Financial Statements and Independent Auditor's Report

"ARMECONOMBANK" OPEN JOINT STOCK COMPANY

31 December 2020

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Independent auditor's report

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To the shareholders of "ARMECONOMBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "ARMECONOMBANK" OPEN JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Allowance for expected credit loss

Refer to note 4 of the financial statements for a description of the accounting policies and to note 36.1 for an analysis of credit risk.

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

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

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

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2020. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2020, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Armen Hovhannisyan

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

29 April 2021

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2020	2019
Interest and similar income	7	25,846,673	21,254,908
Interest and similar expense	7	(13,045,872)	(10,946,133)
Net interest income		12,800,801	10,308,775
Fee and commission income	8	2,565,617	2,483,631
Fee and commission expense	8	(831,404)	(627,209)
Net fee and other income		1,734,213	1,856,422
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss		(709,484)	676,385
Net foreign exchange income	9	2,337,878	758,011
Net gain from derecognition of financial assets measured at FVOCI		2,220,878	765,247
Other income	10	359,619	302,155
Impairment losses	11	(2,277,136)	(359,636)
Personnel expenses	12	(5,017,239)	(4,687,563)
Depreciation of property and equipment	22	(1,425,465)	(1,353,219)
Amortization of intangible assets	23	(94,055)	(73,734)
Other expenses	13	(3,865,458)	(3,694,567)
Profit before income tax		6,064,552	4,498,276
Income tax expense	14	(1,268,010)	(1,172,233)
Profit for the year		4,796,542	3,326,043

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

In thousand Armenian drams

	Notes	2020	2019
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		-	485,717
Income tax relating to items not reclassified		7,724	(91,222)
Adjustment due to change in tax rate		-	83,620
Net gain from items that will not be reclassified subsequently to profit or loss		7,724	478,115
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net unearned gains/(losses) from fair value changes		(2,697,936)	533,005
Changes in allowance for expected credit losses		384,328	(173,887)
Income tax relating to items that will be reclassified		417,522	(28,183)
Net gains/(losses) on financial instruments at fair value through other comprehensive income		(1,896,086)	330,935
Other comprehensive income for the year, net of tax		(1,888,362)	809,050
Total comprehensive income for the year		2,908,180	4,135,093
Earnings per share	15	2.07	1.37

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 77.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	16	42,572,757	44,050,205
Derivative financial assets	17	16,538	7,522
Amounts due from financial institutions	18	13,755,753	14,189,783
Reverse repurchase agreements	19	10,175,600	6,222,111
Loans and advances to customers	20	193,337,215	176,106,613
Investment securities	21		
-Investment securities at fair value through other comprehensive income		39,673,737	25,027,524
-Investment securities at amortised cost		4,543,305	479,397
Property and equipment	22	12,804,374	12,262,246
Intangible assets	23	581,733	525,828
Other assets	24	3,328,915	1,811,297
Total assets		320,789,927	280,682,526
Liabilities and equity			
Liabilities			
Derivative financial liabilities	17	11,549	9,313
Debt securities issued	25	6,185,733	4,452,356
Repurchase agreements	19	38,125,044	25,623,028
Other borrowed funds	26	115,700,441	91,923,477
Amounts due to customers	27	112,495,410	113,366,878
Current income tax liabilities		790,950	390,244
Deferred income tax liabilities	14	467,873	922,445
Subordinated debt	28	1,311,068	719,787
Other liabilities	29	4,106,240	3,817,289
Total liabilities		279,194,308	241,224,817

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Equity			
Share capital	30	25,955,663	25,635,343
Share premium		180,180	-
Statutory general reserve		3,275,000	3,105,000
Fair value reserve		(63,931)	1,832,155
Other reserves		3,319,815	3,409,549
Retained earnings		8,928,892	5,475,662
Total equity		41,595,619	39,457,709
Total liabilities and equity		320,789,927	280,682,526

The financial statements were approved on 29 April 2021 by:

Aram Khachatryan
Chief Executive Officer

Michael Poghosyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 77.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 01 January 2020	25,635,343	-	3,105,000	1,832,155	3,409,549	5,475,662	39,457,709
Profit for the year	-	-	-	-	-	4,796,542	4,796,542
Other comprehensive income:							
Adjustment to reserve on depreciation of property and equipment	-	-	-	-	(97,458)	97,458	-
Net change in fair value for the year	-	-	-	(488,852)	-	-	(488,852)
Net amount reclassified in profit or loss from sale of debt instruments measured at FVOCI	-	-	-	(2,209,084)	-	-	(2,209,084)
Changes in allowance for expected credit losses	-	-	-	384,328	-	-	384,328
Income tax relating to components of other comprehensive income	-	-	-	417,522	7,724	-	425,246
Total comprehensive income for the year	-	-	-	(1,896,086)	(89,734)	4,894,000	2,908,180
Increase in shares capital	320,320	180,180	-	-	-	-	500,500
Dividends to shareholders	-	-	-	-	-	(1,270,770)	(1,270,770)
Distribution to reserve	-	-	170,000	-	-	(170,000)	-
Total transactions with owners	320,320	180,180	170,000	-	-	(1,440,770)	(770,270)
Balance as of 31 December 2020	25,955,663	180,180	3,275,000	(63,931)	3,319,815	8,928,892	41,595,619

Statement of changes in equity (continued)

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

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 77.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Profit before tax	6,064,552	4,498,276
Adjustments for		
Depreciation allowances	1,425,465	1,353,219
Amortization allowances	94,055	73,734
Gain from sale of property and equipment	(4,655)	(5,057)
Impairment charge of financial assets	2,277,136	359,636
Recoveries on loans previously written off	(834,017)	(24,938)
Foreign currency translation net (gain)/loss	(824,500)	347,491
Net (gain)/loss from financial assets and liabilities measured at FVTPL	709,484	(676,385)
Net gain from derecognition of financial assets measured at FVOCI	(2,220,878)	(765,247)
Interest receivable	(75,274)	(264,324)
Interest payable	496,244	399,442
Cash flows from operating activities before changes in operating assets and liabilities	7,107,612	5,295,847
(Increase)/decrease in operating assets		
Derivative financial assets	(716,264)	695,644
Amounts due from financial institutions	1,449,591	(1,098,335)
Reverse repurchase agreements	(4,048,770)	(2,341,684)
Loans and advances to customers	(7,858,758)	(43,469,640)
Other assets	(3,556,642)	561,445
Increase/(decrease) in operating liabilities		
Repurchase agreements	12,483,844	5,110,728
Amounts due to customers	(5,063,351)	17,538,661
Other liabilities	(290,478)	165,112
Net cash flow used in operating activities before income tax	(493,216)	(17,542,222)
Income tax paid	(896,630)	(1,019,147)
Net cash used in operating activities	(1,389,846)	(18,561,369)

Statement of cash flows (continued)

In thousand Armenian drams

	2020	2019
Cash flows from investing activities		
Purchase of investment securities	(71,594,255)	(43,010,110)
Proceeds from sale of investment securities	52,563,591	38,664,277
Purchase of property and equipment	(1,238,234)	(1,206,878)
Proceeds from sale of property and equipment	47,447	357,284
Purchase of intangible assets	(149,960)	(92,969)
Net cash used in investing activities	(20,371,411)	(5,288,396)
Cash flow from financing activities		
Preference shares issued	-	3,369,000
Increase in share capital	500,500	-
Prepayment for the issuance of shares	261,430	500,500
Other borrowed funds	17,449,791	27,765,238
Proceeds from debt securities issued	3,212,956	4,027,458
Repayment of debt securities issued	(1,737,517)	(1,594,443)
Payment of lease liabilities	(520,837)	(521,466)
Proceeds from subordinated debt	560,522	719,787
Repayment of subordinated debt	(41,830)	(3,375,206)
Dividends paid	(1,210,144)	(909,505)
Net cash from financing activities	18,474,871	29,981,363
Net increase/(decrease) in cash and cash equivalents	(3,286,386)	6,131,598
Cash and cash equivalents at the beginning of the year	44,050,205	38,158,045
Effect of changes in impairment allowance on cash and cash equivalents	(2,692)	8,331
Exchange differences on cash and cash equivalents	1,811,630	(247,769)
Cash and cash equivalents at the end of the year (note 16)	42,572,757	44,050,205
Supplementary information:		
Interest received	25,771,399	20,990,584
Interest paid	(12,354,633)	(10,381,066)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 77.

Notes to the financial statements

1 Principal activities

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

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

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

Ratings approved by ''Moody's Investors Service'' International rating agency on 03 September 2019 operate in 2020.

The Bank has 53 branches through which it carries out its activities. The registered office of the Bank is located at Amiryan str. 23/1, Yerevan.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The coronavirus has already had a significant impact on the global economy and major financial markets.

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy. These measures include, among others, subsidized lending to affected industries and individuals and payment holidays.

Overall, in 2020 the lending activity decreased in the financial market as banks are reassessing the business models of their borrowers, as well as their ability to withstand in the future, taking into account the increased exchange rates and the reduction of business activity.

The Bank's management considers its current liquidity position to be sufficient for the sustainable functioning. The Bank monitors its liquidity position on daily basis and intends to use appropriate liquidity position instruments, if necessary.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

These events may have a further significant impact on the Bank's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Bank's operations may differ from the management's current expectations.

These financial statements do not reflect the potential future impact of the above on the Bank's operations.

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2020, did not have a material impact on the annual financial statements of the Bank.

- Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)
- *IFRS 17 Insurance contracts*
- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)

- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Fee and commission income and expense

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

Dividend income

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

Net income from derecognition of financial assets measured at fair value

Net income from derecognition of financial assets measured at fair value comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes. Net foreign exchange income includes net gain from trading in foreign currencies and also foreign exchange translation gain or loss and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

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

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

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

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

	31 December 2020	**31 December 2019**
AMD/1 US Dollar	522.59	479.70
AMD/1 EUR	641.11	537.26
AMD/1 RUB	7.02	7.77

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

In making the assessment, the Bank considers:

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 36.1.2.

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

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

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

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

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

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

The PD, the EAD and the LGD are further explained in note 36.1.2.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position

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

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

Write-offs

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

4.5 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

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

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

4.8 Loans and advances

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

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

4.9 Investment securities

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

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

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

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

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

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

For any new contracts entered into on or after 1 January 2020, the Bank considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

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

Measurement and recognition of leases

Bank as a lessee

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

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

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

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

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

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

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

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

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

4.13 Precious metals

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

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

4.14 Property and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	50	2
Computers	3-5	33.3-20
Vehicles	8	12.5
Other fixed assets	8	12.5

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

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

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

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

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

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

4.15 Intangible assets

Intangible assets include computer software, licences and other.

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

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

4.16 Repossessed assets

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

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

4.17 Borrowings

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

4.18 Financial guarantees and loan commitments

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

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

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

4.19 Provisions

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

4.20 Equity

Share capital

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

Share premium

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

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

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

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 33).

Useful Life of property and equipment

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

Extension options for leases

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

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 32).

Impairment of financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 36.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

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

6 Transition disclosure

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

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 1,875,205 thousand were recognised and presented in the statement of financial position within Property and equipment".

- Additional lease liabilities of AMD 1,875,205 thousand were recognized and presented within “Other liabilities”.
- The adoption of IFRS 16 had no impact on the Bank’s retained earnings.

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

In thousand Armenian drams

Total operating lease commitments as of 31 December 2018	2,873,951
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	(13,172)
Operating lease liabilities before discounting	2,860,779
Discounted using incremental borrowing rate	(985,574)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	1,875,205

7 Interest and similar income and expense

In thousand Armenian drams	2020	2019
Loans and advances to customers	21,807,134	17,868,064
Amounts due from financial institutions	661,459	793,268
Reverse repurchase agreements	416,611	385,058
Investment securities at FVOCI	2,880,645	2,148,890
Investment securities at amortised cost	47,824	22,035
Other interest income	33,000	37,593
Total interest and similar income	25,846,673	21,254,908
Current accounts and deposits from customers	4,762,578	4,522,482
Deposits and balances in banks	4,835,222	3,890,761
Repurchase agreements	1,230,438	1,066,404
Subordinated debt	45,898	84,794
Loans from CBA and Government of the Republic of Armenia	736,294	545,336
Loans from international financial institutions	913,101	405,166
Debt securities issued	327,346	259,020
Lease liabilities	194,995	165,625
Other interest expenses	-	6,545
Total interest and similar expense	13,045,872	10,946,133

8 Fee and commission income and expense

In thousand Armenian drams	2020	2019
Wire transfer fees	1,287,908	1,443,016
Cash collection	210,601	293,341
Plastic cards operations	922,019	644,026
Guarantees and letters of credit	143,194	101,954
Foreign currency transactions and operations with securities	1,579	236
Other fees and commissions	316	1,058
Total fee and commission income	2,565,617	2,483,631
Plastic cards operations	443,951	323,977
Wire transfer fees	168,315	189,084
Guarantees and letters of credit	62,074	37,540
Foreign currency transactions and operations with securities	137,029	42,279
Service fees for correspondent accounts	10,181	6,420
Other fees and commission expenses	9,854	27,909
Total fee and commission expense	831,404	627,209

9 Net foreign currency income

In thousand Armenian drams	2020	2019
Net gain from trading in foreign currencies	1,513,378	1,105,502
Foreign exchange translation gain/(loss)	824,500	(347,491)
Total net foreign currency income	2,337,878	758,011

10 Other income

In thousand Armenian drams	2020	2019
Fines and penalties received	261,264	187,479
Net gain from operations of precious metals	10,339	23,746
Other income	88,016	90,930
Total other income	359,619	302,155

11 Impairment losses/(reversal)

In thousand Armenian drams					2020
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and cash equivalents	16	2,692	-	-	2,692
Amounts due from financial institutions	18	192,878	-	-	192,878
Reverse repurchase agreements	19	133,607	-	-	133,607
Loans and advances to customers	20	794,828	408,462	306,299	1,509,589
Investment securities measured at FVOCI	21	384,328	-	-	384,328
Investment securities measured at amortised cost	21	50,948	-	-	50,948
Other assets	24	(25,735)	-	-	(25,735)
Financial guarantees and loan commitment	31	28,829	-	-	28,829
Total impairment lossesl		1,562,375	408,462	306,299	2,277,136

In thousand Armenian drams					2019
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and cash equivalents	16	(8,331)	-	-	(8,331)
Amounts due from financial institutions	18	(108,965)	-	-	(108,965)
Loans and advances to customers	20	(59,036)	3,291	673,183	617,438
Investment securities measured at FVOCI	21	(173,887)	-	-	(173,887)
Investment securities measured at amortised cost	21	2,195			2,195
Other financial assets	24	67,269	-	-	67,269
Financial guarantees	31	(36,083)	-	-	(36,083)
Total impairment losses/reversal		(316,838)	3,291	673,183	359,636

12 Personnel expenses

In thousand Armenian drams	2020	2019
Compensations of employees, related taxes included	4,961,114	4,650,053
Personnel training and other expenses	56,125	37,510
Total personnel expenses	5,017,239	4,687,563

13 Other expenses

In thousand Armenian drams	2020	2019
Repair and maintenance of property and equipment	785,766	791,995
Charity expenses	790,223	-
Advertising and representative costs	341,674	588,062
Expenses for cash collection services	345,000	333,884
Security	355,349	316,295
Taxes, other than income tax, duties	268,679	369,615
Plastic cards	152,343	267,080
Guarantee payments to deposit guarantee fund	216,388	207,174
Insurance costs	143,632	137,065
Office supplies	140,721	127,855
Communications	107,529	106,246
Business trip expenses	17,929	59,150
Consulting and professional services	31,883	64,617
Expenses of short term and low value assets leases	10,606	13,172
Other operating expenses	157,736	312,357
Total other expense	3,865,458	3,694,567

14 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	1,318,748	1,007,189
Adjustments of current income tax of previous years	(21,412)	128,366
Deferred tax expense/(recovery)	(29,326)	36,678
Total income tax expense	1,268,010	1,172,233

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2019: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

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

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	6,064,552		4,498,276	
Income tax	1,091,619	18	899,655	20
Non-taxable income from financial assets at FVOCI	150,992	2	(59,908)	(1)
Non-deductible expenses	197,284	3	176,696	4
Foreign exchange (gains)/losses	(148,410)	(2)	69,498	2
Other non-taxable income and privileges	(2,063)	-	(3,479)	-
Effect of changes in income tax rate	-	-	(38,595)	(1)
Adjustments of the current tax of prior years	(21,412)	-	128,366	3
Income tax expense	1,268,010	21	1,172,233	27

In 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia will be reduced from 20 to 18%. This change resulted in a gain of AMD 38,595 thousand related to the remeasurement of deferred tax assets and liabilities of the Bank being recognised during the year ended 31 December 2020.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2019	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	2020 Deferred tax asset	2020 Deferred tax liability
Accrued expenses and other liabilities	174,881	(80,363)	-	94,518	94,518	-
Loans and advances to customers	53,964	(13,007)	-	40,957	40,957	-
Cash and cash equivalents	(1,876)	484	-	(1,392)	-	(1,392)
Investment securities	(390,339)	73,361	417,522	100,544	100,544	-
Contingent liabilities	(17,085)	4,999	-	(12,086)	-	(12,086)
Amounts due from financial institutions	(35,288)	62,093	-	26,805	26,805	-
Property and equipment	(706,702)	(18,241)	7,724	(717,219)	-	(717,219)
Deferred tax asset/(liability)	(922,445)	29,326	425,246	(467,873)	262,824	(730,697)

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	2019 Net	Deferred tax asset	Deferred tax liability
Accrued expenses and other liabilities	243,617	(68,736)	-	174,881	174,881	-
Loans and advances to customers	85,899	(31,935)	-	53,964	53,964	-
Cash and cash equivalents	351	(2,227)	-	(1,876)	-	(1,876)
Investments in securities	(329,809)	(32,347)	(28,183)	(390,339)	-	(390,339)
Contingent liabilities	(30,621)	13,536	-	(17,085)	-	(17,085)
Amounts due from financial institutions	(9,221)	(26,067)	-	(35,288)	-	(35,288)
Property and equipment	(810,198)	111,098	(7,602)	(706,702)	-	(706,702)
Deferred tax asset/(liability)	(849,982)	(36,678)	(35,785)	(922,445)	228,845	(1,151,290)

15 Earnings per share

In thousand Armenian drams	2020	2019
Profit for the year	4,796,542	3,326,043
Accrued dividends on preferred shares	(894,103)	(781,821)
Net profit attributable to ordinary shareholders	3,902,439	2,544,222
Weighted average number of ordinary shares	1,883,333	1,852,533
Earnings per share – basic	2.07	1.37

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2020	31 December 2019
Correspondent accounts with banks	3,845,366	4,797,956
Correspondent account with the CBA	24,354,638	17,359,028
Short-term deposits in the CBA	1,400,287	10,002,191
Cash on hand	13,003,189	11,919,061
	42,603,480	44,078,236
Less loss allowance	(30,723)	(28,031)
Total cash and cash equivalents	42,572,757	44,050,205

At December 31, 2020 and 2019 correspondent account with CBA includes the obligatory minimum reserve deposits with the CBA, which is computed at relevant rate in accordance with regulations by the CBA for obligations of the Bank denominated in foreign currency. As of 31 December 2020 these funds amounted to AMD 13,592,859 thousand (as of 31 December 2019: AMD 14,546,025 thousand).There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2020 the amounts of correspondent accounts with financial institutions in amounts of AMD 2,900,749 thousand (75%) (2019: AMD 3,850,956 thousand (81%)) were due from three commercial banks, which represent significant concentration.

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

In thousand Armenian drams	2020		2019	
	12-month ECL	Total	12-month ECL	Total
ECL allowance as of 1 January	28,031	28,031	36,362	36,362
Net remeasurement of loss allowance	2,692	2,692	(8,331)	(8,331)
Balance as of 31 December	30,723	30,723	28,031	28,031

Non-cash transactions performed by the Bank during 2020 are represented by:

- repayment of loan by collaterals valued at AMD 2,035,103 thousand (2019: AMD 83,798 thousand) (refer to note 20).

17 Derivative financial instruments

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

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

In thousand Armenian drams	31 December 2020			31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Foreign exchange swap contracts	7,870,674	16,538	11,404	7,860,161	7,522	3,106
Other derivative instruments	302,747	-	145	180,313	-	6,207
Total derivative financial instruments		16,538	11,549		7,522	9,313

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Loans to banks and financial institutions	11,259,724	11,272,076
Deposited funds on card clearing transactions	1,379,178	1,423,933
Payment system receivables	1,293,650	1,480,236
Deposited other funds in banks	72,614	60,713
Other amounts receivable from financial institutions	2,350	1,640
	14,007,516	14,238,598
Less loss allowance on amounts due from financial institutions	(251,763)	(48,815)
Total amounts due from financial institutions	13,755,753	14,189,783

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

As of 31 December 2020 the weighted average effective interest rate on loans to banks and financial institutions is 11.6% for loans in AMD (2019: 14.6 %) and 5.6% for loans in USD and EUR (2019: 14.6% for loans in AMD and 6.3% for loans in USD).

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

In thousand Armenian drams	2020		2019	
	12-month ECL	**Total**	**12-month ECL**	**Total**
ECL allowance as of 1 January	48,815	48,815	157,780	157,780
Net remeasurement of loss allowance	192,878	192,878	(108,965)	(108,965)
Recovery	10,070	10,070	-	-
Balance as of 31 December	251,763	251,763	48,815	48,815

19 Reverse repurchase/repurchase agreements

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

Reverse repurchase agreements

As of 31 December 2020 the Bank had reverse repurchase agreements:

In thousand Armenian drams	31 December 2020	31 December 2019
Repurchase agreements with financial institutions	10,309,207	6,222,111
Total reverse repurchase agreements	10,309,207	6,222,111
Loss allowance	(133,607)	-
Total amounts due from financial institutions	10,175,600	6,222,111

Fair value of securities purchased under reverse repurchase agreements and carrying value of loans provided are presented as follows:

In thousand Armenian drams	2020		2019	
	Fair value of collateral	**Carrying value of loans**	**Fair value of collateral**	**Carrying value of loans**
RA state securities	10,691,798	10,005,146	6,363,858	5,775,587
Corporate bonds	321,658	304,061	472,622	446,524
Total	11,013,456	10,175,600	6,836,480	6,222,111

The average interest rate on allocated funds under reverse repurchase agreements is 5.9% (2019: 6.0%)

As of 31 December 2020 the securities with fair value of AMD 6,803,448 thousand were re-secured as collateral for loans under repurchase agreements.

An analysis of changes in the ECLs on loans under repurchase agreements as of 31 December 2020 as follow:

In thousand Armenian drams	2020	
	12-month ECL	Total
ECL allowance as of 1 January	-	-
Net remeasurement of loss allowance	133,607	133,607
Balance as of 31 December	133,607	133,607

As of 31 December 2019 the ECLs relating to loans provided here rounds to zero and therefore, have not been disclosed here.

Repurchase agreements

In thousand Armenian drams	31 December 2020	31 December 2019
Repurchase agreements with the CBA	38,011,493	20,506,419
Repurchase agreements with the financial institutions	113,551	5,116,609
Total repurchase agreements	38,125,044	25,623,028

The loans attracted under repurchase agreements are secured by investment securities at amortised cost in the amount of AMD 4,027,737 thousand and investment securities at FVOCI in the amount of AMD 35,356,882 thousand (2019: AMD 20,180,825 thousand) pledged by the Bank and by securities repledged received as collateral with fair value of AMD 6,803,448 as of 31 December 2019.

The average interest rate of repurchase agreements signed with the Central Bank of Armenia and other financial institutions is 5.68% (2019: 5.66%).

20 Loans and advances to customers

In thousand Armenian drams	31 December 2020			31 December 2019		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	20,342,364	(730,916)	19,611,448	15,255,992	(55,140)	15,200,852
Consumer lending	68,059,743	(2,133,351)	65,926,392	76,506,105	(747,231)	75,758,874
	88,402,107	(2,864,267)	85,537,840	91,762,097	(802,371)	90,959,726
Commercial lending						
Trading	28,388,141	(112,967)	28,275,174	35,017,371	(380,190)	34,637,181
Manufacture	29,885,750	(315,343)	29,570,407	30,061,692	(823,350)	29,238,342
Construction	12,137,153	(24,324)	12,112,829	8,360,246	(38,007)	8,322,239
Agriculture	9,941,518	(5,853)	9,935,665	2,441,389	(1,698)	2,439,691
Other	27,960,041	(54,741)	27,905,300	10,550,745	(41,311)	10,509,434
	108,312,603	(513,228)	107,799,375	86,431,443	(1,284,556)	85,146,887
Total	196,714,710	(3,377,495)	193,337,215	178,193,540	(2,086,927)	176,106,613

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

During the year ended 31 December 2020 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2020 the carrying amount of such assets was AMD 2,035,103 thousand (2019: AMD 83,798 thousand). The Bank is intended to sell these assets in a short period. Refer to note 16.

As of 31 December 2020 the weighted average effective interest rate on loans and advances to customers is 13.6% for loans in AMD (2019: 14.2%) and 8.7% for loans in USD, EUR (2019: 8.7%) and 16.0% for loans in RUB (2019: 16.0%).

As of 31 December 2020, the Bank had a concentration of loans represented by AMD 37,836,151 thousand due from the ten largest third party entities and parties related with them (19.2% of gross loan portfolio) (2019: AMD 32,748,537 thousand or 18.4% due from the ten largest third party entities and parties related with them). An allowance of AMD 94,548 thousand (2019: AMD 383,537 thousand) was made against these loans.

As of 31 December 2019, consumer loans also include reverse repurchase agreements with individuals with carrying amount of AMD 509,519 thousand.

As of 31 December 2020, the loans to customers with a carrying amount of AMD 12,064,630 thousand (2019: AMD 7,862,381 thousand) were the transfer of rights to borrowed funds, and AMD 7,653,987 thousand (2019: AMD 7,390,816 thousand) were the transfer of rights to loans from the Central Bank (refer to note 26).

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

In thousand Armenian drams	**2020**	**2019**
Mortgage and consumer lending		
ECL allowance as of 1 January	802,371	401,154
Net remeasurement of loss allowance	2,561,286	570,083
Recoveries	75,208	138,715
Amounts written off during the year	(574,598)	(307,581)
Balance as of 31 December	2,864,267	802,371

In thousand Armenian drams	**2020**	**2019**
Commercial lending		
ECL allowance as of 1 January	1,284,556	1,107,274
Net remeasurement of loss allowance	(1,051,697)	47,355
Recoveries	710,268	130,594
Amounts written off during the year	(429,899)	(667)
Balance as of 31 December	513,228	1,284,556

Movements among stages on gross loans as of 31 December 2020 and 31 December 2019 are as follows:

Gross amount	Balance as of 1 January 2020	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2020	Balance as of 31 December 2020
Stage 1	176,241,915	-	(814,000)	(1,172,796)	(73,086,020)	92,802,928	193,972,027
Stage 1	143,237	814,000	-	(23,642)	(119,240)	575,039	1,389,394
Stage 1	1,808,388	1,172,796	23,642	-	(1,805,343)	153,806	1,353,289
Total	178,193,540	1,986,796	(790,358)	(1,196,438)	(75,010,603)	93,531,773	196,714,710

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

As of 31 December 2020 and 31 December 2019 movements among stages on ECL are as follows:

Gross amount	Balance as of 1 January 2020	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2020	Balance as of 31 December 2020
Stage 1	1,294,038	-	(7,059)	(11,966)	(844,944)	1,640,706	2,070,775
Stage 1	31,113	7,059	-	(4,131)	(26,878)	413,695	420,858
Stage 1	761,776	11,966	4,131	-	(759,848)	867,837	885,862
Total	2,086,927	19,025	(2,928)	(16,097)	(1,631,670)	2,922,238	3,377,495

Gross amount	Balance as of 1 January 20219	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans originated in 2019	Balance as of 31 December 2019
Stage 1	1,353,074	-	(20,475)	(727,725)	(174,403)	863,567	1,294,038
Stage 1	27,822	20,475	-	(1,904)	(25,605)	10,325	31,113
Stage 1	127,532	727,725	1,904	-	(127,131)	31,746	761,776
Total	1,508,428	748,200	(18,571)	(729,629)	(327,139)	905,638	2,086,927

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and deterioration in economic conditions. Further analysis of economic factors is outlined in note 36.1.2.

As of 31 December 2020 and 2019 the estimated fair value of loans and advances to customers approximates it carrying amount. Refer to note 33.

Maturity analysis of loans and advances to customers are disclosed in note 35.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 36. The information on related party balances is disclosed in note 32.

21 Investment securities

In thousand Armenian drams	31 December 2020	31 December 2019
Investment securities measured at amortised cost		
RA corporate bonds	524,792	481,592
Less loss allowance	(9,224)	(2,195)
Total investment securities at amortised cost	515,568	479,397
Investment securities measured at amortised cost pledged under repurchase agreements		
RA corporate bonds (note 19)	4,071,656	-
Less loss allowance (note 19)	(43,919)	-
Total investment securities at amortised cost pledged under repurchase agreements	4,027,737	-
Total investment securities at amortised cost	4,543,305	479,397
Debt securities measured at FVOCI		
RA state bonds	3,557,090	4,156,781
RA corporate bonds	647,844	600,091
Equity instruments	111,921	89,827
Total investment securities at FVOCI	4,316,855	4,846,699
Investment securities measured at FVOCI pledged under repurchase agreements		
RA corporate bonds (note 19)	35,356,882	20,180,825
Total investment securities measured at FVOCI pledged under repurchase agreements	35,356,882	20,180,825
Total investment securities measured at FVOCI	39,673,737	25,027,524

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

In thousand Armenian drams	2020		2019	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	2,195	2,195	-	-
Net remeasurement of loss allowance	50,948	50,948	2,195	2,195
Balance as of 31 December	53,143	53,143	2,195	2,195

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

In thousand Armenian drams	2020		2019	
	Stage 1	**Total**	**Stage 1**	**Total**
ECL allowance as of 1 January	53,599	53,599	227,486	227,486
Net remeasurement of loss allowance	384,328	384,328	(173,887)	(173,887)
Balance as of 31 December	437,927	437,927	53,599	53,599

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2019: either).

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

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	**Maturity**	**%**	**Maturity**
RA state bonds	13	2036-2047	-	-
RA corporate bonds	8.5	2021	8.5	2021

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

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	**Maturity**	**%**	**Maturity**
RA state bonds	6.5-13	2021-2050	7.5-13	2020-2047
RA corporate bonds	4-8.3	2021	4-8.3	2021

22 Property and equipment

In thousand Armenian drams	Land and buildings	Vehicles	Computers	Leasehold improve-ments	Other	Right-of-use assets Land and buildings	Total
Cost or revalued amount							
As of 31 December 2018	8,061,881	711,496	2,983,545	377,404	2,345,403	-	14,479,729
IFRS 16 transition adjustment	-	-	-	-	-	1,875,205	1,875,205
Balance 1 January 2019	8,061,881	711,496	2,983,545	377,404	2,345,403	1,875,205	16,354,934
Additions	308,847	77,599	566,390	78,012	176,030	69,038	1,275,916
Disposals	(480,966)	(34,121)	(154,593)	(9,000)	(215,592)	-	(894,272)
Revaluation	485,717	-	-	-	-	-	485,717
Depreciation adjustment due to revaluation	(302,254)	-	-	-	-	-	(302,254)
Reclassifications	-	-	197,543	-	(197,543)	-	-
As of 31 December 2019	8,073,225	754,974	3,592,885	446,416	2,108,298	1,944,243	16,920,041
Additions	344,823	214,183	245,157	242,524	191,547	373,329	1,611,563
Disposals	(2,166)	(66,095)	(3,276)	(15,308)	-	(179,761)	(266,606)
Remeasurement	-	-	-	-	-	398,822	398,822
Reclassifications	-	-	623	-	(623)	-	-
As of 31 December 2020	8,415,882	903,062	3,835,389	673,632	2,299,222	2,536,633	18,663,820
Accumulated depreciation							
As of 1 January 2019	468,449	271,682	1,881,819	91,754	1,435,171	-	4,148,875
Expenses for the year	208,273	85,001	267,692	22,990	184,949	584,314	1,353,219
Depreciation adjustment due to revaluation	(302,254)	-	-	-	-	-	(302,254)
Disposals	(165,626)	(19,427)	(152,092)	(1,156)	(203,744)	-	(542,045)
Reclassifications	-	-	152,337	-	(152,337)	-	-
As of 31 December 2019	208,842	337,256	2,149,756	113,588	1,264,039	584,314	4,657,795
Expenses for the year	227,198	89,959	328,056	13,078	177,294	589,880	1,425,465
Disposals	-	(41,014)	-	(3,039)	-	(179,761)	(223,814)
As of 31 December 2020	436,040	386,201	2,477,812	123,627	1,441,333	994,433	5,859,446
Carrying amount							
As of 31 December 2019	7,864,383	417,718	1,443,129	332,828	844,259	1,359,929	12,262,246
As of 31 December 2020	7,979,842	516,861	1,357,577	550,005	857,889	1,542,200	12,804,374

Revaluation of assets

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

If the land and buildings were presented with the difference between the initial cost and the accumulated depreciation, as of 31 December 2020 the carrying amount would amount to AMD 3,964,419 thousand (2019: AMD 3,695,514 thousand).

Right-of-use assets

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right of use assets in accordance with the classification of its property and equipment.

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

Fully depreciated items

As of 31 December 2020 property and equipment included fully depreciated assets in amount of AMD 773,010 thousand (2019: 666,625 thousand).

Restrictions on title of fixed assets

As of 31 December 2020, the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2019: either).

Contractual commitments

As of 31 December 2020 the Bank had no contractual commitments in respect of acquisition of property and equipment (2019: either).

23 Intangible assets

In thousand Armenian drams	Licenses	Software	Other	Intangible assets arising from development	Total
Cost					
As of 1 January 2019	392,213	293,918	29,951	-	716,082
Additions	25,002	7,368	599	60,000	92,969
As of 31 December 2019	417,215	301,286	30,550	60,000	809,051
Additions	34,352	1,608	-	114,000	149,960
Reclassifications	-	174,000	-	(174,000)	-
As of 31 December 2020	451,567	476,894	30,550	-	959,011
Accumulated amortisation					
As of 1 January 2019	140,544	53,817	15,128	-	209,489
Amortisation charge	44,649	26,005	3,080	-	73,734
As of 31 December 2019	185,193	79,822	18,208	-	283,223
Amortisation charge	55,431	35,579	3,045	-	94,055
As of 31 December 2020	240,624	115,401	21,253	-	377,278

In thousand Armenian drams	Licenses	Software	Other	Intangible assets arising from development	Total
Carrying amount					
As of 31 December 2019	232,022	221,464	12,342	60,000	525,828
As of 31 December 2020	210,943	361,493	9,297	-	581,733

Contractual commitments

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

As of 31 December 2020, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As of 31 December 2020, the cost of fully depreciated assets included in intangible assets amounted to AMD 142,670 thousand (2019: AMD 32,216 thousand).

24 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Settlements with employees	64,208	51,324
Amounts receivable	69,579	31,919
Less loss allowance on other financial assets	(12,927)	(12,860)
Total other financial assets	120,860	70,383
Repossessed assets	2,315,795	590,116
Prepayments and other debtors	507,416	733,754
Materials	223,332	302,344
Precious metals	443	51,728
Other assets	161,069	62,972
Total non-financial assets	3,208,055	1,740,914
Total other assets	3,328,915	1,811,297

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

In thousand Armenian drams	2020		2019	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	12,860	12,860	9,468	9,468
Net remeasurement of loss allowance	(25,735)	(25,735)	67,269	67,269
Net amounts written-off	(717)	(717)	(66,835)	(66,835)
Recovery	26,519	26,519	2,958	2,958
Balance as of 31 December	12,927	12,927	12,860	12,860

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

In thousand Armenian drams	31 December 2020	31 December 2019
Real estate	181,239	69,200
Buildings	2,134,556	520,916
Total repossessed assets	2,315,795	590,116

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

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

25 Debt securities issued

As of 31 December 2020, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
29.01.2019	USD	100	21,000	5.25	29.01.2022	2,100,000
03.05.2019	USD	100	30,000	5.50	03.05.2022	3,000,000
03.05.2019	AMD	10,000	100,000	10.25	03.05.2022	1,000,000,000
03.09.2020	AMD	10,000	150,000	9.75	03.09.2023	1,500,000,000
03.09.2020	USD	100	22,000	5.00	03.09.2023	2,200,000

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

The Bank has not repurchased any of its own bonds during the year (2019: either).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2019: nil).

26 Other borrowed funds

In thousand Armenian drams	31 December 2020	31 December 2019
Loans from the CBA	9,443,156	9,258,543
Advances from Government of Republic of Armenia	708,569	47,504
Total loans from CBA and Government of Republic of Armenia	10,151,725	9,306,047
Loans from financial institutions	20,515,644	22,670,344
Deposits from financial institutions	20,894,882	21,796,419
Current accounts of financial institutions	1,456,318	1,229,822
Correspondent accounts of other banks	21,419	72,352
Other	106,082	140,556
Total amounts due to financial institutions	42,994,345	45,909,493
Loans from international financial institutions	62,554,371	36,707,937
Total other borrowed funds	115,700,441	91,923,477

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

As of 31 December 2020 the weighted average effective interest rate on loans from Government of Rpublic of Armenia is 7.51% for loans in AMD (2019: 7.60%).

As of 31 December 2020 and 31 December 2019 loans and deposits from financial institutions represent loans and deposits from resident and non-resident banks.

As of 31 December 2020 the weighted average effective interest rate on loans from financial institutions is 7.09% for loans in AMD (2019: 5.64%), and 4.83% for loans in USD, EUR and other convertible currencies (2019: 4.01%).

As of 31 December 2020 the weighted average effective interest rate on deposits from financial institutions is 9.45% for loans in AMD (2019: 9.77%), and 2.48% for loans in USD, EUR and other convertible currencies (2019: 2.89%).

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

As of 31 December 2020 attracted borrowings from financial institutions are secured with the transfer of rights of loans from customers in gross amount of AMD 12,064,630 thousand (2019: AMD 7,862,381 thousand) (refer to note 20).

As of 31 December 2020 attracted borrowings from the CBA are secured with the transfer of rights of loans from customers in gross amount of AMD 7,653,987 thousand (2019: AMD 7,390,816 thousand) (refer to note 20).

The Bank has not had any defaults of principal, interest or other breaches with respect to amounts due to international financial institutions for the year ended 31 December 2020 (2019: either).

As of 31 December 2020 and 2019 loans from international financial institutions, including accrued interest, with stipulated compliance with certain capital and financial covenants as per respective loan agreements are presented below:

In thousand Armenian drams	Currency	31 December 2020			31 December 2019		
		Maturity	Nominal interest rate, %	Carrying amount	Maturity	Nominal interest rate, %	Carrying amount
EBRD	AMD	2-3 years	6.39-7.46	5,564,684	4-5 years	4-7.32	5,814,425
Symbiotics SA	AMD	1-3 years	7.79-11.67	4,963,491	4 years	8.83-11.67	4,941,443
EBRD	EUR	Less than 1 year	2.40	1,207,988	Less than 1 year	2-2.3	1,261,454
FMO	USD	3-4 years	3.5-5.43	15,646,118	4-5 years	5.19-5.67	9,545,038
DEG	USD	4 years	5.34	4,819,351	7 years	7.21	4,926,242
INCOFIN CVBA	USD	1-2 years	5.56-7.2	3,362,055	4 years	5.56-7.22	4,684,495
BSTDB	USD	4 years	3.31	5,275,296	4-5 years	5.05	2,394,446
GII	USD	Less than 1 year	5.55	1,592,434	4 years	5.55	1,456,626
EFA	USD	Less than 1 year	6.67	1,306,046	2-3 years	6.67	1,195,435
FMO	EUR	4 years	3.16	3,200,290	-	-	-
Blue Orchard MicrofinanceFund LLC	USD	3 years	5.89	5,232,330	-	-	-
Asian development Bank	USD	1-4 years	2.01-4.29	5,081,803	-	-	-
MSME BSA	USD	4 years	8.49	5,302,485	-	-	-
GLS alternative investments-Mikrofinanzfonds	USD	-	-	-	3 years	6.67	488,333
Total				62,554,371			36,707,937

The Bank is obligated to comply with financial covenants in relation to the above borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. At December 31, 2020 the Bank had not breached these covenants (2019: either).

27 Amounts due to customers

In thousand Armenian drams	31 December 2020	31 December 2019
Corporate customers		
Current/Settlement accounts	24,452,754	20,817,396
Time deposits	8,456,313	9,067,041
	32,909,067	29,884,437
Individual customers		
Current/Settlement accounts	22,002,903	23,526,027
Time deposits	57,583,440	59,956,414
	79,586,343	83,482,441
Total amounts due to customers	112,495,410	113,366,878

Deposits of corporate and individual customers carry fixed interest rates.

As of 31 December 2020 included in amounts due to corporate/individual customers are deposits amounting to AMD 5,989,650 thousand (2019: AMD 4,791,467 thousand) held as security against loans, guarantees and other related instruments. The fair value of those deposits approximates their carrying amount.

As of 31 December 2020 the aggregate balance of top ten customers of the Bank (including relating parties, refer to note 32) amounts to AMD 19,766,771 thousand (2019: AMD 21,815,937 thousand) or 17.6% of total customer accounts (2019: 19.2%).

As of 31 December 2020 the weighted average effective interest rates on amounts due to customers was 9.5% for amounts attracted in AMD (2019: 9.5%) and 4.2% for amounts attracted in USD and EUR (2019: 4.2%) and 5.5% for amounts attracted in Ruble (2019: 6.3%).

As of 31 December 2020 the Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities to customers during the period (2019: either).

28 Subordinated debt

In thousand Armenian drams	31 December 2020	31 December 2019
Subordinated debt provided by individuals	786,808	719,787
Subordinate debt from the related party	524,260	-
Total subordinated debt	1,311,068	719,787

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

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

Maturity for subordinated debt attracted by related parties is set up in 2027.

As of 31 December 2020 the annual interest rate on subordinated debt in USD was 7.4% (2019: 6%), subordinated debt in AMD was not available (2019: either).

The Bank has not had any defaults of principal, interest or other breaches during the period (2019: nil).

29 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Remuneration payable to employees	998,449	817,804
Amounts due to individuals	369,197	328,302
Advances received from the issuance of shares (note 30)	261,430	500,500
Dividends payable	446,320	385,694
Amounts payable	54,273	47,974
Lease liabilities	1,674,091	1,422,777
Total other financial liabilities	3,803,760	3,503,051
Tax payable, other than income tax	247,843	288,430
Provisions*	54,637	25,808
Total other non-financial liabilities	302,480	314,238
Total other liabilities	4,106,240	3,817,289

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

Lease liabilities

The Bank has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets (refer to note 13), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 22).

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

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

In thousand Armenian drams	31 December 2020	31 December 2019
As of 1 January - effect of adoption of IFRS 16	1,422,777	1,875,205
Additions	373,329	69,038
Remeasurement	398,822	-
Accretion of interest	194,995	165,625
Payments	(715,832)	(687,091)
Total lease liabilities as of 31 December	1,674,091	1,422,777

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10.25% (2019: 10.25%).

The undiscounted maturity analysis of lease liabilities as of 31 December 2020 is disclosed in the note 36.3.

30 Equity

As of 31 December 2020 the Bank's announced and paid-in share capital was AMD 26,217,093 thousand and registered capital was AMD 25,955,663 thousand. Advance payments on the issue of shares are presented in note 29. In accordance with the Bank's statues, the share capital consists of 1,883,333 ordinary shares, all of which have a par value of AMD 10,400 each and 424,600 preference shares, all of which have a par value of AMD 15,000.

The respective shareholders were as follows:

In thousand Armenian drams	31 December 2020		31 December 2019	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Saribek Sukiasyan	7,467,198	28.77	8,135,958	31.74
Khachatur Sukiasyan	4,638,533	17.87	4,638,533	18.09
Robert Sukiasyan	4,515,165	17.40	4,241,337	16.54
Eduard Sukiasyan	3,289,558	12.67	3,253,158	12.69
Other shareholders	6,045,209	23.29	5,366,357	20.94
	25,955,663	100	25,635,343	100

As of 31 December 2020, the Bank did not possess any of its own shares.

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

In 2020 the shareholders of the Bank increased its share capital by issuing preference shares in amount of AMD 320,320 thousand (2019: preference shares amounted to AMD 3,369,000 thousand).

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

The amount of declared and paid dividends on preference and ordinary shares recognized in the financial statements as of 31 December 2020 amounted to AMD 894,103 thousand and AMD 376,667 thousand respectively (2019: AMD 781,821 thousand and AMD 277,880 thousand).

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

31 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2020	31 December 2019
Undrawn loan commitments	4,861,322	6,092,716
Guarantees	7,316,766	5,979,486
Total commitments and contingent liabilities	12,178,088	12,072,202

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

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

In thousand Armenian drams	2020		2019	
	Stage 1	Total	Stage 1	Total
ECL allowance as of 1 January	25,808	25,808	61,891	61,891
Net remeasurement of loss allowance	28,829	28,829	(36,083)	(36,083)
Balance as of 31 December	54,637	54,637	25,808	25,808

ECLs on guarantees are included in "Other liabilities" (refer to note 29).

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

Insurance

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

However as of 31 December 2020 the Bank had insurance for its head office building and transportation means. The Bank also had insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

32 Transactions with related parties

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

As of 31 December 2020 and 31 December 2019 the ultimate controlling party of the Bank are the Sukiasyans, who controls 76.71% (2019: 79.07%) of the share capital of the Bank.

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

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

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and advances to customers				
Loans outstanding as of 1 January gross	2,971,445	127,519	2,664,389	138,134
Loans issued during the year	2,529,959	430,447	1,320,925	339,909
Loan repayments during the year	(757,667)	(268,871)	(1,013,869)	(350,524)
Loans outstanding as of 31 December gross	4,743,737	289,095	2,971,445	127,519
Less: allowance for loan impairment	(13,406)	(7,818)	(36,592)	(2,023)
Loans outstanding as of 31 December	4,730,331	281,277	2,934,853	125,496
Amounts due from financial institutions				
As of 1 January	50,152	-	67,482	-
Increase	671,910	-	200,000	-
Decrease	(370,000)	-	(217,330)	-
As of 31 December	352,062	-	50,152	-
Less: allowance for loan impairment	(4,505)	-	(134)	-
Balance as of 31 December	347,557	-	50,018	-
Amounts due to financial institutions				
As of 1 January	190,941	-	177,455	-
Increase	13,009,224	-	10,267,089	-
Decrease	(13,019,189)	-	(10,253,603)	-
Balance as of 31 December	180,976	-	190,941	-
Amounts due to customers				
Deposits as of 1 January	810,839	811,491	677,395	446,312
Deposits received during the year	16,121,399	2,478,728	11,110,044	1,102,431
Deposits repaid during the year	(16,140,550)	(2,625,812)	(10,976,600)	(737,252)
Deposits as of 31 December	791,688	664,407	810,839	811,491

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Subordinated debt				
As of 01 January	-	-	3,382,149	-
Received during the year	527,190	-	-	-
Repaid during the year	(2,930)	-	(3,382,149)	-
As of 31 December	524,260	-	-	-
Issuance of preference shares	-	-	3,369,000	-
Guarantees issued	84,389	-	32,928	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	254,445	17,452	146,103	14,731
Interest and similar expenses	1,601	3,067	3,458	3,864
Impairment (losses)/reversal on credit losses	18,815	(5,795)	48,802	643
Commission expenses	-	-	1,101	278
Advertising expenses	53,400	-	53,400	-
Insurance expenses	151,183	-	137,603	-
Finance lease expenses	397,173	-	421,129	-
Business trip expenses	5,980	-	39,216	
Other expenses	100,499	-	99,452	-

The loans issued to the Bank's related party are repayable over 1-20 years and have interest rates of 5-16%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	701,703	696,874
Total key management compensation	701,703	696,874

33 Fair value measurement

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

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

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

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

33.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	42,572,757	-	42,572,757	42,572,757
Amounts due from financial institutions	-	13,755,753	-	13,755,753	13,755,753
Reverse repurchase agreements	-	11,013,456	-	11,013,456	10,175,600
Loans and advances to customers	-	191,186,057	-	191,186,057	193,337,215
Investments securities measured at amortised cost	523,548	4,030,499	-	4,554,047	4,543,305
Other financial assets	-	120,860	-	120,860	120,860
Financial liabilities					
Debt securities issued	-	6,393,214	-	6,393,214	6,185,733
Repurchase agreements	-	37,678,783	-	37,678,783	38,125,044
Other borrowed funds	-	112,472,584	-	112,472,584	115,700,441
Amounts due to customers	-	111,316,767	-	111,316,767	112,495,410
Subordinated debt	-	1,203,110	-	1,203,110	1,311,068
Lease liabilities	-	1,674,091	-	1,674,091	1,674,091
Other financial liabilities	-	2,129,669	-	2,129,669	2,129,669

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	44,050,205	-	44,050,205	44,050,205
Amounts due from financial institutions	-	14,189,783	-	14,189,783	14,189,783
Reverse repurchase agreements	-	6,836,480	-	6,836,480	6,222,111
Loans and advances to customers	-	178,965,542	-	178,965,542	176,106,613
Investments securities measured at amortised cost	484,701	-	-	484,701	479,397
Other financial assets	-	70,383	-	70,383	70,383
Financial liabilities					
Debt securities issued	-	4,442,633	-	4,442,633	4,452,356
Repurchase agreements	-	25,623,028	-	25,623,028	25,623,028
Other borrowed funds	-	89,329,836	-	89,329,836	91,923,477
Amounts due to customers	-	112,578,902	-	112,578,902	113,366,878
Subordinated debt	-	659,045	-	659,045	719,787
Lease liabilities	-	1,422,777	-	1,422,777	1,422,777
Other financial liabilities	-	2,080,274	-	2,080,274	2,080,274

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 24% per annum (2019: 5% to 24% per annum).

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

Investment securities measured at amortised cost

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

Due to customers

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

Other borrowings

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

Debt securities issued

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

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2020
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI	647,844	39,025,893	-	39,673,737
Derivative financial assets	-	16,538	-	16,538
Total	647,844	39,042,431	-	39,690,275
Financial liabilities				
Derivative financial liabilities	-	11,549	-	11,549
Total	-	11,549	-	11,549
Net fair value	647,844	39,030,882	-	39,678,726

In thousand Armenian drams				31 December 2019
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at FVOCI	600,091	24,427,433	-	25,027,524
Derivative financial assets	-	7,522	-	7,522
Total	600,091	24,434,955	-	25,035,046
Financial liabilities				
Derivative financial liabilities	-	9,313	-	9,313
Total	-	9,313	-	9,313
Net fair value	600,091	24,425,642	-	25,025,733

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

Unquoted debt securities

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

Unquoted equity investments

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

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

33.3 Fair value measurement of non-financial assets

In thousand Armenian drams				**31 December 2020**
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Property and equipment				
Land and buildings	-	-	8,415,882	8,415,882
Total	-	-	8,415,882	8,415,882
Net fair value	-	-	8,415,882	8,415,882

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

Fair value measurements in Level 3

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

In thousand Armenian drams	2020	2019
Non-financial assets		
As of 1 January	8,073,225	8,061,881
Additions	344,823	308,847
Disposal	(2,166)	(480,966)
Revaluation	-	485,717
Depreciation adjustment due to revaluation	-	(302,254)
As of 31 December	8,415,882	8,073,225
Net fair value	8,415,882	8,073,225

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2020					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 19)	10,175,600	-	10,175,600	-	10,175,600	-
Total	10,175,600	-	10,175,600	-	10,175,600	-
Financial liabilities						
Repurchase agreements (note 19)	38,125,044	-	38,125,044	(39,384,619)	-	(1,259,575)
Total	38,125,044	-	38,125,044	(39,384,619)	-	(1,259,575)

In thousand Armenian drams	31 December 2019					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 19)	6,222,111	-	6,222,111	-	6,222,111	-
Total	6,222,111	-	6,222,111	-	6,222,111	-
Financial liabilities						
Repurchase agreements (note 19)	25,623,028	-	25,623,028	(20,180,825)	-	5,442,203
Total	25,623,028	-	25,623,028	(20,180,825)	-	5,442,203

35 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2020						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	42,572,757	-	42,572,757	-	-	-	42,572,757
Derivative financial assets	16,538	-	16,538	-	-	-	16,538
Amounts due from financial institutions	4,752,016	7,563,308	12,315,324	14,731	1,425,698	1,440,429	13,755,753
Reverse repurchase agreements	10,101,695	73,905	10,175,600	-	-	-	10,175,600
Loans and advances to customers	9,755,057	51,090,755	60,845,812	90,232,697	42,258,706	132,491,403	193,337,215
Investment securities							
- Investment securities at fair value through other comprehensive income	35,356,882	654,891	36,011,773	581,142	3,080,822	3,661,964	39,673,737
- Investments securities at amortised cost	4,027,737	515,568	4,543,305	-	-	-	4,543,305
Other financial assets	62,856	58,004	120,860	-	-	-	120,860
	106,645,538	59,956,431	166,601,969	90,828,570	46,765,226	137,593,796	304,195,765

In thousand Armenian drams	31 December 2020						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Liabilities							
Derivative financial liabilities	11,549	-	11,549	-	-	-	11,549
Debt securities issued	101,191	-	101,191	6,084,542	-	6,084,542	6,185,733
Repurchase agreements	38,125,044	-	38,125,044	-	-	-	38,125,044
Other borrowed funds	3,202,596	38,448,294	41,650,890	66,187,876	7,861,675	74,049,551	115,700,441
Amounts due to customers	50,632,448	46,138,416	96,770,864	15,003,113	721,433	15,724,546	112,495,410
Subordinated debt	4,433	-	4,433	-	1,306,635	1,306,635	1,311,068
Lease liabilities	55,946	445,258	501,204	1,034,535	138,352	1,172,887	1,674,091
Other financial liabilities	423,470	1,706,199	2,129,669	-	-	-	2,129,669
	92,556,677	86,738,167	179,294,844	88,310,066	10,028,095	98,338,161	277,633,005
Net position	14,088,861	(26,781,736)	(12,692,875)	2,518,504	36,737,131	39,255,635	26,562,760
Accumulated gap	14,088,861	(12,692,875)		(10,174,371)	26,562,760		

In thousand Armenian drams	31 December 2019						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	44,050,205	-	44,050,205	-	-	-	44,050,205
Derivative financial assets	7,522	-	7,522	-	-	-	7,522
Amounts due from financial institutions	2,518,585	9,283,586	11,802,171	963,679	1,423,933	2,387,612	14,189,783
Reverse repurchase agreements	6,013,000	209,111	6,222,111	-	-	-	6,222,111
Loans and advances to customers	7,985,447	47,174,971	55,160,418	90,526,444	30,419,751	120,946,195	176,106,613
Investment securities							
- Investment securities at fair value through other comprehensive income	20,180,825	7,451	20,188,276	1,582,933	3,256,315	4,839,248	25,027,524
- Investment securities at amortised cost	-	684	684	478,713	-	478,713	479,397
Other financial assets	70,383	-	70,383	-	-	-	70,383
	80,825,967	56,675,803	137,501,770	93,551,769	35,099,999	128,651,768	266,153,538

In thousand Armenian drams							31 December 2019
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Liabilities							
Derivative financial assets	9,313	-	9,313	-	-	-	9,313
Debt securities issued	18,064	988,172	1,006,236	3,446,120	-	3,446,120	4,452,356
Repurchase agreements	25,623,028	-	25,623,028	-	-	-	25,623,028
Other borrowed funds	6,381,096	22,195,116	28,576,212	57,563,683	5,783,582	63,347,265	91,923,477
Amounts due to customers	49,913,854	46,844,992	96,758,846	16,041,238	566,794	16,608,032	113,366,878
Subordinated debt	237	-	237	-	719,550	719,550	719,787
Lease liabilities	44,106	453,494	497,600	866,395	58,782	925,177	1,422,777
Other financial liabilities	376,276	1,703,998	2,080,274	-	-	-	2,080,274
	82,365,974	72,185,772	154,551,746	77,917,436	7,128,708	85,046,144	239,597,890
Net position	(1,540,007)	(15,509,969)	(17,049,976)	15,634,333	27,971,291	43,605,624	26,555,648
Accumulated gap	(1,540,007)	(17,049,976)		(1,415,643)	26,555,648		

36 Risk management

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

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

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

Risk management structure

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

Board

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

Executive Board

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

Risk Management Subdivision

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

Internal audit

Internal audit is responsible for the independent assessment of risk management and monitoring for the overall environment. Risk management processes throughout the Bank are audited annually by the internal audit, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the respective management body.

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

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

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

36.1 Credit risk

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

36.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 36.1.2.

In thousand Armenian drams				**31 December 2020**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	13,003,189	-	-	13,003,189
Standard	29,600,291	-	-	29,600,291
Gross carrying amount	42,603,480	-	-	42,603,480
Loss allowance	(30,723)	-	-	(30,723)
Net carrying amount	42,572,757	-	-	42,572,757
Amounts due from financial institutions				
Standard	14,007,516	-	-	14,007,516
Gross carrying amount	14,007,516	-	-	14,007,516
Loss allowance	(251,763)	-	-	(251,763)
Net carrying amount	13,755,753	-	-	13,755,753
Reverse repurchase agreements				
Standard grade	10,309,207	-	-	10,309,207
Gross carrying amount	10,309,207	-	-	10,309,207
Loss allowance	(133,607)	-	-	(133,607)
Net carrying amount	10,175,600	-	-	10,175,600
Loans to mortgage and consumer customers				
High grade	85,771,181	-	-	85,771,181
Standard grade	358,277	323,407	-	681,684
Low grade	-	894,967	-	894,967
Non-performing grade	-	-	1,054,275	1,054,275
Gross carrying amount	86,129,458	1,218,374	1,054,275	88,402,107
Loss allowance	(1,844,610)	(352,876)	(666,781)	(2,864,267)
Net carrying amount	84,284,848	865,498	387,494	85,537,840
Loans to commercial customers				
High grade	107,828,642	-	-	107,828,642
Standard grade	13,927	46,575	-	60,502
Low grade	-	124,445	-	124,445
Non-performing grade	-	-	299,014	299,014
Gross carrying amount	107,842,569	171,020	299,014	108,312,603
Loss allowance	(226,167)	(67,980)	(219,081)	(513,228)
Net carrying amount	107,616,402	103,040	79,933	107,799,375

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortised cost including pledged securities				
Standard	4,596,448	-	-	4,596,448
Gross carrying amount	4,596,448	-	-	4,596,448
Loss allowance	(53,143)	-	-	(53,143)
Net carrying amount	4,543,305	-	-	4,543,305
Debt investment securities at FVOCI				
Standard	39,673,737	-	-	39,673,737
Carrying amount-fair value	39,673,737	-	-	39,673,737
Loss allowance	(437,927)	-	-	(437,927)
Other financial assets				
Standard grade	133,787	-	-	133,787
Gross carrying amount	133,787	-	-	133,787
Loss allowance	(12,927)	-	-	(12,927)
Net carrying amount	120,860	-	-	120,860
Loan commitments and financial guarantee				
Standard grade	12,178,088	-	-	12,178,088
		-	-	
Loss allowance*	(54,637)	-	-	(54,637)

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	11,919,061	-	-	11,919,061
Standard	32,159,175	-	-	32,159,175
Gross carrying amount	44,078,236	-	-	44,078,236
Loss allowance	(28,031)	-	-	(28,031)
Net carrying amount	44,050,205	-	-	44,050,205
Amounts due from financial institutions				
Standard	14,238,598	-	-	14,238,598
Gross carrying amount	14,238,598	-	-	14,238,598
Loss allowance	(48,815)	-	-	(48,815)
Net carrying amount	14,189,783	-	-	14,189,783
Reverse repurchase agreements				
Standard	6,222,111	-	-	6,222,111
Gross carrying amount	6,222,111	-	-	6,222,111
Loss allowance	-	-	-	-
Net carrying amount	6,222,111	-	-	6,222,111

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to mortgage and consumer customers				
High grade	91,195,330	-	-	91,195,330
Standard grade	151,566	908	-	152,474
Low grade	-	141,341	-	141,341
Non-performing grade	-	-	272,952	272,952
Gross carrying amount	91,346,896	142,249	272,952	91,762,097
Loss allowance	(620,006)	(30,502)	(151,863)	(802,371)
Net carrying amount	90,726,890	111,747	121,089	90,959,726
Loans to commercial customers				
High grade	84,889,166	-	-	84,889,166
Standard grade	2,945	-	-	2,945
Low grade	-	1,917	-	1,917
Non-performing grade	-	-	1,537,415	1,537,415
Gross carrying amount	84,892,111	1,917	1,537,415	86,431,443
Loss allowance	(674,032)	(611)	(609,913)	(1,284,556)
Net carrying amount	84,218,079	1,306	927,502	85,146,887
Debt investment securities at amortised cost				
Standard	481,592	-	-	481,592
Gross carrying amount	481,592	-	-	481,592
Loss allowance	(2,195)	-	-	(2,195)
Net carrying amount	479,397	-	-	479,397
Debt investment securities at FVOCI				
Standard	25,027,524	-	-	25,027,524
Carrying amount-fair value	25,027,524	-	-	25,027,524
Loss allowance	(53,599)	-	-	(53,599)
Other financial assets				
Standard grade	83,243	-	-	83,243
Gross carrying amount	83,243	-	-	83,243
Loss allowance	(12,860)	-	-	(12,860)
Net carrying amount	70,383	-	-	70,383
Loan commitments and financial guarantee				
Standard grade	12,072,202	-	-	12,072,202
	12,072,202	-	-	12,072,202
Loss allowance*	(25,808)	-	-	(25,808)

* Standard grade includes allowance on financial guarantees.

36.1.2 Impairment assessment

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

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

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

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

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

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

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

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

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

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

Loans to customers

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

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

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 0.3% of regulatory capital. Besides, they should have the signs of significant increase in credit risk, such as increase in overdue days or significant financial difficulties.

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

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

Measurement of ECL on an individual basis

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

The Bank generally assesses liquidation value of the collaterals considering based on the actual sale dates of previous similar collateral. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

Measurement of ECL on a collective basis

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

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

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

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

Segmentation

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

- Segment
- Days past due
- Restructuring
- Collateralization

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

Definition of default

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

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

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

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

Significant increase in credit risk

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

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

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

Renegotiated loans and advances

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

The carrying amount of renegotiated loans to customers as of 31 December 2020 and 2019 were AMD 1,691,913 thousand and AMD 1,248,803 thousand, respectively.

Probability of default (PD)

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as six years from January 2016 to December 2020. During the observation period, the one month migration matrices were generated.

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

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

Loss given default (LGD)

Another component of impairment model is LGD (loss given default), that’s is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using the actual sale dates of previous similar collaterals. LGD models for unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on a borrower level.

Exposure at default (EAD)

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

Forward-looking information

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

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

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 9 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2020 and the last one was done in December 2020 based on last available information.

36.1.3 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	**Armenia**	**Other non-OECD countries**	**OECD countries**	**Total**
Cash and cash equivalents	38,886,401	758,124	2,928,232	42,572,757
Derivative financial assets	-	16,538	-	16,538
Amounts due from financial institutions	12,929,144	84,666	741,943	13,755,753
Reverse repurchase agreements	10,175,600	-	-	10,175,600
Loans and advances to customers	193,337,215	-	-	193,337,215
Investment securities				
- Investment securities at fair value through other comprehensive income	39,667,571	-	6,166	39,673,737
- Investment securities at amortised cost	4,543,305	-	-	4,543,305
Other financial assets	119,866	-	994	120,860
As of 31 December 2020	299,659,102	859,328	3,677,335	304,195,765
As of 31 December 2019	261,235,636	3,597,762	1,320,140	266,153,538

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

Industry sectors

As of 31 December 2020, the Bank's main credit exposure, classified by economic sectors, are concentrated in the financial sector, except for loans. For distribution of industry sectors for loans, refer to note 20.

36.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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

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

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

In thousand Armenian drams	**31 December 2020**	**31 December 2019**
Loans collateralized by real estate	77,029,278	64,325,869
Loans collateralized by guarantees	66,354,388	64,398,317
Loans collateralized by gold	14,974,520	12,532,032
Loans collateralized by vehicles (cars)	2,230,587	1,973,902
Loans collateralized by cash	1,964,820	1,928,527
Loans collateralized by materials	8,248,250	3,853,768
Loans collateralized by equipment	1,964,838	2,610,794
Loans collateralized by other securities	244,143	267,710
Loans collateralized by state bonds	9,949	-
Other collateral	12,303,862	11,503,009
Unsecured loans	11,390,075	14,799,612
Total loans and advances to customers (gross)	196,714,710	178,193,540

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

36.2 Market risk

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

36.2.1 Market risk – Non-trading

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2020.

The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI as of 31 December 2020 based on the expected changes in the yield curve.

In thousand Armenian drams			31 December 2020
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Sensitivity of equity**
AMD	+1	-	(1,591,263)
AMD	-1	-	1,738,417
6 months and 1-year LIBOR	+/-0.3	-/+87,629	-
EURO LIBOR	+/-0.2	-/+54,813	-
EUROIBOR	+/-0.1	-/+21,998	-

In thousand Armenian drams			31 December 2019
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Sensitivity of equity**
AMD	+1	-	(1,212,525)
AMD	-1	-	1,350,946
6 months and 1-year LIBOR	+/-0.3	-/+36,860	-
EURO LIBOR	+/-0.2	-/+24,572	-
EUROIBOR	+/-0.1	-/+12,287	-

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2020 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2020			31 December 2019		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**
USD	10%	(548,592)	(548,592)	10%	(618,623)	(618,623)
EUR	10%	687,880	687,880	10%	667,038	667,038

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	18,124,517	23,239,638	1,208,602	42,572,757
Amounts due from financial institutions	1,630,975	12,110,360	14,418	13,755,753
Reverse repurchase agreements	9,871,539	304,061	-	10,175,600
Loans and advances to customers	119,742,812	73,555,909	38,494	193,337,215
Investment securities				
- Investment securities at fair value through other comprehensive income	39,129,101	544,636	-	39,673,737
- Investments securities at amortised cost	4,028,965	514,340	-	4,543,305
Other financial assets	62,228	58,564	68	120,860
	192,590,137	110,327,508	1,261,582	304,179,227
Liabilities				
Debt securities issued	2,389,969	3,795,764	-	6,185,733
Repurchase agreements	38,125,044	-	-	38,125,044
Other borrowed funds	55,410,500	60,184,393	105,548	115,700,441
Amounts due to customers	67,947,003	42,539,880	2,008,527	112,495,410
Subordinated debt	-	1,311,068	-	1,311,068
Lease liabilities	1,674,091	-	-	1,674,091
Other financial liabilities	1,314,412	643,234	172,023	2,129,669
Total	166,861,019	108,474,339	2,286,098	277,621,456
Total effect of derivative financial instruments	-	787,298	(782,309)	4,989
Net position as of 31 December 2020	25,729,118	2,640,467	(1,806,825)	26,562,760
Commitments and contingent liabilities as of 31 December 2020	5,740,927	6,422,743	14,418	12,178,088
Total financial assets	159,272,795	104,969,287	1,903,934	266,146,016
Total financial liabilities	133,724,550	103,919,081	1,944,946	239,588,577
Total effect of derivative financial instruments	56,172	(59,340)	1,377	(1,791)
Net position as of 31 December 2019	25,604,417	990,866	(39,635)	26,555,648
Commitments and contingent liabilities As of 31 December 2019	4,939,035	7,037,552	95,615	12,072,202

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

36.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

The indicators as of 31 December are as follows:

	Unaudited	
As of 31 December, these ratios were as follows:	**2020, %**	**2019, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	21.15	21.27
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	119.82	112.48

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as of 31 December 2020 based on contractual undiscounted repayment obligations. Refer to note 35 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						**31 December 2020**
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Debt securities issued	138,379	-	6,084,542	-	6,222,921	6,185,733
Repurchase agreements	38,125,044	-	-	-	38,125,044	38,125,044
Other borrowed funds	3,608,544	42,662,818	74,860,691	10,246,476	131,378,529	115,700,441
Amounts due to customers	50,735,135	46,605,910	15,361,357	877,435	113,579,837	112,495,410
Subordinated debt	12,331	88,193	384,365	1,353,167	1,838,056	1,311,068
Lease liabilities	61,128	633,207	1,165,805	142,163	2,002,303	1,674,091
Other financial liabilities	423,470	1,706,199	-	-	2,129,669	2,129,669
Total undiscounted non-derivative financial liabilities	93,104,031	91,696,327	97,856,760	12,619,241	295,276,359	277,621,456
Derivative financial liabilities						
Derivative instruments						
Inflow	302,602	-	-	-	302,602	302,602
Outflow	(302,747)	-	-	-	(302,747)	(302,747)
Foreign exchange swap contracts						
Inflow	1,591,371	-	-	-	1,591,371	1,591,371
Outflow	(1,602,775)	-	-	-	(1,602,775)	(1,602,775)
Commitments and contingent liabilities	598,943	7,041,181	3,413,143	1,124,821	12,178,088	12,178,088

In thousand Armenian drams

	31 December 2019					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Debt securities issued	41,281	1,226,696	3,746,716	-	5,014,693	4,452,356
Repurchase agreements	25,668,669	1,301	-	-	25,669,970	25,623,028
Other borrowed funds	7,028,555	26,930,074	69,096,583	8,006,695	111,061,907	91,923,477
Amounts due to customers	52,608,353	49,810,728	18,439,210	756,091	121,614,382	113,366,878
Subordinated debt	3,548	39,625	892,478	86,464	1,022,115	719,787
Lease liabilities	57,528	632,813	998,703	69,762	1,758,806	1,422,777
Other financial liabilities	376,276	1,703,998	-	-	2,080,274	2,080,274
Total undiscounted non-derivative financial liabilities	85,784,210	80,345,235	93,173,690	8,919,012	268,222,147	239,588,577
Derivative financial liabilities						
Derivative instruments						
Inflow	180,313	-	-	-	180,313	180,313
Outflow	(186,520)	-	-	-	(186,520)	(186,520)
Foreign exchange swap contracts						
Inflow	1,074,528	-	-	-	1,074,528	1,074,528
Outflow	(1,077,634)	-	-	-	(1,077,634)	(1,077,634)
Commitments and contingent liabilities	99,582	3,360,630	7,275,143	1,336,847	12,072,202	12,072,202

36.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

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

37 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	2020					
	Debt securities issued	Subordinated debt	Other borrowed funds	Lease liabilities	Dividends paid	Total
As of 1 January 2020	4,452,356	719,787	91,923,477	1,422,777	385,694	98,904,091
Cash-flows	*1,475,439*	*518,692*	*17,449,791*	*(520,837)*	*(1,210,144)*	*17,712,941*
Repayments	(1,737,517)	(41,830)	(6,372,098,247)	(715,832)	(1,210,144)	(6,375,803,570)
Proceeds	3,212,956	560,522	6,389,548,038	194,995	-	6,393,516,511
Non-cash	*257,938*	*72,589*	*6,327,173*	*772,151*	*1,270,770*	*8,700,621*
Foreign exchange gain/loss	211,452	68,393	5,744,460	-	-	6,024,305
Net increase of lease liabilities	-	-	-	373,329	-	373,329
Remeasurement	-	-	-	398,822	-	398,822
Accrued interests	46,486	4,196	582,713	-	-	633,395
Reclassification	-	-	-	-	1,270,770	1,270,770
As of 31 December 2020	6,185,733	1,311,068	115,700,441	1,674,091	446,320	125,317,653

In thousand Armenian drams	2019						
	Issuance of preference shares	Debt securities issued	Subordinated debt	Other borrowed funds	Lease liabilities	Dividends paid	Total
As of 1 January 2019	3,000,000	2,060,960	3,382,149	64,200,798	-	235,498	72,879,405
Cash-flows	*3,369,000*	*2,433,015*	*(2,655,419)*	*27,765,238*	*(521,466)*	*(909,505)*	*29,480,863*
Repayments	-	(1,594,443)	(3,375,206)	(7,151,820,956)	(687,091)	(909,505)	(7,158,387,201)
Proceeds	3,369,000	4,027,458	719,787	7,179,586,194	165,625	-	7,187,868,064
Non-cash	-	*(41,619)*	*(6,943)*	*(42,559)*	*1,944,243*	*1,059,701*	*2,912,823*
Foreign exchange gain/loss	-	(27,145)	(21,488)	(157,928)	-	-	(206,561)
Transition to IFRS 16	-	-	-	-	1,944,243	-	1,944,243
Accrued interests	-	(14,474)	14,545	115,369	-	-	115,440
Reclassification	-	-	-	-	-	1,059,701	1,059,701
As of 31 December 2019	6,369,000	4,452,356	719,787	91,923,477	1,422,777	385,694	105,273,091

38 Capital adequacy

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

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

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

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

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

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

As of 31 December 2020 and 2019 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
In thousand Armenian drams	31 December 2020	31 December 2019
Tier 1 capital	36,191,459	30,883,065
Tier 2 capital	4,997,271	6,025,603
Total regulatory capital	41,188,730	36,908,668
Risk-weighted assets	295,844,651	259,937,920
Capital adequacy ratio	13.92%	14.20%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks.

39 Segment reporting

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

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

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