount of AMD 3,369,000 thousand (2018: AMD 3,000,000 thousand).

In 2018 the Bank performed internal movements (capitalization of retained earnings and other reserves) from share premium with value of AMD 33,438 thousand, from general reserve with value of AMD 3,000,000 thousand and from retained earnings AMD 2,524,160 thousand to share capital increasing the value of ordinary nominal shares.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams. Preference shares are non-voting and guarantee annual dividends of not less than 14% of their nominal amount.

The amount of declared and paid dividends on preference and ordinary shares recognized in the financial statements as of 31 December 2019 amounted to AMD 781,821 thousand and AMD 277,880 thousand respectively (2018: AMD 232,438 thousand and AMD 277,880 thousand).

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

31 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

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

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
Undrawn loan commitments	6,092,716	17,900,458
Guarantees	5,979,486	3,599,016
Total commitments and contingent liabilities	12,072,202	21,499,474

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 20).

The changes in the ECLs on financial guarantees are presented below:

In thousand Armenian drams	2019		2018	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	61,891	61,891	103,411	103,411
Net remeasurement of loss allowance	(36,083)	(36,083)	(41,520)	(41,520)
Balance as of 31 December	25,808	25,808	61,891	61,891

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

In the normal course of business, the Bank enters into commercial lease agreements for office 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	663,159
Later than 1 year and not later than 5 years	2,177,613
Later than 5 years	33,179
Total operating lease commitments	2,873,951

Information on the Bank's capital commitments is disclosed in notes 22 and 23.

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.

However as of 31 December 2019 the Bank had insurance for its head office building and transportation means. The Bank also had insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 Leases

The Bank has leases for the 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, plant 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
Branches	26	3 months-9 years	3 years	26
Archiving area	6	1.5-4 years	3 years	6

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

In thousand Armenian drams	Balance as of 1 January	Additions	Depreciation	Balance as of 31 December
Branches	1,121,996	69,038	(411,036)	779,998
Archiving area	753,209	-	(173,278)	579,931
Total	1,875,205	69,038	(584,314)	1,359,929

Lease liabilities

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

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

In thousand Armenian drams	31 December 2019
As of 1 January - effect of adoption of IFRS 16	1,875,205
Additions	69,038
Accretion of interest	165,625
Payments	(687,091)
Total lease liabilities as of 31 December	1,422,777

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10.25% (2018 n/a).

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

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

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 Bank was committed to short term leases and the total commitment at that date was AMD 13,172 thousand.

33 Transactions with related parties

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

As of 31 December 2019 and 31 December 2018 the ultimate controlling party of the Bank are the Sukiasyans, who control 79.07% (2018: 73.71%) of the share capital of the Bank.

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

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

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and advances to customers				
Loans outstanding as of 1 January gross	2,664,389	138,134	1,031,923	153,058
Loans issued during the year	1,320,925	339,909	2,215,008	283,837
Loan repayments during the year	(1,013,869)	(350,524)	(582,542)	(298,761)
Loans outstanding as of 31 December gross	2,971,445	127,519	2,664,389	138,134
Less: allowance for loan impairment	(36,592)	(2,023)	(85,521)	(2,666)
Loans outstanding as of 31 December	2,934,853	125,496	2,578,868	135,468
Amounts due from financial institutions				
As of 1 January	67,482	-	100,656	-
Increase	200,000	-	67,000	-
Decrease	(217,330)	-	(100,174)	-
As of 31 December	50,152	-	67,482	-
Less: allowance for loan impairment	(134)	-	(7)	-
Balance as of 31 December	50,018	-	67,475	-
Amounts due to financial institutions				
As of 1 January	177,455	-	186,479	-
Increase	10,267,089	-	9,533,713	-
Decrease	(10,253,603)	-	(9,542,737)	-
Balance as of 31 December	190,941	-	177,455	-

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Amounts due to customers				
Deposits as of 1 January	677,395	446,312	845,554	369,357
Deposits received during the year	11,110,044	1,102,431	15,987,550	1,041,325
Deposits repaid during the year	(10,976,600)	(737,252)	(16,155,709)	(964,370)
Deposits as of 31 December	810,839	811,491	677,395	446,312
Subordinated debt				
Subordinated debt as of 31 December	3,382,149	-	6,409,601	-
Received during the year	-	-	-	-
Repaid during the year	(3,382,149)	-	(3,027,452)	-
As of 31 December	-	-	3,382,149	-
Issuance of preference shares	3,369,000	-	3,000,000	-
Guarantees issued	32,928	-	83,791	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	146,103	14,731	280,678	17,799
Interest and similar expenses	3,458	3,864	572,562	25,006
Impairment (losses)/reversal on credit losses	48,802	643	(33,642)	(1,041)
Acquisition of property and equipment	-	-	36,627	-
Commission expenses	1,101	278	478	-
Advertising expenses	53,400	-	41,593	-
Insurance expenses	137,603	-	132,896	-
Operating lease expenses	-	-	413,568	-
Finance lease expenses	421,129	-	-	-
Business trip expenses	39,216		40,465	-
Other expenses	99,452	-	-	-

The loans issued to the Bank's related party are repayable over 1-20 years and have interest rates of 5-19%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and bonuses	696,874	548,354
Total key management compensation	696,874	548,354

34 Fair value measurement

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

34.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which 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 and cash equivalents	-	44,050,205	-	44,050,205	44,050,205
Amounts due from financial institutions	-	14,189,783	-	14,189,783	14,189,783
Loans and advances to customers	-	178,965,542	-	178,965,542	176,106,613
Investments securities measured at amortised cost	-	484,701	-	484,701	479,397
Reverse repurchase agreements	-	6,363,858	-	6,363,858	6,222,111
Other financial assets	-	70,383	-	70,383	70,383
Financial liabilities					
Debt securities issued	-	4,442,633	-	4,442,633	4,452,356
Repurchase agreements	-	25,623,028	-	25,623,028	25,623,028
Amounts due to customers	-	112,578,902	-	112,578,902	113,366,878
Other borrowed funds	-	89,329,836	-	89,329,836	91,923,477
Subordinated debt	-	659,045	-	659,045	719,787
Other financial liabilities	-	2,685,247	-	2,685,247	2,685,247

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	38,158,045	-	38,158,045	38,158,045
Amounts due from financial institutions	-	13,175,950	-	13,175,950	13,175,950
Loans and advances to customers	-	136,837,816	-	136,837,816	133,629,775
Reverse repurchase agreements	-	3,946,554	-	3,946,554	3,882,703
Other assets	-	129,380	-	129,380	129,380
Financial liabilities					
Debt securities issued	-	2,054,185	-	2,054,185	2,060,960
Repurchase agreements	-	20,519,048	-	20,519,048	20,519,048
Amounts due to customers	-	95,054,600	-	95,054,600	95,828,768
Other borrowed funds	-	63,054,857	-	63,054,857	64,200,798
Subordinated debt	-	3,701,500	-	3,701,500	3,382,149
Other financial liabilities	-	585,480	-	585,480	585,480

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 5% to 24% per annum (2018: 5% 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.

Investment securities measured at amortised cost

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

Due to customers

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

Other borrowings

The estimated fair value of borrowing with fixed and unquoted interest rates is determined by calculating expected future cash flows which are discounted by interest rates on new debt instruments with a similar maturity.

Debt securities issued

The estimated fair value of the debt securities issued is determined on the basis of the expected future cash flows, which are discounted by the corresponding interest rates at the end of the year, which mainly coincide with the current interest rates.

34.2 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 measured at FVOCI	-	25,027,524	-	25,027,524
Derivative financial assets	-	7,522	-	7,522
Total	-	25,035,046	-	25,035,046
Financial liabilities				
Derivative financial liabilities	-	9,313	-	9,313
Total	-	9,313	-	9,313
Net fair value	-	25,025,733	-	25,025,733

In thousand Armenian drams				31 December 2018
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment securities measured at FVOCI	-	19,752,226	-	19,752,226
Derivative financial assets	-	17,468	-	17,468
Total	-	19,769,694	-	19,769,694
Net fair value	-	19,769,694	-	19,769,694

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. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

34.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2019
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Property and equipment				
Land and buildings	-	-	8,073,225	8,073,225
Total	-	-	8,073,225	8,073,225
Net fair value	-	-	8,073,225	8,073,225

In thousand Armenian drams				31 December 2018
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Property and equipment				
Land and buildings	-	-	8,061,881	8,061,881
Total	-	-	8,061,881	8,061,881
Net fair value	-	-	8,061,881	8,061,881

Fair value measurements in Level 3

The Bank’s non-financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. An analysis of financial assets within this level is represented as follows:

In thousand Armenian drams	**2019**	**2018**
Non-financial assets		
As of 1 January 2019	8,061,881	7,524,174
Additions	308,847	898,268
Disposal	(480,966)	(359,503)
Revaluation	485,717	-
Depreciation adjustment due to revaluation	(302,254)	-
Reclassification	-	(1,058)
As of 31 December 2019	8,073,225	8,061,881
Net fair value	8,073,225	8,061,881

35 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2019					
				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)	6,731,630	-	6,731,630	6,731,630	-	-
Total	6,731,630	-	6,731,630	6,731,630	-	-
Financial liabilities						
Repurchase agreements (note 19)	(25,623,028)	-	(25,623,028)	20,180,825	-	(5,442,203)
Total	(25,623,028)	-	(25,623,028)	20,180,825	-	(5,442,203)

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)	3,882,703	-	3,882,703	3,882,703	-	-
Total	3,882,703	-	3,882,703	3,882,703	-	-
Financial liabilities						
Repurchase agreements (note 19)	(20,519,048)	-	(20,519,048)	17,454,208	-	(3,064,840)
Total	(20,519,048)	-	(20,519,048)	17,454,208	-	(3,064,840)

36 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 37.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 2019
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	44,050,205	-	44,050,205	-	-	-	44,050,205
Derivative financial assets	7,522	-	7,522	-	-	-	7,522
Amounts due from financial institutions	2,518,585	9,283,586	11,802,171	963,679	1,423,933	2,387,612	14,189,783
Loans and advances to customers	7,985,447	47,174,971	55,160,418	90,526,444	30,419,751	120,946,195	176,106,613
Investment securities							
- Investment securities at fair value through other comprehensive income	20,180,825	7,451	20,188,276	1,582,933	3,256,315	4,839,248	25,027,524
- Investments securities at amortised cost	-	684	684	478,713	-	478,713	479,397
Securities pledged under repurchase agreements	6,013,000	209,111	6,222,111	-	-	-	6,222,111
Other financial assets	70,383	-	70,383	-	-	-	70,383
	80,825,967	56,675,803	137,501,770	93,551,769	35,099,999	128,651,768	266,153,538
Liabilities							
Derivative financial liabilities	9,313	-	9,313	-	-	-	9,313
Debt securities issued	18,064	988,172	1,006,236	3,446,120	-	3,446,120	4,452,356
Repurchase agreements	25,623,028	-	25,623,028	-	-	-	25,623,028
Other borrowed funds	6,381,096	22,195,116	28,576,212	57,563,683	5,783,582	63,347,265	91,923,477
Amounts due to customers	49,913,854	46,844,992	96,758,846	16,041,238	566,794	16,608,032	113,366,878
Subordinated debt	237	-	237	-	719,550	719,550	719,787
Other financial liabilities	872,908	887,162	1,760,070	866,395	58,782	925,177	2,685,247
	82,818,500	70,915,442	153,733,942	77,917,436	7,128,708	85,046,144	238,780,086
Net position	(1,992,533)	(14,239,639)	(16,232,172)	15,634,333	27,971,291	43,605,624	27,373,452
Accumulated gap	(1,992,533)	(16,232,172)		(597,839)	27,373,452		

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 and cash equivalents	38,158,045	-	38,158,045	-	-	-	38,158,045
Derivative financial assets	17,468	-	17,468	-	-	-	17,468
Amounts due from financial institutions	6,834,632	1,649,555	8,484,187	2,721,169	1,970,594	4,691,763	13,175,950
Reverse repurchase agreements	3,882,703	-	3,882,703	-	-	-	3,882,703
Loans and advances to customers	4,108,005	43,959,089	48,067,094	61,368,037	24,194,644	85,562,681	133,629,775
Investment securities							
- Investment securities at fair value through other comprehensive income	17,454,208	493,938	17,948,146	1,173,278	630,802	1,804,080	19,752,226
Other financial assets	121,308	7,372	128,680	217	483	700	129,380
	70,576,369	46,109,954	116,686,323	65,262,701	26,796,523	92,059,224	208,745,547
Liabilities							
Debt securities issued	-	1,093,380	1,093,380	967,580	-	967,580	2,060,960
Repurchase agreements	20,519,048	-	20,519,048	-	-	-	20,519,048
Other borrowed funds	27,374,010	20,589,923	47,963,933	14,128,118	2,108,747	16,236,865	64,200,798
Amounts due to customers	43,321,959	38,548,118	81,870,077	11,830,458	2,128,233	13,958,691	95,828,768
Subordinated debt	21,725	-	21,725	3,360,424	-	3,360,424	3,382,149
Other financial liabilities	344,409	241,071	585,480	-	-	-	585,480
	91,581,151	60,472,492	152,053,643	30,286,580	4,236,980	34,523,560	186,577,203
Net position	(21,004,782)	(14,362,538)	(35,367,320)	34,976,121	22,559,543	57,535,664	22,168,344
Accumulated gap	(21,004,782)	(35,367,320)		(391,199)	22,168,344		

37 Risk management

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

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

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

Risk management structure

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

Board

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Executive Board

The Executive Board has the responsibility to monitor the uninterrupted risk management process within the Bank. It is responsible for elaboration and application of the risk management strategy, principles, policies and limits. The Executive Board is responsible for solving problems related with risk management and monitors the application of respective decisions made with respect to them.

Risk Management Subdivision

Risk management is carried out by Strategy Risk Management Administration under policies approved by the Board of Directors. Strategy and Risk Management Department diagnoses, identifies, analyses, evaluates and hedges financial risks in close co-operation with the Bank's operating departments. The Risk Management Subdivision is responsible for monitoring risk management principles, policy and the Bank's risk limits, as well as implementing and realizing procedures connected with risk management.

Internal audit

Internal audit is responsible for the independent assessment of risk management and monitoring for the overall environment. Risk management processes throughout the Bank are audited annually by the internal audit, which 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 respective management body.

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 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.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. The Executive Body receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank. A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary 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. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

37.1 Credit risk

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

37.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 37.1.2.

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	11,919,061	-	-	11,919,061
Standard	32,159,175	-	-	32,159,175
Gross carrying amount	44,078,236	-	-	44,078,236
Loss allowance	(28,031)	-	-	(28,031)
Net carrying amount	44,050,205	-	-	44,050,205
Amounts due from financial institutions				
Standard	14,238,598	-	-	14,238,598
Gross carrying amount	14,238,598	-	-	14,238,598
Loss allowance	(48,815)	-	-	(48,815)
Net carrying amount	14,189,783	-	-	14,189,783
Loans to mortgage and consumer customers				
High grade	91,195,330	-	-	91,195,330
Standard grade	151,566	908	-	152,474
Low grade	-	141,341	-	141,341
Non-performing grade	-	-	272,952	272,952
Gross carrying amount	91,346,896	142,249	272,952	91,762,097
Loss allowance	(620,006)	(30,502)	(151,863)	(802,371)
Net carrying amount	90,726,890	111,747	121,089	90,959,726

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High grade	84,889,166	-	-	84,889,166
Standard grade	2,945	-	-	2,945
Low grade	-	1,917	-	1,917
Non-performing grade	-	-	1,537,415	1,537,415
Gross carrying amount	84,892,111	1,917	1,537,415	86,431,443
Loss allowance	(674,032)	(611)	(609,913)	(1,284,556)
Net carrying amount	84,218,079	1,306	927,502	85,146,887
Debt investment securities at amortised cost				
Standard	481,592	-	-	481,592
Gross carrying amount	481,592	-	-	481,592
Loss allowance	(2,195)	-	-	(2,195)
Net carrying amount	479,397	-	-	479,397
Debt investment securities at FVOCI				
Standard	25,027,524	-	-	25,027,524
Carrying amount-fair value	25,027,524	-	-	25,027,524
Loss allowance	(53,599)	-	-	(53,599)
Other financial assets				
Standard grade	83,243	-	-	83,243
Gross carrying amount	83,243	-	-	83,243
Loss allowance	(12,860)	-	-	(12,860)
Net carrying amount	70,383	-	-	70,383
Loan commitments and financial guarantee				
Standard grade	12,072,202	-	-	12,072,202
	12,072,202	-	-	12,072,202
Loss allowance*	(25,808)	-	-	(25,808)

In thousand Armenian drams				31 December 2018
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	9,304,956	-	-	9,304,956
Standard	28,889,451	-	-	28,889,451
Gross carrying amount	38,194,407	-	-	38,194,407
Loss allowance	(36,362)	-	-	(36,362)
Net carrying amount	38,158,045	-	-	38,158,045

In thousand Armenian drams				31 December 2018
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Amounts due from financial institutions				
Standard	13,333,730	-	-	13,333,730
Gross carrying amount	13,333,730	-	-	13,333,730
Loss allowance	(157,780)	-	-	(157,780)
Net carrying amount	13,175,950	-	-	13,175,950
Loans to mortgage and consumer customers				
High grade	65,628,546	-	-	65,628,546
Standard grade	184,955	-	-	184,955
Low grade	-	112,235	-	112,235
Non-performing grade	-	-	170,071	170,071
Gross carrying amount	65,813,501	112,235	170,071	66,095,807
Loss allowance	(246,960)	(27,691)	(126,503)	(401,154)
Net carrying amount	65,566,541	84,544	43,568	65,694,653
Loans to commercial customers				
High grade	69,035,913	-	-	69,035,913
Standard grade	4,630	-	-	4,630
Low grade	-	256	-	256
Non-performing grade	-	-	1,597	1,597
Gross carrying amount	69,040,543	256	1,597	69,042,396
Loss allowance	(1,106,114)	(131)	(1,029)	(1,107,274)
Net carrying amount	67,934,429	125	568	67,935,122
Debt investment securities at FVOCI				
Standard	19,752,226	-	-	19,752,226
Carrying amount-fair value	19,752,226	-	-	19,752,226
Loss allowance	(185,751)	-	-	-
Other financial assets				
Standard grade	138,848	-	-	138,848
Gross carrying amount	138,848	-	-	138,848
Loss allowance	(9,468)	-	-	(9,468)
Net carrying amount	129,380	-	-	129,380
Loan commitments and financial guarantee				
High grade	21,499,474	-	-	21,499,474
	21,499,474	-	-	21,499,474
Loss allowance*	(61,891)	-	-	(61,891)

* Standard grade includes allowance on financial guarantees.

37.1.2 Impairment assessment

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Bank uses a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are creditimpaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 100%.

Due from financial institutions, interbank deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies (Moody's, Fitch, S&P).

Allowance for expected credit losses on other receivables is estimated individually using the loan loss allowance rate of the client. If the client does not have loan exposure in the bank, than the credit rating of the client and the corresponding probability of default and loss given default are used. In addition, expected period of exposure for receivable is estimated. Finally, PDs, LGDs and expected period of exposure are multiplied to calculate expected credit allowance for receivables.

Loans to customers

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS 9.

Bank measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 1% of regulatory capital. Besides, they should have the signs of significant increase in credit risk, such as increase in overdue days or significant financial difficulties.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analyzed by Risk Management department.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

Measurement of ECL on an individual basis

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the bank expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the repayments and realization of any assets held as collateral against the loan are taking into account.

The Bank generally assesses liquidation value of the collaterals considering 2 years as a time to collect period and application of valuation haircut of 25%. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

Measurement of ECL on a collective basis

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Collective assessment is performed on a borrower level rather than contract level.

Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

- Segment
- Days past due
- Restructuring
- Collateralization

Portfolio subject to collective assessment of ECL is divided into 5 segments: Consumer, Mortgage, Manufacturing, Agriculture, Other.

Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank for collective assessed loans;
- The borrower's loan was restructured more than once;

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The information assessed depends on the materiality of exposure too. Qualitative indicators, such as external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower's exposure is above materially significant threshold.

Significant increase in credit risk

The Bank monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Bank considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower, material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.

When an asset becomes more than 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The carrying amount of renegotiated loans to customers as of 31 December 2019 and 2018 were AMD 1,248,803 thousand and AMD 1,907,172 thousand, respectively.

Probability of default (PD)

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as six years from January 2012 to December 2019. During the observation period, the one month migration matrices were generated.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue. The borrower that has defaulted at least once during observation period is considered defaulted during the remaining observation period.

To estimate Point in Time PDs the Bank incorporates of forward looking information under different macro scenarios.

Loss given default (LGD)

Another component of impairment model is LGD (loss given default), that's is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using 2 years of time to collect period and 25% valuation haircut. LGD models for unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on a borrower level.

Exposure at default (EAD)

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization.

Forward-looking information

The Bank uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Four macroeconomic variables were sued for determining the probability of default: Consumer Price Index (CPI), inflows from money transfers, exchange rate of USD/AMD and RUB/AMD. They will lead to a different probability of default. Weighting of these different variables forms the basis of a weighted average probability of default that is used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with twelve month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses with different scenarios and their weights are published by Armenian Statistical Agency Armstat.

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 5 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2019 and the last one was done in December 2019 based on last available information.

37.1.3 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	39,712,575	3,409,043	928,587	44,050,205
Derivative financial assets	-	7,522	-	7,522
Amounts due from financial institutions	13,656,692	175,824	357,267	14,189,783
Loans and advances to customers	176,073,905	5,373	27,335	176,106,613
Investment securities				
- Investment securities at fair value through other comprehensive income	25,021,668	-	5,856	25,027,524
- Investment securities at amortised cost	479,397	-	-	479,397
Reverse repurchase agreements	6,222,111	-	-	6,222,111
Other financial assets	69,288	-	1,095	70,383
Loan commitments and financial guarantee	10,618,594	-	1,453,608	12,072,202
As of 31 December 2019	271,854,230	3,597,762	2,773,748	278,225,740
As of 31 December 2018	225,037,073	3,846,271	1,361,677	230,245,021

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

Industry sectors

As of 31 December 2019, the Bank's main credit exposure, classified by economic sectors, are concentrated in the financial sector, except for loans. For distribution of industry sectors for loans, refer to note 20.

37.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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
Loans collateralized by real estate	64,325,869	52,110,663
Loans collateralized by guarantees	64,398,317	40,268,615
Loans collateralized by gold	12,532,032	9,417,962
Loans collateralized by vehicles (cars)	1,973,902	1,660,810
Loans collateralized by cash	1,928,527	556,889
Loans collateralized by materials	3,853,768	1,181,078
Loans collateralized by equipment	2,610,794	1,663,811
Loans collateralized by gold bullion	-	7,029
Loans collateralized by other securities	267,710	287,512
Other collateral	11,503,009	15,780,613
Unsecured loans	14,799,612	12,203,221
Total loans and advances to customers (gross)	178,193,540	135,138,203

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

37.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

37.2.1 Market risk – Non-trading

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 Bank's Board 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.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI, including the effect of any associated hedges, and swaps designated as cash flow hedges, as of 31 December 2019 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							2019
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Other borrowed funds	Libor6+2.25% - 7.52%		18,766,457	36,860	-	-	18,803,317

In thousand Armenian drams							2018
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Other borrowed funds	Libor6+2.25% - 7.52%		14,333,652	101,104	-	-	14,434,756

Currency risk

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

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

In thousand Armenian drams	31 December 2019			31 December 2018		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	10%	(618,623)	(618,623)	10%	(84,607)	84,607
EUR	10%	667,038	667,038	10%	(19,496)	19,496

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	26,162,041	16,308,893	1,579,271	44,050,205
Amounts due from financial institutions	2,283,747	11,636,762	269,274	14,189,783
Loans and advances to customers	100,493,840	75,557,433	55,340	176,106,613
Investment securities				
- Investment securities at fair value through other comprehensive income	24,526,738	500,786	-	25,027,524
- Investments securities at amortised cost	-	479,397	-	479,397
Reverse repurchase agreements	5,775,586	446,525	-	6,222,111
Other financial assets	30,843	39,491	49	70,383
	159,272,795	104,969,287	1,903,934	266,146,016
Liabilities				
Debt securities issued	1,016,771	3,435,585	-	4,452,356
Repurchase agreements	25,431,006	192,022	-	25,623,028
Other borrowed funds	40,306,296	51,322,734	294,447	91,923,477
Amounts due to customers	63,840,402	47,961,443	1,565,033	113,366,878
Subordinated debt	-	719,787	-	719,787
Other financial liabilities	2,312,271	287,510	85,466	2,685,247
Total	132,906,746	103,919,081	1,944,946	238,770,773
Total effect of derivative financial instruments	56,172	(59,340)	1,377	(1,791)
Net position as of 31 December 2019	26,422,221	990,866	(39,635)	27,373,452
Commitments and contingent liabilities as of 31 December 2019	4,939,035	7,037,552	95,615	12,072,202
Total financial assets	115,959,892	90,936,165	1,832,022	208,728,079
Total financial liabilities	90,841,890	94,012,548	1,722,765	186,577,203
Total effect of derivative financial instruments	(2,040,328)	2,035,356	22,440	17,468
Net position as of 31 December 2018	23,077,674	(1,041,027)	131,697	22,168,344
Commitments and contingent liabilities As of 31 December 2018	7,388,572	14,079,947	30,955	21,499,474

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

37.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. 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.

The indicators as of 31 December are as follows:

As of 31 December, these ratios were as follows:	Unaudited 2019, %	Unaudited 2018, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	21.27	19.05
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	112.48	94.92

Analysis of financial liabilities by remaining contractual maturities

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

In thousand Armenian drams	31 December 2019					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Debt securities issued	41,281	1,226,696	3,746,716	-	5,014,693	4,452,356
Repurchase agreements	25,668,669	1,301	-	-	25,669,970	25,623,028
Other borrowed funds	7,028,555	26,930,074	69,096,583	8,006,695	111,061,907	91,923,477
Amounts due to customers	52,608,353	49,810,728	18,439,210	756,091	121,614,382	113,366,878
Subordinated debt	3,548	39,625	892,478	86,464	1,022,115	719,787
Other financial liabilities	886,330	1,066,481	998,703	69,762	3,021,276	2,685,247
Total undiscounted non-derivative financial liabilities	86,236,736	79,074,905	93,173,690	8,919,012	267,404,343	238,770,773

In thousand Armenian drams

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
						31 December 2019
Derivative financial liabilities						
Derivative instruments						
Inflow	180,313	-	-	-	180,313	180,313
Outflow	(186,520)	-	-	-	(186,520)	(186,520)
Foreign exchange swap contracts						
Inflow	7,860,161	-	-	-	7,860,161	7,860,161
Outflow	(7,855,745)	-	-	-	(7,855,745)	(7,855,745)
Commitments and contingent liabilities	99,582	3,360,630	7,275,143	1,336,847	12,072,202	12,072,202

In thousand Armenian drams

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
						31 December 2018
Non-derivative financial liabilities						
Debt securities issued	18,473	123,583	2,061,973	-	2,204,029	2,060,960
Repurchase agreements	20,209,441	15,776	-	-	20,225,217	20,519,048
Other borrowed funds	28,259,502	22,409,794	17,616,430	2,880,990	71,166,716	64,200,798
Amounts due to customers	45,892,659	40,339,083	13,535,828	2,433,801	102,201,371	95,828,768
Subordinated debt	51,349	330,810	1,441,737	4,120,129	5,944,025	3,382,149
Other financial liabilities	585,480	-	-	-	585,480	585,480
Total undiscounted non-derivative financial liabilities	95,016,904	63,219,046	34,655,968	9,434,920	202,326,838	186,577,203
Derivative financial liabilities						
Derivative instruments						
Inflow	124,089	-	-	-	-	124,089
Outflow	(122,680)	-	-	-	-	(122,680)
Foreign exchange swap contracts						
Inflow	11,739,048	-	-	-	11,739,048	11,739,048
Outflow	(11,721,580)	-	-	-	(11,721,580)	(11,721,580)
Commitments and contingent liabilities	81,114	12,830,287	6,842,354	1,725,710	21,482,006	21,480,597

Due to the Bank's covenant breaches in 2018 with regards to its borrowed funds (note 26), the Bank has classified the respective borrowed funds as well as the rest of borrowed funds as of 31 December 2018 (due to cross default clauses) for a total amount of AMD 24,059,690 thousand as on demand.

As at 31 December 2018 and to 25 April all loans from international financial institutions with covenant breaches were paid in accordance with schedules agreed in agreements without delays in the amount of AMD 252,010,616. Subsequent to the reporting date, the Bank received waivers from two out of three banks for breach of covenants. From the third bank, the management received an e-mail confirmation that this party will not request a repayment earlier.

37.4 Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the 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.

38 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	2019					
	Issuance of preference shares	**Debt securities issued**	**Subordinated debt**	**Other borrowed funds**	**Dividends paid**	**Total**
As of 1 January 2019	3,000,000	2,060,960	3,382,149	64,200,798	235,498	72,879,405
Cash-flows	*3,369,000*	*2,433,015*	*(2,655,419)*	*27,765,238*	*(909,505)*	*30,002,329*
Repayments	-	(1,594,443)	(3,375,206)	(7,151,820,956)	(909,505)	(7,157,700,110)
Proceeds	3,369,000	4,027,458	719,787	7,179,586,194	-	7,187,702,439
Non-cash	*-*	*(41,619)*	*(6,943)*	*(42,559)*	*1,059,701*	*968,580*
Foreign exchange gain/loss	-	(27,145)	(21,488)	(157,928)	-	(206,561)
Accrued interests	-	(14,474)	14,545	115,369	-	115,440
Reclassification	-	-	-	-	1,059,701	1,059,701
As of 31 December 2019	6,369,000	4,452,356	719,787	91,923,477	385,694	103,850,314

In thousand Armenian drams	2018					
	Issuance of preference shares	**Debt securities issued**	**Subordinated debt**	**Other borrowed funds**	**Dividends paid**	**Total**
As of 1 January 2018	-	1,068,764	6,409,601	39,531,118	104,911	47,114,394
Cash-flows	*3,000,000*	*999,557*	*(3,000,701)*	*24,307,678*	*(379,731)*	*24,926,803*
Repayments	-	(1,228,479)	(3,550,117)	(12,513,319)	(379,731)	(17,671,646)
Proceeds	3,000,000	2,228,036	549,416	36,820,997	-	42,598,449
Non-cash	*-*	*(7,804)*	*(25,326)*	*546,489*	*510,318*	*1,023,677*
Accrued interests	-	(7,804)	(25,326)	546,489	-	513,359
Reclassification	-	-	-	-	510,318	510,318
As of 31 December 2018	3,000,000	2,060,960	3,382,149	64,200,798	235,498	72,879,405

39 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, 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	30,883,065	26,735,335
Tier 2 capital	6,025,603	6,758,956
Total regulatory capital	36,908,668	33,494,291
Risk-weighted assets	259,937,920	217,367,488
Capital adequacy ratio	14.20%	15.41%

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 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

40 Segment reporting

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.

41 Events after the reporting period

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

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