ID Bank CJSC

Financial Statements

for the year ended 31 December 2019

Contents

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Independent Auditors' Report

To the Shareholders and Council of ID Bank CJSC

Opinion

We have audited the financial statements of ID Bank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) 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 these requirements and the International Code of Ethics. 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.

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<table>
<tr><th colspan="2">Expected credit losses for loans to customers</th></tr>
<tr><td colspan="2">Please refer to the Note 25(b) and Note 15 in the financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Loans to customers represent over 50% of assets and are stated net of allowance for expected credit losses (hereinafter, the “ECL”) that is estimated on a regular basis and is sensitive to assumptions used.

The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas:

- timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments (hereinafter, “IFRS 9”));

- assessment of probability of default (PD) and loss given default (LGD);

- assessment of add-on adjustment to account for forward-looking information;

- expected cash flows forecast for loans to customers classified in Stage 3.

Due to the significant volume of loans to customers and complexity and subjectivity over estimating the ECL this area is a key audit matter.</td><td>We analysed the key aspects of the Bank’s methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists.

To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we performed the following:

- for loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages.

- for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank.

- for a sample of loans to corporate clients, we tested the correctness of data inputs for PD and LGD calculation.

- for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the correctness of the related models, and reconciled the model input data against the primary documents on a sample basis.

- for a sample of Stage 3 loans, where ECL are assessed individually we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements.

- for loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis.</td></tr>
</table>

	We assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2019 with the actual results for 2019. We also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' 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 IFRS, 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.

Auditors' Responsibilities for the Audit of 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 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 auditors' 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 auditors' report is:

Irina Gevorgyan Engagement Partner	Tigran Gasparyan Director

KPMG Armenia LLC
27 April 2020

	Notes	2019 AMD'000	2018* AMD'000
Interest income calculated using the effective interest method	4	12,325,560	11,634,191
Interest expense	4	(4,691,954)	(4,510,499)
Net interest income		**7,633,606**	**7,123,692**
Fee and commission income	5	891,540	738,970
Fee and commission expense	5	(797,076)	(454,591)
Net fee and commission income		**94,464**	**284,379**
Net foreign exchange gain	6	1,226,290	361,857
Net (loss)/gain on other financial instruments at fair value through profit or loss		(550,515)	165,636
Net realised gain on investment securities		1,324	1,481,635
Net other operating income	7	671,419	496,934
Operating income		**9,076,588**	**9,914,133**
Net impairment losses on financial instruments	8	(136,539)	(1,813,773)
Personnel expenses		(3,326,719)	(3,002,806)
Other general administrative expenses	9	(2,469,057)	(2,204,748)
Profit before income tax		**3,144,273**	**2,892,806**
Income tax expense	10	(588,765)	(709,836)
Profit for the year		**2,555,508**	**2,182,970**
Other comprehensive income/(loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities:			
- Net change in fair value	10	737,063	(86,988)
- Net amount reclassified to profit or loss	10	(1,059)	(1,185,308)
Total items that are or may be reclassified subsequently to profit or loss		*736,004*	*(1,272,296)*
Items that will not be reclassified to profit or loss:			
Sale of revalued property, equipment and intangible assets	10	-	(45,691)
Total items that will not be reclassified to profit or loss		-	*(45,691)*
Other comprehensive income/(loss) for the year, net of income tax		**736,004**	**(1,317,987)**
Total comprehensive income for the year		**3,291,512**	**864,983**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application (see Note 2(e)).

The financial statements as set out on pages 7 to 90 were approved by management on 27 April 2020 and were signed on its behalf by:

Mher Abrahamyan
Chairman of the Management Board

Anushik Khachatryan
Chief Accountant

The statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2019 AMD'000	2018* AMD'000
ASSETS			
Cash and cash equivalents	11	14,337,037	11,260,756
Investment securities measured at fair value through other comprehensive income	12		
- Held by the Bank		6,502,509	4,728,200
- Pledged under sale and repurchase agreements		2,260,311	-
Investment securities measured at amortised cost	12		
- Held by the Bank		11,270,882	15,136,723
- Pledged under sale and repurchase agreements		11,829,493	5,587,003
Derivative financial assets		4,312	-
Loans and advances to banks and other financial institutions	13	10,305,167	13,068,992
Amounts receivable under reverse repurchase agreements	14	4,767,263	3,429,813
Loans to customers	15	77,379,245	61,470,502
Current tax asset		99,786	139,189
Property, equipment and intangible assets	16	5,810,745	5,061,844
Right of use asset	17	1,606,304	-
Repossessed assets	15	1,476,007	1,087,443
Other assets	18	2,407,470	1,103,491
Total assets		**150,056,531**	**122,073,956**
LIABILITIES			
Derivative financial liabilities		-	1,337
Deposits and balances from banks and other financial institutions	19	20,129,742	5,937,780
Amounts payable under repurchase agreements	20	16,292,695	6,771,902
Debt securities issued	21	6,700,803	10,823,040
Current accounts and deposits from customers	22	58,819,120	56,320,356
Deferred tax liabilities	10	1,389,630	617,324
Lease liability	17	1,638,420	-
Other liabilities	23	1,530,487	1,338,095
Total liabilities		**106,500,897**	**81,809,834**
EQUITY			
Share capital	24	33,971,850	33,971,850
Share premium		5,014,099	5,014,099
Revaluation surplus for buildings		110,808	110,808
Fair value reserve for investment securities		842,981	106,977
Retained earnings		3,615,896	1,060,388
Total equity		**43,555,634**	**40,264,122**
Total liabilities and equity		**150,056,531**	**122,073,956**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application (see Note 2(e)).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2019 AMD’000	2018* AMD’000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		11,807,607	11,012,778
Interest payments		(4,300,316)	(4,822,049)
Fee and commission receipts		891,540	738,970
Fee and commission payments		(797,076)	(454,591)
Net payments from financial instruments at fair value through profit or loss		(556,359)	(52,828)
Net receipts from foreign exchange		848,241	638,962
Other income receipts		526,668	381,597
Personnel and other general administrative expenses payments		(4,957,374)	(4,768,296)
(Increase)/decrease in operating assets			
Amounts receivable under reverse repurchase agreements		(1,337,205)	3,075,123
Loans and advances to banks and other financial institutions		2,735,830	(1,877,157)
Loans to customers		(15,669,226)	(9,413,928)
Other assets		(695,093)	(208,535)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		13,645,608	(326,129)
Amounts payable under repurchase agreements		9,545,547	6,757,099
Current accounts and deposits from customers		2,913,084	(7,569,030)
Other liabilities		215,094	499,054
Net cash provided/(used) in operating activities before income tax paid		**14,816,570**	**(6,388,960)**
Income tax paid		-	(33,000)
Cash flows from/(used in) operating activities		**14,816,570**	**(6,421,960)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(8,368,271)	(5,194,557)
Proceeds from sale and repayment of investment securities		2,737,112	6,457,542
Purchases of property, equipment and intangible assets		(1,980,597)	(593,278)
Dividends received		144,751	-
Cash flows (used in)/from investing activities		**(7,467,005)**	**669,707**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	21	4,252,464	2,418,750
Repayment of debt securities issued	21	(8,207,150)	(2,422,500)
Repayment of lease liability	17	(282,238)	-
Cash flows used in financing activities		**(4,236,924)**	**(3,750)**
Net increase/(decrease) in cash and cash equivalents		**3,112,641**	**(5,756,003)**
Effect of changes in exchange rates on cash and cash equivalents		(37,750)	(212,494)
Effect of changes in ECL on cash and cash equivalents		1,390	-
Cash and cash equivalents as at the beginning of the year		11,260,756	17,229,253
Cash and cash equivalents as at the end of the year	11	**14,337,037**	**11,260,756**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application (see Note 2(e)).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation surplus for buildings	Fair value reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2018	33,971,850	5,014,099	156,499	1,379,273	(1,122,582)	39,399,139
Total comprehensive income						
Profit for the year	-	-	-	-	2,182,970	2,182,970
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	(86,988)	-	(86,988)
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,185,308)	-	(1,185,308)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(1,272,296)*	-	*(1,272,296)*
Items that will not be reclassified to profit or loss:						
Change in revaluation reserve of buildings, net of deferred tax	-	-	(45,691)	-	-	(45,691)
Total items that will not be reclassified to profit or loss	-	-	*(45,691)*	-	-	*(45,691)*
Total other comprehensive loss	**-**	**-**	**(45,691)**	**(1,272,296)**	**-**	**(1,317,987)**
Total comprehensive income for the year	**-**	**-**	**(45,691)**	**(1,272,296)**	**2,182,970**	**864,983**
Balance as at 31 December 2018	**33,971,850**	**5,014,099**	**110,808**	**106,977**	**1,060,388**	**40,264,122**
Balance as at 1 January 2019*	33,971,850	5,014,099	110,808	106,977	1,060,388	40,264,122
Total comprehensive income						
Profit for the year	-	-	-	-	2,555,508	2,555,508
Other comprehensive income						-
Items that are or may be reclassified subsequently to profit or loss:						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	737,063	-	737,063
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,059)	-	(1,059)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*736,004*	-	*736,004*
Total other comprehensive income	**-**	**-**	**-**	**736,004**	**-**	**736,004**
Total comprehensive income for the year	**-**	**-**	**-**	**736,004**	**2,555,508**	**3,291,512**
Balance as at 31 December 2019	**33,971,850**	**5,014,099**	**110,808**	**842,981**	**3,615,896**	**43,555,634**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application (see Note 2(e)).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

ID Bank CJSC (the "Bank") was established in the Republic of Armenia as a limited liability company in 1990, and reorganised into a closed joint stock company in 2007. Previously the bank operated under the brand name "Anelik Bank" CJSC. In June 2018 the Bank was renamed to "ID Bank" CJSC.

The principal activities of the bank are deposit taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The activities of the Bank are regulated by the Central Bank of Armenia (the CBA). The Bank has a general banking license and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered office is 13 Vardanants Street, Yerevan 0010, Republic of Armenia. The Bank has 13 branches. The majority of its assets and liabilities are located in the Republic of Armenia.

The Bank's shareholders are FISTOCO LTD (59.68%) and Creditbank SAL (40.32%). The Bank is ultimately controlled by a single individual, Mr. Vartan Dilanyan, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

Related party transactions are described in detail in Note 29.

(b) Armenian business environment

The Bank's operations are located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia.

The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the stock market indices, as well as a depreciation of the Armenian Dram. These developments are further increasing the level of uncertainty in the Armenian business environment.

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss (FVTPL) and investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value, and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 25(b).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 25(b);
- estimates of fair values of financial assets and liabilities – Note 30;
- building revaluation estimates – Note 16;
- contingencies and litigations – Note 28(b);
- assessment of impairment of repossessed assets – Note 15.

(e) Changes in significant accounting policies

The Bank initially applied IFRS 16 *Lease*s from 1 January 2019.

The Bank applied IFRS 16 using the simplified modified retrospective approach, under which there is no cumulative effect of initial application on retained earnings at 1 January 2019 as a right-of-use asset equal to the lease liability at the lease commencement date is recognised. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(r).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

As a lessee, the Bank leases property. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

All lease contracts are considered automatically renewable by civil code of Republic of Armenia. Considering that in Armenian business environment business areas for banks are widely available, management considers that there are no material economic penalties besides the lost inseparable leasehold improvements' carrying value.

(iii) Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 (see Note 2 (e)(iv)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- did not recognize right-of-use assets and liabilities for leases of low value assets ;
- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial recognition;
- used single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(iv) Impact on financial statements

Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. No cumulative effect of initial application of IFRS 16 on retained earnings was in place. The impact on transition is summarized below:

’000 AMD	**1 January 2019**
Right-of-use assets	859,117
Lease liabilities	(859,117)

For the impact of IFRS 16 on profit or loss for the period, see Note 17 and for the details of accounting policies under IFRS 16 and IAS 17, see Note 3(r).

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 9.71%.

’000 AMD	**1 January 2019**
Operating lease commitments at 31 December 2018 under IAS 17	-
Inclusion of lease payments under cancellable leases	1,594,658
Undiscounted lease liability	**1,594,658**
Weighted average incremental borrowing rate of the Bank as a lessee	9.71%
Lease liabilities recognised at 1 January 2019	**859,117**

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Bank’s financial statements, except those described above.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Bank has consistently applied the following accounting policies to all periods presented in these financial statements. Certain comparative information have been adjusted to conform to changes in presentation in the current year.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 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, see Note 3(e)(vi).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

– interest on financial assets measured at amortised cost;
– interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Financial assets and financial liabilities

Financial assets

i. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

– interest income using the effective interest method;
– ECL and reversals; and
– foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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 other comprehensive income. This election is made on an investment-by-investment basis.

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 other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

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.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

– whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
– the fair value of the collateral relative to the amount of the secured financial asset;
– the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
– whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
– the Bank's risk of loss on the asset relative to a full-recourse loan;
– the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
– whether the Bank will benefit from any upside from the underlying assets.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, 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 other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). 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.

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.

Financial liabilities

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

iii. Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within borrowings and other balances from banks. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

v. Modification 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 (referred to as ‘substantial modification’), 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 and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
– other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBA key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial asset;
– change in collateral or other credit enhancement
– change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial liability;
– change in collateral or other credit enhancement;
– inclusion of conversion option;
– change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

vi. Impairment

See also Note 25(b).

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets that are debt instruments;
– financial guarantee contracts issued; and
– loan commitments issued.

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 (see Note 25(b)).

The Bank does not apply the low credit risk exemption to any financial instruments.

12-month ECL 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. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

– *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
– *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
– *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
– *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 25(b).

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 (see Note 3(e)(ii)) 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 (see Note 25(b)).
– 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 (referred to as ‘Stage 3 financial assets’). 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 addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

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.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *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; and
- *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.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

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.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

– the guarantee is implicitly part of the contractual terms of the debt instrument;
– the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
– the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on debt financial assets'.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

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

– debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
– debt securities measured at FVOCI (see Note 3(e)(i)); and
– equity investment securities designated as at FVOCI (see Note 3(e)(i)).

(h) Deposits, debt securities issued and loans from banks and other financial institutions

Deposits, debt securities issued and loans from banks and other financial institutions are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

(i) 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 (see Note 3(e)(vi)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognises a loss allowance (see Note 3(e)(vi)) in accordance with IFRS 9.

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

(j) Property and equipment

(i) Owned assets

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

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

(ii) Revaluation

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

(iii) Depreciation

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

- buildings	50 years
- leasehold improvements	10 years
- computers and communication equipment	4-10 years
- motor vehicles	10 years
- fixtures and fittings	10 years

(k) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 to 10 years.

(l) Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

(m) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Share capital

(i) Ordinary shares

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

(ii) Share premium

Amount paid in excess of par value of shares issued is recognised as a share premium.

(iii) Dividends

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

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

(p) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(q) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Management considers that the Bank comprises of one operating segment.

(r) Leases

The Bank has applied IFRS 16 using the simplified modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including ATMs. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(s) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of Material (Amendments to IAS 1 and IAS 8);*
- *IFRS 17 Insurance Contracts.*

4 Net interest income

	2019 AMD'000	**2018 AMD'000**
Interest income calculated using the effective interest method		
Loans to customers	8,974,794	8,659,983
Investment securities	2,751,228	2,574,919
Loans and advances to banks and other financial institutions	326,423	141,861
Amounts receivable under reverse repurchase agreements	267,456	243,589
Other	5,659	13,839
	12,325,560	**11,634,191**
Interest expense		
Current accounts and deposits from customers	2,546,602	3,031,927
Amounts payable under repurchase agreements	713,458	123,435
Deposits and balances from banks and other financial institutions	566,820	370,497
Debt securities issued	470,604	712,633
Lease liabilities	93,781	-
Other borrowed funds	57,326	77,992
Other	243,363	194,015
	4,691,954	**4,510,499**
Net interest income	**7,633,606**	**7,123,692**

5 Net fee and commission income

	2019 AMD'000	2018 AMD'000
Fee and commission income		
Plastic card servicing	524,020	244,170
Remittances	217,071	171,623
Cash withdrawal and accounts service	120,916	300,916
Other	29,533	22,261
	891,540	**738,970**
Fee and commission expense		
Card transactions	663,647	369,382
Payment systems services	91,651	51,913
Other	41,778	33,296
	797,076	**454,591**
Net fee and commission income	**94,464**	**284,379**

6 Net foreign exchange gain

	2019 AMD'000	2018 AMD'000
Gain on spot transactions	848,241	638,962
Gain/(loss) from revaluation of financial assets and liabilities	378,049	(277,105)
	1,226,290	**361,857**

7 Net other operating income

	2019 AMD'000	2018 AMD'000
Fines and penalties received	471,943	545,399
Dividends received	144,751	-
Loss from sale of repossessed assets	(235)	(48,064)
Other	54,960	(401)
	671,419	**496,934**

8 Net impairment losses on financial instruments

	2019 AMD'000	2018 AMD'000
Loans to customers and loan commitments	150,133	1,944,363
Investment securities at amortized cost	(1,421)	(139,526)
Other financial assets	(8,860)	5,393
Financial guarantees given	(3,313)	3,543
	136,539	**1,813,773**

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income for 2019 and 2018:

2019 AMD'000	**Net remeasurement of loss allowance**	**New financial assets originated or purchased**	**Recoveries of amounts previously written off**	**Total**
Cash and cash equivalents	3,633	(2,243)	-	1,390
Loans and advances to banks and other financial institutions at amortized cost	22,967	(12,673)	-	10,294
Amounts receivable under reverse repurchase agreements at amortized cost	2,017	(2,300)	-	(283)
Loans to customers at amortised cost – corporate customers	(814,672)	(73,308)	216,561	(671,419)
Loans to customers at amortised cost – retail customers*	(410,459)	(214,389)	1,146,134	521,286
Other financial assets at amortized cost	196	(2,737)	-	(2,541)
Investment securities at amortized cost	(21,181)	22,602	-	1,421
Financial guarantees given	3,745	(432)	-	3,313
Total	**(1,213,754)**	**(285,480)**	**1,362,695**	**(136,539)**

2018 AMD'000	**Net remeasurement of loss allowance**	**New financial assets originated or purchased**	**Total**
Cash and cash equivalents	3,633	(3,633)	-
Loans and advances to banks and other financial institutions at amortized cost	30,675	(41,534)	(10,859)
Amounts receivable under reverse repurchase agreements at amortized cost	3,636	(2,017)	1,619
Loans to customers at amortised cost – corporate customers	(1,664,639)	(177,121)	(1,841,760)
Loans to customers at amortised cost – retail customers	36,543	(139,146)	(102,603)
Other financial assets at amortized cost	4,507	(660)	3,847
Investment securities at amortized cost	182,341	(42,815)	139,526
Financial guarantees given	1,058	(4,601)	(3,543)
Total	**(1,402,246)**	**(411,527)**	**(1,813,773)**

* In accordance with the decision of the Government of the Republic of Armenia from 11 June 2018, penalties originated from defaulted loans to retail customers were forgiven. As a result, a significant number of customers repaid the principal and accrued interest balances written off primarily during 2013-2017.

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2019.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(3,633)	-	-	(3,633)
Net remeasurement of loss allowance	3,633	-	-	3,633
New financial assets originated or purchased	(2,243)	-	-	(2,243)
Balance at 31 December	**(2,243)**	**-**	**-**	**(2,243)**

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks and other financial institutions at amortized cost				
Balance at 1 January	(41,534)	-	-	(41,534)
Net remeasurement of loss allowance	22,967	-	-	22,967
New financial assets originated or purchased	(12,673)	-	-	(12,673)
Balance at 31 December	**(31,240)**	**-**	**-**	**(31,240)**

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Amounts receivable under reverse repurchase agreements at amortized cost				
Balance at 1 January	(2,017)	-	-	(2,017)
Net remeasurement of loss allowance	2,017	-	-	2,017
New financial assets originated or purchased	(2,300)	-	-	(2,300)
Balance at 31 December	**(2,300)**	**-**	**-**	**(2,300)**

	2019*			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(204,067)	(782)	(8,950,759)	(9,155,608)
Transfer to Stage 1	115	(33)	(82)	-
Transfer to Stage 2	(75)	327	(252)	-
Transfer to Stage 3	(85)	(212)	297	-
Net remeasurement of loss allowance	129,940	(11,908)	(932,704)	(814,672)
New financial assets originated or purchased	(73,308)	-	-	(73,308)
Write offs	-	8,552	56,789	65,341
Balance at 31 December	**(147,480)**	**(4,056)**	**(9,826,711)**	**(9,978,247)**

	2019*			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(214,259)	(48,117)	(336,613)	(598,989)
Transfer to Stage 1	16,906	(2,643)	(14,263)	-
Transfer to Stage 2	(2,349)	17,068	(14,719)	-
Transfer to Stage 3	87,965	59,377	(147,342)	-
Net remeasurement of loss allowance	63,177	(55,769)	(417,867)	(410,459)
New financial assets originated or purchased	(214,389)	-	-	(214,389)
Write offs	-	-	316,164	316,164
Balance at 31 December	**(262,949)**	**(30,084)**	**(614,640)**	**(907,673)**

* The loss allowance in these tables includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

	2019			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortized cost				
Balance at 1 January	(660)	-	-	(660)
Net remeasurement of loss allowance	196	-	-	196
New financial assets originated or purchased	(2,737)	-	-	(2,737)
Balance at 31 December	**(3,201)**	**-**	**-**	**(3,201)**

	2019			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(36,744)	-	-	(36,744)
Net remeasurement of loss allowance	(21,181)	-	-	(21,181)
New financial assets originated or purchased	22,602	-	-	22,602
Balance at 31 December	**(35,323)**	**-**	**-**	**(35,323)**

	2019			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees given				
Balance at 1 January	(4,601)	-	-	(4,601)
Net remeasurement of loss allowance	3,745	-	-	3,745
New financial assets originated or purchased	(432)	-	-	(432)
Balance at 31 December	**(1,288)**	**-**	**-**	**(1,288)**

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2018.

	2018			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(3,633)	-	-	(3,633)
Net remeasurement of loss allowance	3,633	-	-	3,633
New financial assets originated or purchased	(3,633)	-	-	(3,633)
Balance at 31 December	**(3,633)**	**-**	**-**	**(3,633)**

AMD'000	2018 Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks and other financial institutions at amortized cost				
Balance at 1 January	(30,675)	-	-	(30,675)
Net remeasurement of loss allowance	30,675	-	-	30,675
New financial assets originated or purchased	(41,534)	-	-	(41,534)
Balance at 31 December	**(41,534)**	**-**	**-**	**(41,534)**

AMD'000	2018 Stage 1	Stage 2	Stage 3	Total
Amounts receivable under reverse repurchase agreements at amortized cost				
Balance at 1 January	(3,636)	-	-	(3,636)
Net remeasurement of loss allowance	3,636	-	-	3,636
New financial assets originated or purchased	(2,017)	-	-	(2,017)
Balance at 31 December	**(2,017)**	**-**	**-**	**(2,017)**

AMD'000	2018 Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(121,832)	(11,607)	(7,061,736)	(7,195,175)
Transfer to Stage 1	(41)	41	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	42,320	5,925	(48,245)	-
Net remeasurement of loss allowance	52,355	5,111	(1,722,105)	(1,664,639)
New financial assets originated or purchased	(176,869)	(252)	-	(177,121)
Net recoveries	-	-	(118,673)	(118,673)
Balance at 31 December	**(204,067)**	**(782)**	**(8,950,759)**	**(9,155,608)**

AMD'000	2018 Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(243,450)	(70,647)	(340,800)	(654,897)
Transfer to Stage 1	(2,552)	2,278	274	-
Transfer to Stage 2	29,312	(29,473)	161	-
Transfer to Stage 3	217,027	49,691	(266,718)	-
Net remeasurement of loss allowance	(104,496)	9,310	131,729	36,543
New financial assets originated or purchased	(110,100)	(9,276)	(19,770)	(139,146)
Net write offs	-	-	158,511	158,511
Balance at 31 December	**(214,259)**	**(48,117)**	**(336,613)**	**(598,989)**

AMD'000	2018 Stage 1	Stage 2	Stage 3	Total
Other financial assets at amortized cost				
Balance at 1 January	(4,507)	-	-	(4,507)
Net remeasurement of loss allowance	4,507	-	-	4,507
New financial assets originated or purchased	(660)	-	-	(660)
Balance at 31 December	**(660)**	**-**	**-**	**(660)**

	2018			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(176,270)	-	-	(176,270)
Net remeasurement of loss allowance	182,341	-	-	182,341
New financial assets originated or purchased	(42,815)	-	-	(42,815)
Balance at 31 December	**(36,744)**	**-**	**-**	**(36,744)**

	2018			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees given				
Balance at 1 January	(1,058)	-	-	(1,058)
Net remeasurement of loss allowance	1,058	-	-	1,058
New financial assets originated or purchased	(4,601)	-	-	(4,601)
Balance at 31 December	**(4,601)**	**-**	**-**	**(4,601)**

9 Other general administrative expenses

	2019 AMD’000	**2018 AMD’000**
Depreciation and amortisation*	773,732	470,154
Non-refundable taxes and duties	321,904	335,186
Advertising and marketing	276,217	282,656
Repairs and maintenance	209,679	113,554
Professional services	187,005	77,647
Representation and organizational expenses	150,037	181,943
Office and utility expenses	148,251	152,108
Security	83,141	91,590
Communications and information services	81,236	63,829
Insurance	71,947	71,371
Rent expenses	43,907	199,268
Other	122,001	165,442
	2,469,057	**2,204,748**

* Included in depreciation and amortization for the year ended 31 December 2019 is AMD 220,572 thousand related to amortisation of right-of-use asset under IFRS 16 *Leases* requirements, see Note 17.

10 Income tax expense

	2019 AMD'000	2018 AMD'000
Current tax expense underprovided in prior years	460	2,907
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	588,305	706,929
Total income tax expense	**588,765**	**709,836**

In 2019, the applicable tax rate for current tax is 20% (2018: 20%) and for deferred tax is 18% (2018: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2019 AMD'000	%	2018 AMD'000	%
Profit before income tax	3,144,273		2,892,806	
Income tax at the applicable tax rate	628,855	20.0	578,561	20.0
Non-deductible expenses	113,211	3.6	128,368	4.4
Change of legislation*	(153,761)	(4.9)	-	-
Under-provided in prior years	460	0.0	2,907	0.1
	588,765	**18.7**	**709,836**	**24.5**

* In accordance with the tax decree dated 25 June 2019, the new tax code has become effective starting from 1 January 2020 which reduced the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during the reporting period, the deferred tax assets were recalculated using the new tax rate expected at the time of reversal.

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2019 and 2018.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forward expires in 2021.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows:

AMD'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Cash and cash equivalents	727	(323)	-	404
Investment securities	(36,231)	53,646	(184,001)	(166,586)
Loans and advances to banks and other financial institutions	(26,468)	9,479	-	(16,989)
Loans to customers	(911,661)	(474,378)	-	(1,386,039)
Property, equipment and intangible assets	(15,905)	581	-	(15,324)
Right of use asset	-	(289,135)	-	(289,135)
Other assets	(35,681)	12,704	-	(22,977)
Lease Liability	-	294,916		294,916
Other liabilities	140,913	(29,532)	-	111,381
Tax loss carry-forwards	266,982	(166,263)	-	100,719
	(617,324)	**(588,305)**	**(184,001)**	**(1,389,630)**

AMD'000	Balance 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Cash and cash equivalents	727	-	-	727
Investment securities	(310,058)	(44,247)	318,074	(36,231)
Loans and advances to banks and other financial institutions	(16,207)	(10,261)	-	(26,468)
Loans to customers	(53,257)	(858,404)	-	(911,661)
Property, equipment and intangible assets	(21,830)	(5,498)	11,423	(15,905)
Amounts receivable under reverse repurchase agreements	726	(726)	-	-
Other assets	(18,610)	(17,071)	-	(35,681)
Other liabilities	52,180	88,733	-	140,913
Tax loss carry-forwards	126,437	140,545	-	266,982
	(239,892)	**(706,929)**	**329,497**	**(617,324)**

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2019 and 2018 comprise the following:

	2019			2018		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of investment securities at FVOCI	921,329	(184,266)	737,063	(108,735)	21,747	(86,988)
Net change in fair value of investment securities at FVOCI transferred to profit or loss	(1,324)	265	(1,059)	(1,481,635)	296,327	(1,185,308)
Sale of revalued property, equipment and intangible assets	-	-	-	(57,114)	11,423	(45,691)
Other comprehensive income/(loss)	**920,005**	**(184,001)**	**736,004**	**(1,647,484)**	**329,497**	**(1,317,987)**

11 Cash and cash equivalents

	2019 AMD'000	**2018 AMD'000**
Cash on hand	6,580,587	2,602,168
Nostro accounts with the CBA	7,118,931	8,212,667
Nostro accounts with other banks		
- rated from A- to A+	118,695	1,891
- rated from BBB- to BBB+	6,823	52,077
- rated from BB- to BB+	312,396	157,033
- rated from B- to B+	90,240	182,165
- not rated	111,608	56,388
Total nostro accounts with other banks	**639,762**	**449,554**
Total gross cash and cash equivalents	**14,339,280**	**11,264,389**
Credit loss allowance	(2,243)	(3,633)
Total net cash and cash equivalents	**14,337,037**	**11,260,756**

Nostro accounts with the CBA are related to settlement activity (see Note 13) and are readily available for withdrawal.

No cash and cash equivalents are credit impaired or past due.

Ratings are based on Standard & Poor's rating system.

As at 31 December 2019 the Bank has no bank except for CBA (2018: no bank except for the CBA) whose balances exceeded 10% of the equity.

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2019 and 31 December 2018.

12 Investment securities

(a) Investment securities measured at fair value through other comprehensive income

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	2,350,550	1,533,661
- Eurobonds of the Republic of Armenia	25,718	2,071,829
Total government bonds	**2,376,268**	**3,605,490**
Corporate bonds		
- rated from B to B+	232,995	-
- not rated	1,339,794	-
Total corporate bonds	**1,572,789**	**-**
Equity instruments		
Corporate shares	2,553,452	1,122,710
Total securities held by the bank	**6,502,509**	**4,728,200**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Eurobonds of the Republic of Armenia	2,260,311	-
Total securities pledged under sale and repurchase agreements	**2,260,311**	**-**
Total investment securities measured at FVOCI	**8,762,820**	**4,728,200**

(b) Investment securities measured at amortised cost

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	7,803,216	9,576,095
- Eurobonds of the Republic of Armenia	600,653	2,617,138
Total government bonds	**8,403,869**	**12,193,233**
Corporate bonds		
- rated from B to B+	2,005,660	2,287,867
- not rated	896,676	692,367
Total corporate bonds	**2,902,336**	**2,980,234**
Total securities held by the bank	**11,306,205**	**15,173,467**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	7,384,332	5,587,003
- Eurobonds of the Republic of Armenia	4,445,161	-
Total government bonds	**11,829,493**	**5,587,003**
Total securities pledged under sale and repurchase agreements	**11,829,493**	**5,587,003**
Total gross investment securities measured at amortized cost	**23,135,698**	**20,760,470**
Credit loss allowance	(35,323)	(36,744)
Total net investment securities measured at amortized cost	**23,100,375**	**20,723,726**

(c) Credit quality of investment securities

The following table sets out information about the credit quality of investment securities as at 31 December 2019 and 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	
AMD'000	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Investment securities at FVOCI				
- rated from BB- to BB+	4,636,579	-	-	4,636,579
- rated from B- to B+	232,995	-	-	232,995
- not rated*	1,339,794	-	-	1,339,794
Carrying amount	**6,209,368**	-	-	**6,209,368**

* Management estimates that from the unrated instruments AMD 1,339,794 thousand approximates to B+ rating under Standard & Poor's rating system.

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	
AMD'000	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Investment securities at amortised cost				
- rated from B- to BB-	22,239,022	-	-	22,239,022
- not rated*****	896,676	-	-	896,676
	23,135,698	-	-	**23,135,698**
Loss allowance	**(35,323)**	-	-	**(35,323)**
Carrying amount	**23,100,375**	-	-	**23,100,375**

* Management estimates that the unrated instruments approximates to B+ rating under Standard & Poor's rating system.

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	
AMD'000	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Investment securities at FVOCI				
- rated from B- to B+	3,605,490	-	-	3,605,490
Carrying amount	**3,605,490**	-	-	**3,605,490**

	31 December 2018			
	Stage 1	Stage 2	Stage 3	
AMD'000	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Investment securities at amortised cost				
- rated from B- to B+	20,068,103	-	-	20,068,103
- not rated	692,367	-	-	692,367
	20,760,470	**-**	**-**	**20,760,470**
Loss allowance	**(36,744)**	-	-	**(36,744)**
Carrying amount	**20,723,726**	-	-	**20,723,726**

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

The Bank has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. 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. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (Note 20).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

13 Loans and advances to banks and other financial institutions

	2019 AMD'000	2018 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	527,500	523,000
Deposit with the Central Bank of Armenia, obligatory reserves	2,749,312	-
Total due from the CBA	**3,276,812**	**523,000**
Loans and deposits		
Eurasian Union banks		
- rated from B- to B+	1,934,283	-
- not rated	584,061	4,841,505
Armenian banks		
- rated from BB- to BB+	-	971,196
- rated from B- to B+	-	4,862,396
- not rated	1,106,259	-
Other non-resident banks		
- rated from AA- to AA+	169,111	-
- rated from A- to A+	13,432	166,818
- rated from BBB- to BBB+	80,589	83,047
- not rated	-	502,071
Armenian medium size credit organizations	2,009,833	973,412
Other financial institutions	1,162,027	187,081
Total loans and deposits	**7,059,595**	**12,587,526**
Total gross loans and advances to banks and other financial institutions	**10,336,407**	**13,110,526**
Credit loss allowance	(31,240)	(41,534)
Total net loans and advances to banks and other financial institutions	**10,305,167**	**13,068,992**

(a) Balances with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the CBA for attracted funds. For funds attracted in AMD the obligatory reserve is 2% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 12% is maintained in AMD and 6% in the respective currency of funds attracted. The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 11) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum daily balance. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks and other financial institutions. The requirement for obligatory daily minimum reserve came into force in 2019. As of 31 December 2019, included in deposits with the Central Bank of Armenia is the amount of obligatory reserve of AMD 2,749,312 thousand for the amounts attracted in foreign currency (2018: nil).

(b) Concentration of loans and advances to banks and other financial institutions

As at 31 December 2019 the Bank has no bank (2018: one), whose balance exceeded 10% of equity. The gross value of the balance as at 31 December 2018 was AMD 4,841,505 thousand.

(c) Credit quality of loans and advances to banks and financial institutions

Management estimates that as at 31 December 2019 the unrated instruments amounting AMD 4,862,180 thousand approximate rating of B- to B+ under Standard & Poor's rating system (2018: unrated instruments amounting AMD 6,504,069 thousand approximate rating of B- to B+ under Standard & Poor's rating system).

Loans and advances to banks and other financial institutions are fully in Stage 1 and measured at amortised cost as at 31 December 2019 and 2018. No loans and advances to banks and other financial institutions are credit impaired or past due.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

14 Amounts receivable under reverse repurchase agreements

	2019 AMD'000	2018 AMD'000
Amounts receivable from local financial institutions	4,769,563	3,431,830
Total gross amounts receivable under reverse repurchase agreements	**4,769,563**	**3,431,830**
Credit loss allowance	(2,300)	(2,017)
Total net amounts receivable under reverse repurchase agreements	**4,767,263**	**3,429,813**

As at 31 December 2019 and 2018 the Bank has no counterparties with amounts receivable under reverse repurchase agreements, whose balances exceeded 10% of equity.

Amounts receivable under reverse repurchase agreements are from non rated reputable local financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2019 and 2018. No amounts receivable under reverse repurchase agreements are credit impaired or past due.

Management estimates that as at 31 December 2019 the unrated amounts receivable under reverse repurchase agreements amounting AMD 4,769,563 thousand (2018: AMD 3,431,830 thousand) approximate rating of B- to B+ under Standard & Poor's rating system.

(a) Collateral accepted as security for assets

As at 31 December 2019 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 5,281,943 thousand (2018: AMD 3,693,871 thousand).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

15 Loans to customers

	2019 AMD'000	2018 AMD'000
Loans to customers at amortized cost		
Loans to large corporates	36,488,694	33,388,034
Loans to trading companies	2,060,225	2,540,210
Loans to manufacturing companies	1,492,256	1,579,952
Cash covered loans	384,165	242,590
Other corporate loans	5,244,474	3,796,494
Total loans to corporate customers	**45,669,814**	**41,547,280**
Loans to retail customers		
Consumer loans secured with real estate	15,626,296	11,894,266
Mortgage loans	11,030,994	5,918,862
Gold secured loans	6,682,090	5,905,991
Express loans without guarantee	3,171,605	1,179,693
Credit lines	2,182,738	230,514
Cash covered loans	536,695	336,774
Salary project loans	369,759	707,000
Express loans with guarantee	303,553	887,010
Other retail loans	2,691,621	2,617,709
Total loans to retail customers	**42,595,351**	**29,677,819**
Gross loans to customers at amortised cost	**88,265,165**	**71,225,099**
Credit loss allowance	(10,885,920)	(9,754,597)
Net loans to customers at amortised cost	**77,379,245**	**61,470,502**

(b) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2019:

	31 December 2019*			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Loans to corporate customers				
Loans to large corporate customers				
- not overdue	22,174,895	-	-	22,174,895
- not overdue credit impaired	-	-	14,313,799	14,313,799
Total gross loans to large corporate customers	**22,174,895**	**-**	**14,313,799**	**36,488,694**
Credit loss allowance	**(92,800)**	**-**	**(8,343,811)**	**(8,436,611)**
Total net loans to large corporate customers	**22,082,095**	**-**	**5,969,988**	**28,052,083**
Loans to trading companies				
- not overdue	1,329,178	-	172,804	1,501,982
- overdue of 31-90 days	-	1,016	-	1,016
- overdue of 181-360 days	-	-	138,552	138,552
- overdue more than 1 year	-	-	418,675	418,675
Total gross loans to trading companies	**1,329,178**	**1,016**	**730,031**	**2,060,225**
Credit loss allowance	**(18,250)**	**(898)**	**(295,924)**	**(315,072)**
Total net loans to trading companies	**1,310,928**	**118**	**434,107**	**1,745,153**
Loans to manufacturing companies				
- not overdue	1,303,184	-	-	1,303,184
- overdue of 91-180 days	-	-	17,424	17,424
- overdue of 181-360 days	-	-	2,324	2,324
- overdue more than 1 year	-	-	169,324	169,324
Total gross loans to manufacturing companies	**1,303,184**	**-**	**189,072**	**1,492,256**
Credit loss allowance	**(1,155)**	**-**	**(32,124)**	**(33,279)**
Total net loans to manufacturing companies	**1,302,029**	**-**	**156,948**	**1,458,977**
Cash covered loans				**-**
- not overdue	384,165	-	-	384,165
Credit loss allowance	**-**	**-**	**-**	**-**
Total net cash covered loans	**384,165**	**-**	**-**	**384,165**

	31 December 2019*			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Other corporate loans				
- not overdue	3,124,330	53,533	30,813	3,208,676
- overdue of less than 30 days	5,272	8,742	1,617	15,631
- overdue of 31-90 days	-	18,004	24,508	42,512
- overdue of 91-180 days	-	-	99,084	99,084
- overdue of 181-360 days	-	-	751,103	751,103
- overdue more than 1 year	-	-	1,127,468	1,127,468
Total gross other corporate loans	**3,129,602**	**80,279**	**2,034,593**	**5,244,474**
Credit loss allowance	**(35,275)**	**(3,158)**	**(1,154,852)**	**(1,193,285)**
Total net other corporate loans	**3,094,327**	**77,121**	**879,741**	**4,051,189**
Gross loans to corporate customers	**28,321,024**	**81,295**	**17,267,495**	**45,669,814**
Total expected credit loss on corporate customers	**(147,480)**	**(4,056)**	**(9,826,711)**	**(9,978,247)**
Total net loans to corporate customers	**28,173,544**	**77,239**	**7,440,784**	**35,691,567**
Loans to retail customers				
Consumer loans secured with real estate				
- not overdue	13,392,523	17,547	343,115	13,753,185
- overdue of less than 30 days	357,315	5,360	55,570	418,245
- overdue of 31-90 days	-	91,069	94,221	185,290
- overdue of 91-180 days	-	-	146,680	146,680
- overdue of 181-360 days	-	-	34,461	34,461
- overdue more than 1 year	-	-	1,088,435	1,088,435
Total gross consumer loans secured with real estate	**13,749,838**	**113,976**	**1,762,482**	**15,626,296**
Credit loss allowance	**(60,097)**	**(6,535)**	**(452,296)**	**(518,928)**
Total net consumer loans secured with real estate	**13,689,741**	**107,441**	**1,310,186**	**15,107,368**
Mortgage loans				
- not overdue	10,857,309	-	83,253	10,940,562
- overdue of less than 30 days	18,384	-	67,941	86,325
- overdue of 31-90 days	-	4,107	-	4,107
Total gross mortgage loans	**10,875,693**	**4,107**	**151,194**	**11,030,994**
Credit loss allowance	**(24,754)**	**(245)**	**(26,722)**	**(51,721)**
Total net mortgage loans	**10,850,939**	**3,862**	**124,472**	**10,979,273**
Gold secured loans				
- not overdue	6,532,127	830	4,646	6,537,603
- overdue of less than 30 days	128,264	2,890	865	132,019
- overdue of 31-90 days	-	8,534	1,174	9,708
- overdue of 91-180 days	-	-	1,585	1,585
- overdue of 181-360 days	-	-	1,175	1,175
Total gross gold secured loans	**6,660,391**	**12,254**	**9,445**	**6,682,090**
Credit loss allowance	**(16,088)**	**(1,329)**	**(3,755)**	**(21,172)**
Total net gold secured loans	**6,644,303**	**10,925**	**5,690**	**6,660,918**

	31 December 2019*			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Express loan without guarantee				
- not overdue	3,014,374	30,699	33,978	3,079,051
- overdue of less than 30 days	33,753	1,616	22,797	58,166
- overdue of 31-90 days	-	19,732	14,656	34,388
Total gross express loans without guarantee	**3,048,127**	**52,047**	**71,431**	**3,171,605**
Credit loss allowance	**(108,344)**	**(10,509)**	**(46,685)**	**(165,538)**
Total net express loans without guarantee	**2,939,783**	**41,538**	**24,746**	**3,006,067**
Cash covered loans				**-**
- not overdue	301,519	-	-	**301,519**
- overdue of less than 30 days	2,034	-	-	**2,034**
Total gross cash covered loans	**303,553**	**-**	**-**	**303,553**
Credit loss allowance	**-**	**-**	**-**	**-**
Total net cash covered loans	**303,553**	**-**	**-**	**303,553**
Express loan with guarantee				
- not overdue	324,729	7,037	11,160	342,926
- overdue of less than 30 days	3,601	395	2,229	6,225
- overdue of 31-90 days	-	4,573	278	4,851
- overdue of 91-180 days	-	-	9,592	9,592
- overdue of 181-360 days	-	-	6,165	6,165
Total gross express loans with guarantee	**328,330**	**12,005**	**29,424**	**369,759**
Credit loss allowance	**(4,905)**	**(1,655)**	**(14,411)**	**(20,971)**
Total net express loans with guarantee	**323,425**	**10,350**	**15,013**	**348,788**
Salary project loans				
- not overdue	516,945	1,589	1,281	519,815
- overdue of less than 30 days	3,964	90	28	4,082
- overdue of 31-90 days	-	4,155	566	4,721
- overdue of 91-180 days	-	-	5,400	5,400
- overdue of 181-360 days	-	-	2,677	2,677
Total gross salary project loans	**520,909**	**5,834**	**9,952**	**536,695**
Credit loss allowance	**(4,702)**	**(1,331)**	**(5,020)**	**(11,053)**
Total net salary project loans	**516,207**	**4,503**	**4,932**	**525,642**
Credit lines				
- not overdue	2,130,376	-	5,780	2,136,156
- overdue of less than 30 days	16,584	169	-	16,753
- overdue of 31-90 days	-	11,314	-	11,314
- overdue of 181-360 days	-	-	16,247	16,247
- overdue more than 1 year	-	-	2,268	2,268
Total gross credit lines	**2,146,960**	**11,483**	**24,295**	**2,182,738**
Credit loss allowance	**(15,039)**	**(4,719)**	**(12,040)**	**(31,798)**
Total net credit lines	**2,131,921**	**6,764**	**12,255**	**2,150,940**

	31 December 2019*			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Other retail loans				
- not overdue	2,536,969	4,787	32,025	2,573,781
- overdue of less than 30 days	3,548	1,265	4,574	9,387
- overdue of 31-90 days	-	11,399	3,260	14,659
- overdue of 91-180 days	-	-	15,939	15,939
- overdue of 181-360 days	-	-	10,742	10,742
- overdue more than 1 year	-	-	67,113	67,113
Total gross other retail loans	**2,540,517**	**17,451**	**133,653**	**2,691,621**
Credit loss allowance	**(29,020)**	**(3,761)**	**(53,711)**	**(86,492)**
Total net other retail loans	**2,511,497**	**13,690**	**79,942**	**2,605,129**
Total gross loans to retail customers	**40,174,318**	**229,157**	**2,191,876**	**42,595,351**
Total expected credit loss on retail customers	**(262,949)**	**(30,084)**	**(614,640)**	**(907,673)**
Total net loans to retail customers	**39,911,369**	**199,073**	**1,577,236**	**41,687,678**

* The loss allowance in this table includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

** Management estimates that as at 31 December 2019 from the unrated gross loans to large corporate customers AMD 10,263,491 thousand approximates to B+ rating, AMD 7,057,009 thousand approximates to B rating under Standard & Poor's rating system and AMD 4,854,395 thousand are highly collateralized with real estate securities. (2018: AMD 6,582,563 thousand approximates to B+ rating under Standard & Poor's rating system).

The following table provides information on the credit quality of loans to customers as at 31 December 2018:

	31 December 2018			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Loans to corporate customers				
Loans to large corporate customers				
- not overdue	19,780,307	-	-	19,780,307
- not overdue credit impaired	-	-	13,607,727	13,607,727
Total gross loans to large corporate customers	**19,780,307**	**-**	**13,607,727**	**33,388,034**
Credit loss allowance	**(182,092)**	**-**	**(7,637,739)**	**(7,819,831)**
Total net loans to large corporate customers	**19,598,215**	**-**	**5,969,988**	**25,568,203**
Loans to trading companies				
- not overdue	1,523,437	-	111,512	1,634,949
- overdue of less than 30 days	-	6,151	-	6,151
- overdue of 91-180 days	-	-	100,196	100,196
- overdue of 181-360 days	-	-	332,691	332,691
- overdue more than 1 year	-	-	466,223	466,223
Total gross loans to trading companies	**1,523,437**	**6,151**	**1,010,622**	**2,540,210**
Credit loss allowance	**(13,979)**	**-**	**(367,043)**	**(381,022)**
Total net loans to trading companies	**1,509,458**	**6,151**	**643,579**	**2,159,188**

	31 December 2018			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Loans to manufacturing companies	-	-	-	
- not overdue	1,342,573	-	40,059	1,382,632
- overdue of less than 30 days	-	-	30,756	30,756
- overdue more than 1 year	-	-	166,564	166,564
Total gross loans to manufacturing companies	**1,342,573**	**-**	**237,379**	**1,579,952**
Credit loss allowance	**(485)**	**-**	**(16,866)**	**(17,351)**
Total net loans to manufacturing companies	**1,342,088**	**-**	**220,513**	**1,562,601**
Cash covered loans				
- not overdue	242,590	-	-	242,590
Credit loss allowance	**-**	**-**	**-**	**-**
Total net cash covered loans	**242,590**	**-**	**-**	**242,590**
Other corporate loans				
- not overdue	1,679,731	79,022	802,323	2,561,076
- overdue of less than 30 days	10,388	29,036	42,598	82,022
- overdue of 31-90 days	-	35,097	-	35,097
- overdue of 91-180 days	-	-	15,714	15,714
- overdue of 181-360 days	-	-	7,569	7,569
- overdue more than 1 year	-	-	1,095,016	1,095,016
Total gross other corporate loans	**1,690,119**	**143,155**	**1,963,220**	**3,796,494**
Credit loss allowance	**(7,511)**	**(782)**	**(929,111)**	**(937,404)**
Total net other corporate loans	**1,682,608**	**142,373**	**1,034,109**	**2,859,090**
Gross loans to corporate customers	**24,579,026**	**149,306**	**16,818,948**	**41,547,280**
Total expected credit loss on corporate customers	**(204,067)**	**(782)**	**(8,950,759)**	**(9,155,608)**
Total net loans to corporate customers	**24,374,959**	**148,524**	**7,868,189**	**32,391,672**
Loans to retail customers				
Consumer loans secured with real estate				
- not overdue	9,756,583	169,682	29,429	9,955,694
- overdue of less than 30 days	200,362	922	-	201,284
- overdue of 31-90 days	-	119,143	-	119,143
- overdue of 91-180 days	-	-	50,558	50,558
- overdue of 181-360 days	-	-	240,239	240,239
- overdue more than 1 year	-	-	1,327,348	1,327,348
Total gross consumer loans secured with real estate	**9,956,945**	**289,747**	**1,647,574**	**11,894,266**
Credit loss allowance	**(70,883)**	**(13,161)**	**(217,631)**	**(301,675)**
Total net consumer loans secured with real estate	**9,886,062**	**276,586**	**1,429,943**	**11,592,591**

	31 December 2018			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Mortgage loans				
- not overdue	5,550,213	42,831	-	5,593,044
- overdue of less than 30 days	91,553	-	-	91,553
- overdue of 31-90 days	-	71,528	-	71,528
- overdue of 91-180 days	-	-	11,289	11,289
- overdue of 181-360 days	-	-	24,437	24,437
- overdue more than 1 year	-	-	127,011	127,011
Total gross mortgage loans	**5,641,766**	**114,359**	**162,737**	**5,918,862**
Credit loss allowance	**(17,463)**	**(4,058)**	**(7,014)**	**(28,535)**
Total net mortgage loans	**5,624,303**	**110,301**	**155,723**	**5,890,327**
Gold secured loans				
- not overdue	5,587,245	43,047	15,382	5,645,674
- overdue of less than 30 days	127,630	206	108	127,944
- overdue of 31-90 days	-	84,693	-	84,693
- overdue of 91-180 days	-	-	23,246	23,246
- overdue of 181-360 days		-	14,486	14,486
- overdue more than 1 year	-	-	9,948	9,948
Total gross gold secured loans	**5,714,875**	**127,946**	**63,170**	**5,905,991**
Credit loss allowance	**(14,629)**	**(5,491)**	**(9,854)**	**(29,974)**
Total net gold secured loans	**5,700,246**	**122,455**	**53,316**	**5,876,017**
Express loan without guarantee				
- not overdue	1,090,903	29,545	-	1,120,448
- overdue of less than 30 days	31,034	-	-	31,034
- overdue of 31-90 days	-	16,017	-	16,017
- overdue of 91-180 days	-	-	6,272	6,272
- overdue of 181-360 days	-	-	5,708	5,708
- overdue more than 1 year	-	-	214	214
Total gross express loans without guarantee	**1,121,937**	**45,562**	**12,194**	**1,179,693**
Credit loss allowance	**(38,501)**	**(13,916)**	**(7,901)**	**(60,318)**
Total net express loans without guarantee	**1,083,436**	**31,646**	**4,293**	**1,119,375**
Cash covered loans				
- not overdue	311,426	25,348	-	336,774
Total gross cash covered loans	**311,426**	**25,348**	**-**	**336,774**
Credit loss allowance	**-**	**-**	**-**	**-**
Total net cash covered loans	**311,426**	**25,348**	**-**	**336,774**
Express loan with guarantee				
- not overdue	804,288	9,336	-	813,624
- overdue of less than 30 days	15,023	405	-	15,428
- overdue of 31-90 days	-	6,337	-	6,337
- overdue of 91-180 days	-	-	4,781	4,781
- overdue of 181-360 days	-	-	7,702	7,702
- overdue more than 1 year	-	-	39,138	39138
Total gross express loans with guarantee	**819,311**	**16,078**	**51,621**	**887,010**
Credit loss allowance	**(14,838)**	**(3,077)**	**(24,712)**	**(42,627)**
Total net express loans with guarantee	**804,473**	**13,001**	**26,909**	**844,383**

	31 December 2018			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Salary project loans				
- not overdue	663,198	1,111	4,146	668,455
- overdue of less than 30 days	13,763	-	-	13,763
- overdue of 31-90 days	-	10,012	-	10,012
- overdue of 91-180 days	-	-	2,002	2,002
- overdue of 181-360 days	-	-	12,768	12,768
Total gross salary project loans	**676,961**	**11,123**	**18,916**	**707,000**
Credit loss allowance	**(6,313)**	**(353)**	**(7,449)**	**(14,115)**
Total net salary project loans	**670,648**	**10,770**	**11,467**	**692,885**
Credit lines				
- not overdue	222,623	-	-	222,623
- overdue of less than 30 days	3,283	-	-	3,283
- overdue of 31-90 days	-	1,468	-	1,468
- overdue of 91-180 days	-	-	3,130	3,130
- overdue more than 1 year	-	-	10	10
Total gross credit lines	**225,906**	**1,468**	**3,140**	**230,514**
Credit loss allowance	**(1,857)**	**(981)**	**(1,451)**	**(4,289)**
Total net credit lines	**224,049**	**487**	**1,689**	**226,225**
Other retail loans				
- not overdue	2,240,729	21,686	5,557	2,267,972
- overdue of less than 30 days	39,811	4,963	-	44,774
- overdue of 31-90 days	-	18,219	-	18,219
- overdue of 91-180 days	-	-	3,475	3,475
- overdue of 181-360 days	-	-	200,853	200,853
- overdue more than 1 year	-	-	82,416	82,416
Total gross other retail loans	**2,280,540**	**44,868**	**292,301**	**2,617,709**
Credit loss allowance	**(49,775)**	**(7,080)**	**(60,601)**	**(117,456)**
Total net other retail loans	**2,230,765**	**37,788**	**231,700**	**2,500,253**
Total gross loans to retail customers	**26,749,667**	**676,499**	**2,251,653**	**29,677,819**
Total expected credit loss on retail customers	**(214,259)**	**(48,117)**	**(336,613)**	**(598,989)**
Total net loans to retail customers	**26,535,408**	**628,382**	**1,915,040**	**29,078,830**

(c) Key assumptions and judgements for estimating credit loss allowance

Key assumptions and judgements for estimating credit loss allowance is presented in Note 25(b).

(d) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2019 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans which are not credit impaired			
Real estate	8,565,356	-	8,565,356
Corporate guarantee*	9,404,397	-	9,404,397
Corporate shares	4,901,139	-	4,901,139
Highly liquid assets**	429,039	429,039	-
Other collateral	1,150,375	-	1,150,375
No collateral or other credit enhancement	3,800,477	-	3,800,477
Total loans which are not credit impaired	**28,250,783**	**429,039**	**27,821,744**
Credit impaired loans			
Real estate***	5,234,164	5,234,164	-
Highly liquid assets**	2,206,620	2,206,620	-
Total credit impaired loans	**7,440,784**	**7,440,784**	**-**
Total loans to corporate customers	**35,691,567**	**7,869,823**	**27,821,744**

31 December 2018 **AMD’000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans which are not credit impaired			
Bank account turnover	4,338,179	4,338,179	-
Real estate	4,778,882	-	4,778,882
Corporate guarantee*	6,795,629	-	6,795,629
Corporate shares	3,852,334	-	3,852,334
Highly liquid assets**	197,453	197,453	-
Other collateral	861,369		861,369
No collateral or other credit enhancement	3,699,637	-	3,699,637
Total loans which are not credit impaired	**24,523,483**	**4,535,632**	**19,987,851**
Credit impaired loans			
Real estate***	5,642,939	5,642,939	-
Highly liquid assets**	2,225,250	2,225,250	-
Total credit impaired loans	**7,868,189**	**7,868,189**	**-**
Total loans to corporate customers	**32,391,672**	**12,403,821**	**19,987,851**

* Corporate guarantees are from companies with sound financial performance and management expects that if the underlying loans default guarantors will be able to repay the loans in full.

** Highly liquid assets include deposits from banks and customers.

*** The amount of real estate includes an amount of AMD 2,839,641 thousand (2018: AMD 3,009,351 thousand), which is not directly pledged with the Bank. However, it secures right which has been pledged with the Bank against loans extended to two borrowers.

The tables above exclude overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed on the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

The expected credit loss for credit impaired corporate customers was fully determined based on the expected recoveries from collateral disclosed in the above table.

As at 31 December 2019, the balance of cash-covered loans for which no impairment allowance was created because of the collateral, amounted to AMD 813,551 thousand (2018: AMD 501,006 thousand).

(ii) Loans to retail customers

Consumer loans are mainly secured by real estate. The Bank’s policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of a maximum of 40%.

Express loans with guarantee and without guarantee are mainly unsecured.

Gold secured loans are secured by golden jewelry. The Bank’s policy is to issue gold secured loans with a loan-to-value ratio at the date of loan issuance of a maximum of 100%.

Mortgage loans are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Cash covered loans and part of credit lines are secured with highly liquid assets which include deposits, purchased debt securities issued by the Bank and current accounts.

Salary project loans and part of credit lines are mainly unsecured.

(iii) Repossessed collateral

During the year ended 31 December 2019, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 471,817 thousand (2018: AMD 552,491thousand). As at 31 December 2019 and 31 December 2018, the repossessed collateral comprises mainly real estate.

	2019 Carrying amount AMD’000	**2018 Carrying amount AMD’000**
Balance at 1 January	1,087,443	749,383
Additions	471,817	552,491
Sales	(83,253)	(214,431)
Balance at 31 December	**1,476,007**	**1,087,443**

On the date of foreclosure the collateral is measured at the carrying amount of the defaulted loan. Subsequent to foreclosure repossessed assets are measured at cost less impairment losses. Impairment is estimated based on the market approach. The market approach for real estate is based upon an analysis of the results of comparable recent sales of similar assets or announced prices for sale of similar assets, applying a discount of between 10% and 40% depending on the nature and location of the asset for the announced prices for sale.

The Bank’s policy is to sell these assets as soon as it is practicable.

(e) Industry and geographical analysis of the loan portfolio

Loans are issued to customers that operate in the following economic sectors:

	2019 AMD'000	2018 AMD'000
Trade and finance	26,656,176	21,795,817
Energy	6,523,359	8,697,421
Manufacturing	3,755,289	1,878,999
Hospitality	1,706,478	645,957
Transportation and communication	937,389	647,589
Construction	895,071	613,725
Mining	620,887	53,899
Agriculture, forestry and timber	38,486	19,935
Service	38,395	132,800
Other	4,498,284	7,061,138
Loans to retail customers	42,595,351	29,677,819
	88,265,165	**71,225,099**
Credit loss allowance	(10,885,920)	(9,754,597)
	77,379,245	**61,470,502**

As at 31 December 2019, loans to customers with a gross value of AMD 83,410,769 thousand (2018: AMD 66,319,916 thousand) are issued to customers operating within the Republic of Armenia.

(f) Assets under lien

As at 31 December 2019, loans to customers with a gross value of AMD 2,417,771 thousand (2018: AMD 2,503,920 thousand) serve as collateral for loans from credit organisations and borrowings from the government of Armenia (Note 19).

(g) Significant credit exposures

As at 31 December 2019, the Bank has five borrowers or groups of connected borrowers (2018: five), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2019 is AMD 29,861,852 thousand (2018: AMD 29,776,070 thousand).

(h) Loan maturities

The maturity of the loan portfolio is presented in Note 25(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Property, equipment and intangible assets

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/revalued amount							
Balance as at 1 January 2019	4,278,337	266,517	1,499,699	1,051,131	81,871	658,310	7,835,865
Additions	44,898	236,158	206,782	265,290	40,512	525,873	1,319,513
Disposals/write-offs	-	(25,315)	(8,174)	(44,534)	-	(132,125)	(210,148)
Balance at 31 December 2019	**4,323,235**	**477,360**	**1,698,307**	**1,271,887**	**122,383**	**1,052,058**	**8,945,230**
Depreciation and amortisation							
Balance at 1 January 2019	822,383	56,579	993,015	484,359	22,445	395,240	2,774,021
Depreciation and amortisation for the year	83,741	16,129	171,746	130,162	12,013	139,369	553,160
Disposals/write-offs	-	(25,148)	(7,026)	(35,921)	-	(124,601)	(192,696)
Balance at 31 December 2019	**906,124**	**47,560**	**1,157,735**	**578,600**	**34,458**	**410,008**	**3,134,485**
Carrying amount							
At 31 December 2019	**3,417,111**	**429,800**	**540,572**	**693,287**	**87,925**	**642,050**	**5,810,745**
Cost/revalued amount							
Balance at 1 January 2018	4,396,920	208,321	1,375,132	864,006	101,781	564,637	7,510,797
Additions	68,894	58,196	96,980	294,496	26,455	105,457	650,478
Disposals/write-offs	(187,477)	-	(8,016)	(71,768)	(46,365)	(11,784)	(325,410)
Reclassification	-	-	35,603	(35,603)	-	-	-
Balance at 31 December 2018	**4,278,337**	**266,517**	**1,499,699**	**1,051,131**	**81,871**	**658,310**	**7,835,865**
Depreciation and amortisation							
Balance at 1 January 2018	787,947	45,612	831,003	456,714	55,387	299,856	2,476,519
Depreciation and amortisation for the year	85,336	10,967	169,665	90,289	6,965	106,932	470,154
Disposals/write-offs	(50,900)	-	(7,927)	(62,370)	(39,907)	(11,548)	(172,652)
Reclassification	-	-	274	(274)	-	-	-
Balance at 31 December 2018	**822,383**	**56,579**	**993,015**	**484,359**	**22,445**	**395,240**	**2,774,021**
Carrying amount							
At 31 December 2018	**3,455,954**	**209,938**	**506,684**	**566,772**	**59,426**	**263,070**	**5,061,844**

(a) Revalued assets

Management performed real estate prices assessment. Based on analysis of changes in real estate prices during the period management believes that fair value of buildings approximates the carrying amount as at 31 December 2019. The fair value of buildings is categorised into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

The carrying value of buildings as at 31 December 2019, if the buildings would not have been revalued, would be AMD 3,281,252 thousand (2018: AMD 3,368,903 thousand).

17 Leases

The Bank leases assets such as customer service centre spaces which typically run for a period of 5 to 10 years. Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2019 AMD'000
Balance at 1 January	859,117
Additions to right of use assets	967,759
Depreciation charge for the period	(220,572)
Balance at 31 December	**1,606,304**

(b) Lease liability

	2019 AMD'000
Less than one year	299,993
One to two years	265,049
Two to five years	736,171
More than five years	872,190
Total undiscounted lease payable	**2,173,403**
Unearned finance cost	(534,983)
Lease liability	**1,638,420**

(c) Amounts recognised in profit and loss

	2019 AMD'000
Depreciation of right of use asset	220,572
Interest on lease liabilities	93,781
Expenses relating to short-term leases	43,907

(d) Amounts recognised in statement of cash flows

	2019 AMD'000
Total cash outflow for leases	
Payment of lease liabilities	282,238

18 Other assets

	2019 AMD'000	2018 AMD'000
Other receivables	848,824	250,940
Credit loss allowance	(3,201)	(660)
Total net other financial assets	**845,623**	**250,280**
Prepayments	1,418,083	767,052
Materials and supplies	88,026	75,277
Other	55,738	10,882
Total other non-financial assets	**1,561,847**	**853,211**
Total other assets	**2,407,470**	**1,103,491**

19 Deposits and balances from banks and other financial institutions

	2019 AMD'000	2018 AMD'000
Term deposits from banks and other financial institutions	9,240,996	1,914,529
Unsecured loans from banks	4,672,177	-
Secured loans from other financial institutions	2,418,041	2,399,142
Vostro accounts	3,798,528	1,624,109
	20,129,742	**5,937,780**

As at 31 December 2019, loans to customers with a gross value of AMD 2,417,771 thousand (2018: AMD 2,503,920 thousand) serve as collateral for secured loans from credit organizations (Note 15).

As at 31 December 2019 the Bank has one bank and other financial institution (2018: no banks and other financial institutions), whose balances exceed 10% of equity. The gross value of these loans as at 31 December 2019 is AMD 5,452,875 thousand.

20 Amounts payable under repurchase agreements

	2019 AMD'000	2018 AMD'000
Amounts payable under repurchase agreements to local banks	11,535,658	2,769,206
Amounts payable under repurchase agreements to CBA	4,001,223	4,002,696
Amounts payable under repurchase agreements to local financial institutions	755,814	-
	16,292,695	**6,771,902**

The securities pledged under repurchase agreement represents Bank's own securities measured at fair value through other comprehensive income of AMD 2,260,311 thousand and measured at amortised cost of AMD 11,829,493 thousand (2018: investment securities measured at amortised cost of AMD 5,587,003 thousand).

21 Debt securities issued

	2019 AMD'000	2018 AMD'000
Debt securities issued	**6,700,803**	**10,823,040**

During 2019 the Bank issued bonds with nominal amount of USD 10,000,000 and AMD 250,000 thousand (2018: USD 5,000,000). As of 31 December 2019 the nominal amount of bonds placed by the Bank at Armenia Securities Exchange Stock Exchange is USD 13,334,300 and AMD 250,000 thousand.

During 2019 the Bank's bonds listed on Armenia Securities Exchange Stock Exchange issued in 2017 with nominal amount of USD 15,000,000 and AMD 1,000,000 thousand, matured.

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 AMD	**2019 AMD'000**	**2018 AMD'000**
Balance at 1 January	10,823,040	10,815,059
Changes from financing cash flows		
Proceeds from debt securities issued	4,252,464	2,418,750
Repayment of debt securities issued	(8,207,150)	(2,422,500)
Total changes from financing cash flows	**(3,954,686)**	**(3,750)**
The effect of changes in foreign exchange rates	**(14,659)**	**(448)**
Other changes		
Interest expense	470,604	712,633
Interest paid	(623,496)	(700,454)
Balance at 31 December	**6,700,803**	**10,823,040**

22 Current accounts and deposits from customers

	2019 AMD'000	2018 AMD'000
Current accounts and demand deposits		
- Retail	9,656,926	5,880,267
- Corporate	5,474,322	4,820,251
Term deposits		
- Retail	41,881,392	42,687,970
- Corporate	1,806,480	2,931,868
	58,819,120	**56,320,356**

As at 31 December 2019, the Bank maintained customer deposit balances of AMD 4,477,966 thousand (2018: AMD 3,655,108 thousand) that serve as collateral for loans to customers and guarantees issued by the Bank.

As at 31 December 2019, the Bank has no customers (2018: none), whose balances exceed 10% of equity.

23 Other liabilities

	2019 AMD'000	2018 AMD'000
Other financial liabilities	390,006	269,467
Total other financial liabilities	**390,006**	**269,467**
Payables to employees	672,480	664,205
Other non-financial liabilities	329,554	288,661
Taxes payable other than on income	138,447	115,762
Total other non-financial liabilities	**1,140,481**	**1,068,628**
Total other liabilities	**1,530,487**	**1,338,095**

24 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 679,437 ordinary shares (2018: 679,437). All shares have a nominal value of AMD 50,000 (2018: AMD 50,000).

During 2019 no ordinary shares were issued (2018: none). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognised or impaired.

Fair value reserve for investment securities

Fair value reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to Armenian legislation.

No dividends were declared in 2019 and 2018.

25 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major (significant) risks faced by the Bank are those related to financial risk, market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Bank has developed a system of reporting on significant risks and capital.

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. The Head of the Risk Directorate is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Chairman of the Management Board and indirectly to the Council of the Bank. The Risk Directorate is not subordinate to, and does not report to, divisions accepting relevant risks.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Directorate monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

In compliance with the Bank's internal documentation the Risk Directorate and internal audit function frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

(b) Financial risk review

This note presents information about the Bank's exposure to financial risks.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Banking Directorate, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Directorate and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Banking Directorate and the Risk Directorate. Individual transactions are also reviewed by the Legal, Accounting and Tax departments, depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Banking Directorate through the use of scoring models and application data verification procedures developed together with the Risk Directorate.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Directorate with regard to credit concentration and market risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

– the remaining lifetime probability of default (PD) as at the reporting date; with
– the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

– quantitative test based on movement in probability of default (PD);
– qualitative indicators; and
– backstop of 30 days past due.

The exposures of the Bank's borrowers are subject to ongoing monitoring, which may result in a determination about significant increase in credit risk. The monitoring typically involves use of the following data.

Corporate exposure	**All exposures (corporate and retail exposures)**
– Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes	– Payment record – this includes overdue status as well as a range of variables about payment ratios
– Data from credit reference agencies, press articles, changes in external credit ratings	– Utilisation of the granted limit – Requests for and granting of forbearance
– Quoted bond and credit default swap (CDS) prices for the borrower where available	– Existing and forecast changes in business, financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Bank sets the maximum level of PDs equal to PD of the country's rating grade where the borrower operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 36 months.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers and 1 day for loans and advances to banks and other financial institutions and investment securities. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.
As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling the remaining lifetime PD increased by more than 64%.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Bank considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
– the borrower is past due more than 90 days for loans to customers and 30 days for loans and advances to banks and other financial institutions and investment securities on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
– it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

– qualitative – e.g. breaches of covenant;
– quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
– based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is changes in exchange rates.

Predicted relationships between the key driver and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 6 years.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

– its remaining lifetime PD at the reporting date based on the modified terms; with
– the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(e)(iv)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

– instrument type;
– credit risk gradings;
– collateral type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used	
	Exposure	**PD**	**LGD**
Investment securities measured at FVOCI	6,209,368	S&P default studies	Moody's recovery studies
Investment securities measured at amortised cost	23,135,698	S&P default studies	Moody's recovery studies
Loans to corporate customers	12,419,361	S&P default studies	Moody's recovery studies
Loans to corporate customers	9,755,534	S&P default studies	-
Loans and advances to banks and other financial institutions	10,336,407	S&P default studies	Moody's recovery studies

Concentrations of credit risk

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2019 AMD'000	**2018 AMD'000**
ASSETS		
Cash and cash equivalents	7,756,450	8,658,588
Investment securities measured at fair value through other comprehensive income	8,762,820	4,728,200
Investment securities measured at amortized cost	23,100,375	20,723,726
Derivative financial assets	4,312	-
Loans and advances to banks and other financial institutions	10,305,167	13,068,992
Amounts receivable under reverse repurchase agreements	4,767,263	3,429,813
Loans to customers	77,379,245	61,470,502
Other financial assets	845,623	250,280
Total maximum exposure	**132,921,255**	**112,330,101**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 27.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in the Bank's 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.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.
Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	4,767,263	-	4,767,263	(4,767,263)	-	-
Total financial assets	**4,767,263**	-	**4,767,263**	**(4,767,263)**	-	-
Deposits and balances from banks and other financial institutions	(2,418,041)	-	(2,418,041)	2,417,771	-	(270)
Amounts payable under repurchase agreements	(16,292,695)	-	(16,292,695)	14,089,804	-	(2,202,891)
Total financial liabilities	**(18,710,736)**	-	**(18,710,736)**	**16,507,575**	-	**(2,203,161)**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	3,429,813	-	3,429,813	(3,429,813)	-	-
Total financial assets	**3,429,813**	**-**	**3,429,813**	**(3,429,813)**	**-**	**-**
Deposits and balances from banks and other financial institutions	(2,399,142)	-	(2,399,142)	2,399,142	-	-
Amounts payable under repurchase agreements	(6,771,902)	-	(6,771,902)	6,771,902	-	-
Total financial liabilities	**(9,171,044)**	**-**	**(9,171,044)**	**(9,171,044)**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO, based on recommendations of the Risk Directorate.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Investment securities measured at fair value through other comprehensive income	103,767	219,843	209,884	2,386,388	3,289,486	2,553,452	8,762,820
Investment securities measured at amortized cost	72,837	24,047	2,633,269	4,997,342	15,372,880	-	23,100,375
Loans and advances to banks and other financial institutions	1,182,194	1,127,723	1,943,532	197,062	-	5,854,656	10,305,167
Amounts receivable under reverse repurchase agreements	4,767,263	-	-	-	-	-	4,767,263
Loans to customers	16,505,481	19,675,582	24,816,664	14,590,621	1,790,897	-	77,379,245
	22,631,542	**21,047,195**	**29,603,349**	**22,171,413**	**20,453,263**	**8,408,108**	**124,314,870**
LIABILITIES							
Deposits and balances from banks and other financial institutions	3,325,711	6,323,917	4,070,298	2,161,072	450,217	3,798,527	20,129,742
Debt securities issued	54,803	-	-	6,646,000	-	-	6,700,803
Amounts payable under repurchase agreements	16,292,695	-	-	-	-	-	16,292,695
Current accounts and deposits from customers	24,982,574	11,416,436	16,799,490	4,803,012	817,608	-	58,819,120
	44,655,783	**17,740,353**	**20,869,788**	**13,610,084**	**1,267,825**	**3,798,527**	**101,942,360**
	(22,024,241)	**3,306,842**	**8,733,561**	**8,561,329**	**19,185,438**	**4,609,581**	**22,372,510**

For management of negative short term interest rate gap position the Bank relies on the investment securities measured at FVOCI financial assets, which can be sold or pledged under repo agreements and the assumption that the term deposits will be prolonged upon maturity.

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Investment securities measured at fair value through other comprehensive income	-	-	-	308,200	3,297,290	1,122,710	4,728,200
Investment securities measured at amortized cost	66,387	925,784	912,046	3,416,502	15,403,007	-	20,723,726
Loans and advances to banks and other financial institutions	8,214,655	965,409	2,873,894	-	-	1,015,034	13,068,992
Amounts receivable under reverse repurchase agreements	3,429,813	-	-	-	-	-	3,429,813
Loans to customers	3,922,392	7,172,129	6,174,262	37,782,849	6,418,870	-	61,470,502
	15,633,247	**9,063,322**	**9,960,202**	**41,507,551**	**25,119,167**	**2,137,744**	**103,421,233**
LIABILITIES							
Deposits and balances from banks and other financial institutions	787,673	675,330	479,415	1,192,280	1,178,973	1,624,109	5,937,780
Debt securities issued	3,504,627	2,422,063	2,451,389	2,444,961	-	-	10,823,040
Amounts payable under repurchase agreements	6,771,902	-	-	-	-	-	6,771,902
Current accounts and deposits from customers	24,804,931	11,563,156	15,710,086	3,191,261	1,050,922	-	56,320,356
	35,869,133	**14,660,549**	**18,640,890**	**6,828,502**	**2,229,895**	**1,624,109**	**79,853,078**
	(20,235,886)	**(5,597,227)**	**(8,680,688)**	**34,679,049**	**22,889,272**	**513,635**	**23,568,155**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate, %			**2018 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Investment securities measured at fair value through other comprehensive income	10.5%	7.0%	-	9.5%	6.7%	-
Investment securities measured at amortized cost	12.4%	6.5%	4.0%	14.6%	5.4%	-
Loans and advances to banks and other financial institutions	10.7%	5.4%	4.5%	7.5%	3.5%	-
Amounts receivable under reverse repurchase agreements	6.1%	-	1.4%	6.8%	3.3%	-
Loans to customers	12.3%	11.5%	7.4%	12.6%	11.7%	6.9%
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	7.0%	4.1%	-	9.5%	4.7%	-
- Loans from banks and other financial institutions	8.2%	4.0%	1.6%	8.4%	-	-
Current accounts and deposits from customers						
- Term deposits	8.8%	4.5%	2.1%	9.0%	4.8%	3.7%
- Current accounts	0.0%-5%	0.0%-1.5%	0.0%-0.25%	0.0%-5%	0.0%-1.5%	0.0%-0.25%
Debt securities issued	9.5%	5.2%	-	12.3%	5.8%	-
Amounts payable under repurchase agreements	5.6%	-	-	6.2%	-	0.9%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018, is as follows:

	2019 AMD’000	**2018 AMD’000**
100 bp parallel fall	127,587	113,423
100 bp parallel rise	(127,587)	(113,423)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets measured at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2019	2018
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	263,025	182,498
100 bp parallel rise	(263,025)	(182,498)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	**AMD'000**	**AMD'000**	**AMD'000**	**AMD'000**
ASSETS					
Cash and cash equivalents	7,991,075	1,877,796	944,097	3,524,069	14,337,037
Investment securities measured at fair value through other comprehensive income	2,644,898	3,858,817	-	2,259,105	8,762,820
Investment securities measured at amortized cost	16,224,096	5,308,512	1,567,767	-	23,100,375
Loans and advances to banks and other financial institutions	2,462,989	5,727,012	1,469,375	645,791	10,305,167
Amounts receivable under reverse repurchase agreements	4,723,190	-	44,073	-	4,767,263
Loans to customers	46,680,368	20,966,541	7,553,438	2,178,898	77,379,245
Other financial assets	461,301	376,738	1,018	6,566	845,623
Total assets	**81,187,917**	**38,115,416**	**11,579,768**	**8,614,429**	**139,497,530**
LIABILITIES					
Deposits and balances from banks and other financial institutions	12,305,088	2,949,750	3,385,660	1,489,244	20,129,742
Current accounts and deposits from customers	24,835,917	32,001,003	1,645,951	336,249	58,819,120
Debt securities issued	253,538	6,447,265	-	-	6,700,803
Amounts payable under repurchase agreements	10,918,439	-	5,374,256	-	16,292,695
Other financial liabilities	309,857	60,503	5,893	13,753	390,006
Total liabilities	**48,622,839**	**41,458,521**	**10,411,760**	**1,839,246**	**102,332,366**
Currency SWAP contracts	**-**	**6,698,934**	**(1,049,362)**	**(5,645,260)**	**4,312**
Net position	**32,565,078**	**3,355,829**	**118,646**	**1,129,923**	**37,169,476**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2018:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	7,070,377	2,320,822	480,114	1,389,443	11,260,756
Investment securities measured at fair value through other comprehensive income	1,570,422	2,209,045	-	948,733	4,728,200
Investment securities measured at amortized cost	16,703,028	4,020,698	-	-	20,723,726
Loans and advances to banks and other financial institutions	585,429	11,934,458	98,143	450,962	13,068,992
Amounts receivable under reverse repurchase agreements	3,236,227	193,586	-	-	3,429,813
Loans to customers	29,746,643	26,880,223	4,151,994	691,642	61,470,502
Other financial assets	217,415	32,742	117	6	250,280
Total assets	**59,129,541**	**47,591,574**	**4,730,368**	**3,480,786**	**114,932,269**
LIABILITIES					
Deposits and balances from banks and other financial institutions	5,022,477	896,023	16,955	2,325	5,937,780
Current accounts and deposits from customers	19,268,486	34,905,492	1,778,639	367,739	56,320,356
Debt securities issued	1,036,400	9,786,640	-	-	10,823,040
Amounts payable under repurchase agreements	4,002,696	-	2,769,206	-	6,771,902
Other financial liabilities	256,276	12,824	367	-	269,467
Total liabilities	**29,586,335**	**45,600,979**	**4,565,167**	**370,064**	**80,122,545**
Currency SWAP contracts	**-**	**529,706**	**-**	**(531,043)**	**(1,337)**
Net position	**29,543,206**	**2,520,301**	**165,201**	**2,579,679**	**34,808,387**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2019 and 2018, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before tax, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019	2018
	AMD'000	AMD'000
10% appreciation of USD against AMD	335,583	252,030
10% appreciation of EUR against AMD	11,865	16,520

A strengthening of the AMD against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/-or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

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

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Division receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Division then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Division. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Division.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	5,271,911	1,869,006	6,508,140	4,258,630	3,262,679	21,170,366	20,129,742
Current accounts and deposits from customers	19,998,474	5,226,346	11,777,771	17,590,718	7,054,741	61,648,050	58,819,120
Debt securities issued	50,771	111,327	80,524	134,277	6,882,592	7,259,491	6,700,803
Amounts payable under repurchase agreements	13,619,189	2,689,797	-	-	-	16,308,986	16,292,695
Other financial liabilities	70,659	63,869	255,478	-	-	390,006	390,006
Total financial liabilities	**39,011,004**	**9,960,345**	**18,621,913**	**21,983,625**	**17,200,012**	**106,776,899**	**102,332,366**
Credit related commitments	**4,370,145**	**-**	**-**	**-**	**-**	**4,370,145**	**-**

The maturity analysis for financial assets and liabilities as at 31 December 2018 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1,655,674	798,066	747,774	596,797	3,234,045	7,032,356	5,937,780
Current accounts and deposits from customers	17,850,775	8,089,972	11,994,217	17,553,752	6,349,919	61,838,635	56,320,356
Debt securities issued	29,108	3,604,882	2,519,757	2,563,902	2,590,501	11,308,150	10,823,040
Amounts payable under repurchase agreements	6,780,089	-	-	-	-	6,780,089	6,771,902
Other financial liabilities	101,348	151,702	16,417	-	-	269,467	269,467
Total financial liabilities	**26,416,994**	**12,644,622**	**15,278,165**	**20,714,451**	**12,174,465**	**87,228,697**	**80,122,545**
Credit related commitments	**2,537,830**	**-**	**-**	**-**	**-**	**2,537,830**	**-**

Under Armenian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates as follows:

	2019 AMD'000	**2018 AMD'000**
Demand and less than 1 month	4,431,096	5,859,177
From 1 to 3 months	4,918,600	6,365,294
From 3 to 6 months	11,001,153	11,170,115
From 6 to 12 months	16,746,920	15,190,423
From 1 to 5 years	4,010,004	3,095,720
More than 5 years	773,619	1,007,241
	41,881,392	**42,687,970**

In accordance with term deposit agreements with some corporate customers, the customers can withdraw their term deposits at any time, forfeiting the accrued interest. These deposits are classified in accordance with their stated maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2019 AMD'000	**2018 AMD'000**
Demand and less than 1 month	379,644	370,000
From 1 to 3 months	122,031	1,453,989
From 3 to 6 months	415,283	383,818
From 6 to 12 months	52,695	556,000
From 1 to 5 years	792,838	95,512
More than 5 years	43,989	72,549
	1,806,480	**2,931,868**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2019:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	14,337,037	-	-	-	-	-	-	14,337,037
Investment securities measured at fair value through other comprehensive income	-	103,767	429,728	2,386,388	3,289,485	2,553,452	-	8,762,820
Investment securities measured at amortized cost	48,407	24,430	2,657,316	4,997,342	15,372,880	-	-	23,100,375
Loans and advances to banks and other financial institutions	5,838,748	672,774	3,071,255	197,062	525,328	-	-	10,305,167
Amounts receivable under reverse repurchase agreements	4,767,263	-	-	-	-	-	-	4,767,263
Loans to customers	1,299,614	7,593,112	29,557,074	24,867,694	12,663,639	-	1,398,112	77,379,245
Current tax asset	-	99,786	-	-	-	-	-	99,786
Property, equipment and intangible assets	-	-	-	-	-	5,810,745	-	5,810,745
Right of use asset	-	-	-	-	-	1,606,304	-	1,606,304
Derivative financial assets	4,312	-	-	-	-	-	-	4,312
Other assets	986,867	961,083	311,800	11,477	-	1,612,250	-	3,883,477
Total assets	**27,282,248**	**9,454,952**	**36,027,173**	**32,459,963**	**31,851,332**	**11,582,751**	**1,398,112**	**150,056,531**
LIABILITIES								
Deposits and balances from banks and other financial institutions	5,262,110	1,856,068	10,394,240	2,167,155	450,169	-	-	20,129,742
Current accounts and deposits from customers	19,941,943	5,040,631	28,215,926	4,803,012	817,608	-	-	58,819,120
Debt securities issued	24,000	30,803	-	6,646,000	-	-	-	6,700,803
Amounts payable under repurchase agreements	13,604,923	2,687,772	-	-	-	-	-	16,292,695
Deferred tax liabilities	-	-	-	1,389,630	-	-	-	1,389,630
Lease Liability	16,409	39,975	177,129	748,839	656,068	-	-	1,638,420
Other liabilities	421,433	123,563	725,020	240,713	19,758	-	-	1,530,487
Total liabilities	**39,270,818**	**9,778,812**	**39,512,315**	**15,995,349**	**1,943,603**	**-**	**-**	**106,500,897**
Net position	**(11,988,570)**	**(323,860)**	**(3,485,142)**	**16,464,614**	**29,907,729**	**11,582,751**	**1,398,112**	**43,555,634**

* Overdue portion of outstanding overdue loans

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	11,260,756	-	-	-	-	-	-	11,260,756
Investment securities measured at fair value through other comprehensive income	119,731	-	-	308,200	3,177,559	1,122,710	-	4,728,200
Investment securities measured at amortized cost	-	66,387	1,837,830	3,416,502	15,403,007	-	-	20,723,726
Loans and advances to banks and other financial institutions	6,295,224	1,937,548	3,835,670	80,035	-	920,515	-	13,068,992
Amounts receivable under reverse repurchase agreements	3,429,813	-	-	-	-	-	-	3,429,813
Loans to customers	1,838,440	2,317,989	12,835,681	36,337,058	6,155,094	-	1,986,240	61,470,502
Current tax asset	-	-	139,189	-	-	-	-	139,189
Property, equipment and intangible assets	-	-	-	-	-	5,061,844	-	5,061,844
Other assets	302,525	386,759	131,305	31,302	-	1,339,043	-	2,190,934
Total assets	**23,246,489**	**4,708,683**	**18,779,675**	**40,173,097**	**24,735,660**	**8,444,112**	**1,986,240**	**122,073,956**
LIABILITIES								
Derivative financial liabilities	1,337	-	-	-	-	-	-	1,337
Deposits and balances from banks and other financial institutions	1,636,921	774,861	1,154,745	1,192,280	1,178,973	-	-	5,937,780
Current accounts and deposits from customers	16,980,184	7,824,747	27,273,242	3,191,261	1,050,922	-	-	56,320,356
Debt securities issued	-	3,504,627	4,873,452	2,444,961	-	-	-	10,823,040
Amounts payable under repurchase agreements	6,771,902	-	-	-	-	-	-	6,771,902
Deferred tax liabilities	-	-	-	-	-	617,324	-	617,324
Other liabilities	775,953	160,256	392,205	6,758	2,923	-	-	1,338,095
Total liabilities	**26,166,297**	**12,264,491**	**33,693,644**	**6,835,260**	**2,232,818**	**617,324**	**-**	**81,809,834**
Net position	**(2,919,808)**	**(7,555,808)**	**(14,913,969)**	**33,337,837**	**22,502,842**	**7,826,788**	**1,986,240**	**40,264,122**

* Overdue portion of outstanding overdue loans

For management of negative short term liquidity position the Bank relies on the investment securities measured at FVOCI financial assets, which can be sold or pledged under repo agreements and the assumption that the term deposits will be prolonged upon maturity.

26 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2019 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2018:12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2019 and 2018.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2019 AMD'000 Unaudited	2018 AMD'000 Unaudited
Core capital		
Core capital	35,967,146	36,409,735
Deductions	(2,853,618)	(1,894,244)
Total core capital	**33,113,528**	**34,515,491**
Additional capital		
Additional capital	1,014,444	217,785
Deductions	-	-
Total additional capital	**1,014,444**	**217,785**
Total capital	**34,127,972**	**34,733,276**
Total risk weighted assets, combining credit, market and operational risks	**115,307,418**	**92,690,658**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**29.6%**	**37.5%**

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of potential losses.

The Bank also monitors its capital adequacy in accordance with the Basel II. The calculation of capital adequacy based on the Basel II as at 31 December is as follows:

	2019 AMD'000 Unaudited	**2018 AMD'000 Unaudited**
Tier 1	43,153,315	43,402,297
Tier 2	1,014,444	217,785
Total capital	**44,167,759**	**43,620,082**
Risk weighted assets	**115,549,759**	**94,483,462**
Credit risk	102,040,689	87,887,131
Market risk	1,030,971	234,248
Operational risk	590,118	557,312
Capital adequacy ratio	**38.22%**	**46.17%**

According to the Basel II, capital for supervisory purposes should be defined in two tiers in a way which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings (Tier 1). The other elements of capital (supplementary capital) will be admitted into Tier 2 limited to 100% of Tier 1.

27 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2019 AMD'000	**2018 AMD'000**
Contracted amount		
Credit card commitments	2,689,456	1,276,546
Loan and credit line commitments	1,454,282	925,248
Guarantees and letters of credit	226,407	336,036
	4,370,145	**2,537,830**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Credit card commitments, loan and credit line commitments are fully in Stage 1 and measured at amortised cost as at 31 December 2019 and 2018. Credit card commitments, loans and credit line commitments are not credit impaired or past due.

28 Contingencies

(a) Insurance

The insurance industry in the Republic of 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 has property insurance and Banker's Blanket Bond (BBB) insurance with up to USD 3,000 thousand coverage.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

On 4 October 2017 a claim was submitted to the First Instance Court with demand of USD 22,301 thousand from the Bank because of the violation of the agreement concluded between the Bank and one of its clients. On 2 March 2018 the First Instance Court satisfied the claim of demand of USD 22,301 thousand from the Bank. On 30 March 2018 the Bank appealed the decision of the First Instance Court in the Court of Appeals of the Republic of Armenia. On 20 July 2018, the Court of Appeals of Armenia has rejected the First Instance Court decision, and returned the case into the First Instance Court of Yerevan district for a new trial. On 20 September 2019 the First Instance Court of Yerevan held a decision to satisfy the claim of the client and levy USD 22,301 thousand from the Bank in favor of the client. On 18 October 2019 the Bank submitted an appeal on the decision to the Court of Appeals of Armenia.

Subsequent to year end on 12 March 2020 the Court of Appeals of Armenia rejected the First Instance Court decision as of 20 September 2019 and ruled in favor of the Bank. On 13 April 2020 the client submitted an appeal to the Cassation Court of Armenia.

The management believes that the probability of any payment is low because it is highly probable that the Cassation Court of Armenia will not accept the case for consideration.

(c) Taxation contingencies

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.

29 Related party transactions

(a) Control relationships

The Bank's parent company is FISTOCO LTD. The party with ultimate control over the Bank is Mr. Vartan Dilanyan.

No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with members of the Council and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 2018 is as follows:

	2019 AMD'000	2018 AMD'000
Members of the Council of the Bank	34,083	69,998
Members of the Management Board	757,489	637,423
	791,572	**707,421**

These amounts include cash and non-cash benefits in respect of members of the Council and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2019 and 2018 for transactions with members of the Council and the Management Board are as follows:

	2019 AMD'000	Average effective interest rate, %	2018 AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans issued (gross)	270,541	9.79%	151,800	9.9%
Loan impairment allowance	(1,255)	-	(1,281)	-
Other assets	-	-	745	-
LIABILITIES				
Deposits received	123,738	5.93%	296,214	5.3%
Current accounts	73,826	1.26%	-	-
Debt securities issued	14,962	5.25%	22,096	5.7%
Lending commitments	51,581	-	38,477	-

Amounts included in profit or loss in relation to transactions with members of the Council and the Management Board for the year ended 31 December are as follows:

	2019 AMD'000	2018 AMD'000
Profit or loss		
Interest income	21,562	7,342
Interest expense	(9,159)	(2,843)
Impairment loss, net	(431)	(741)
Fee and commission income	1,060	1,068
Fee and commission expense	(120)	(28,877)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Shareholders		**Entities under common control**		**Other**		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Cash and cash equivalents	1,092	-	-	-	-	-	1,092
Loans to customers	-	-	-	-	24,946	11.20%	24,946
LIABILITIES							-
Deposits and balances from banks							
- Vostro accounts	103,378	-	-	-	-	-	103,378
Current accounts and deposits from customers							
- Current accounts	35,704	2.1%	-	-	4,777	0.3%	40,481
- Term deposits	-	-	-		6,809	8.61%	6,809
Debt securities issued	-	-	-	-	159,882	5.24%	159,882
Profit (loss)							
Interest income	-		7,761		220		7,981
Interest expense	-		-		(8,314)		(8,314)
Fee and commission income	-		-		162		162
Fee and commission expense	-		-		(17)		(17)

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows:

	Shareholders		Entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Cash and cash equivalents	617	-	-	-	-	-	617
Loans to customers	-	-	453,826	0.0%	-	-	453,826
Other assets	-	-	48,119	-	-	-	48,119
LIABILITIES							
Deposits and balances from banks							
- Vostro accounts	765,833	-	-	-	-	-	765,833
Current accounts and deposits from customers							
- Current accounts	35,974	-	-	-	639	-	36,613
Debt securities issued	-	-	-	-	146,595	5.25%	146,595
Other liabilities	-	-	7,794	-	-	-	7,794
Profit (loss)							
Interest income	1,967		14,812		1,576		18,355
Fee and commission income	34,130		4		10		34,144
Fee and commission expense	(10)		(10)		(4)		(24)

Other related parties include transactions with companies under significant influence of Council and Management Board and their close family members.

The majority of balances resulting from transactions with other related parties mature within one year. Transactions with other related parties are not secured.

30 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

– Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

– Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

– Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2019 the estimated fair values of all financial instruments except for investment securities measured at amortised cost approximate their carrying amounts. As at 31 December 2019 investment securities measured at amortised cost with carrying amount of AMD 23,100,375 thousand had fair value of AMD 25,344,689 thousand (2018: investment securities measured at amortised cost with carrying amount of AMD 20,723,726 thousand had fair value of AMD 24,760,137 thousand). The fair value measurement of investment securities measured at amortised cost is categorized under Level 2 in fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	4,312	4,312
Investment securities			
- Debt and other fixed income instruments	-	6,209,368	6,209,368
- Equity instruments	2,553,452	-	2,553,452

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative liabilities	-	(1,337)	(1,337)
Investment securities			
- Debt and other fixed income instruments	-	3,605,490	3,605,490
- Equity instruments	1,122,710	-	1,122,710

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

31 Events after the reporting period

Subsequent to 31 December 2019 outbreak of COVID 19 resulted in significant global market turmoil. Together with other factors, this has resulted in a sharp decrease in the stock market indices, oil and other commodity prices. As of the date of approval of these financial statements, the Bank continued to operate without interruptions. Part of the employees have switched to remote working. Operations of branches mainly have not been suspended.

As a result of COVID 19 outbreak, the Bank expects that expected credit losses on loans and advances to customers will increase in 2020, particularly for corporate customers operating in hotel service, retail trade, food and beverage and real estate industries.

The Bank has provided a credit vacation to its retail borrowers for a period of two months starting from 17 March 2020. The retail borrowers can defer the payments of principal and interest for their loans falling in the period of vacation, without further adverse effect in their credit history. The deferred payments will be equally relocated till the end of maturity which could be prolonged for a year. But as of 31 of March 2020 less than 10% and as of 23 April 2020 less than 20% of eligible customers used this opportunity.

The Bank has considered the impact of the outbreak on its liquidity and capital adequacy positions under different stress scenarios and the management believes that the outbreak will not have pervasive impact on the Bank's position.

In addition, the regulator (Central Bank of Armenia) has announced its support to the financial sector of the Republic of Armenia in terms of relaxation of normatives and support in liquidity, if required and the Government of Armenia is implementing programs to support economy to overcome consequences of COVID 19.

However, the Bank cannot preclude the possibility that extended lock down periods, will not have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. The Bank continue to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.