Ameriabank CJSC

Financial Statements

for the year ended 31 December 2019

Contents

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Independent Auditors' Report

To the Board of Directors of Ameriabank CJSC

Opinion

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

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

Basis for Opinion

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

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by other auditors who expressed an unmodified opinion on those statements on 27 March 2019.

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.

<table>
<tr><th colspan="2">Expected credit losses for loans to corporate and retail customers</th></tr>
<tr><td colspan="2">Please refer to the Note 20 in the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans and advances to customers represent 61% of total assets and are stated net of allowance for expected credit losses (hereinafter, the “ECL”) that is estimated on a regular basis and is sensitive to assumptions used, as outlined below.

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

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

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

- expected cash flows forecast, including from realization of collateral for loans to customers classified in Stage 3.

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

To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate our audit procedures included the following:

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

- for loans to individuals we tested the design, implementation and operating effectiveness of controls over calculation of overdue days

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

- for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we, based on our knowledge, assessed the appropriateness of the related models, and reconciled the model input data against primary sources, on a sample bases.

- for a sample of Stage 2 loans to corporate clients, where ECL are assessed individually, we assessed appropriateness of the data inputs for LGD calculation.

- for a sample of Stage 3 loans to corporate customers, where ECL are assessed individually, we assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements.</td></tr>
</table>

	- for loans to retail customers, on a sample basis we checked the completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and allocation of loans into Stages. - for a sample of Stage 3 loans to retail customers, where ECL are assessed individually, we assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. - we assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2019 with the actual results for 2019. - we also assessed that whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of Financial Statements

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

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

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

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

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

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

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KPMG Armenia LLC
4 May 2020

	Notes	2019 AMD'000	2018* AMD'000
Interest income calculated using effective interest rate	6	59,171,261	52,954,291
Other interest income	6	1,189,505	685,875
Interest expense	6	(29,362,152)	(26,309,095)
Net interest income		**30,998,614**	**27,331,071**
Fee and commission income	7	5,439,164	4,511,230
Fee and commission expense	8	(1,501,380)	(1,111,594)
Net fee and commission income		**3,937,784**	**3,399,636**
Net gain on financial instruments at fair value through profit or loss	9	315,158	995,577
Net foreign exchange gain	10	4,577,671	3,134,059
Net gain on investment securities measured at fair value through other comprehensive income		345,547	155,365
Other operating income	11	3,179,924	4,242,231
Other operating expenses	12	(3,405,890)	(2,475,641)
Operating income		**39,948,808**	**36,782,298**
Net impairment losses on financial instruments	13	(7,171,028)	(9,380,965)
Other impairments and provisions		(29,783)	(22,749)
Operating income after impairment		**32,747,997**	**27,378,584**
Personnel expenses		(10,101,061)	(7,936,402)
Other general administrative expenses	14	(6,677,422)	(6,118,214)
Profit before income tax		**15,969,514**	**13,323,968**
Income tax expense	15	(3,854,546)	(2,821,524)
Profit for the year		**12,114,968**	**10,502,444**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve for investment securities:			
– net change in fair value		593,045	61,959
– net amount reclassified to profit or loss		(276,438)	(124,292)
Total items that are or may be reclassified subsequently to profit or loss		*316,607*	*(62,333)*
Other comprehensive income/(loss) for the year, net of income tax		**316,607**	**(62,333)**
Total comprehensive income for the year		**12,431,575**	**10,440,111**

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

The financial statements as set out on pages 8 to 88 were approved by the Management Board on 1 May 2020 and were signed on its behalf by:

Artak Hanesyan
Chairman of Management Board - General Director

Mher Kandalyan
Deputy Chief Accountant

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

	Notes	2019 AMD'000	2018* AMD'000
ASSETS			
Cash and cash equivalents	16	247,353,690	144,353,912
Financial assets measured at fair value through profit or loss	17 (a)		
- Held by the Bank		8,255,606	6,290,841
- Pledged under sale and repurchase agreements		-	526,169
Investment securities measured at fair value through other comprehensive income	17 (b)	10,848,985	11,602,128
Investment securities measured at amortized cost	17 (c)		
- Held by the Bank		33,510,890	22,269,117
- Pledged under sale and repurchase agreements		-	16,556,346
Loans and advances to banks	18	27,014,640	4,946,612
Amounts receivable under reverse repurchase agreements	19	23,549,559	6,746,414
Loans and advances to customers	20	585,741,899	547,943,183
Property, equipment and intangible assets	21	11,162,394	10,240,337
Right of use asset	22	11,235,119	-
Deferred tax asset	15	-	185,898
Repossessed assets	20	3,028,455	2,628,659
Other assets	23	6,379,980	5,457,611
Total assets		**968,081,217**	**779,747,227**
LIABILITIES			
Derivative financial liabilities	17 (a)	35,314	20,621
Deposits and balances from banks	24	34,488,813	43,076,769
Amounts payable under repurchase agreements		-	17,011,404
Current accounts and deposits from customers	25	593,223,433	399,086,132
Debt securities issued	26	54,573,055	50,846,356
Other borrowed funds	27	126,685,607	120,913,209
Subordinated borrowings	27	36,495,281	50,414,125
Current tax liability		279,389	1,086,688
Deferred tax liability	15	918,445	-
Provision for commitments	32	116,222	140,163
Lease liability		11,373,257	-
Other liabilities	28	8,665,323	7,393,812
Total liabilities		**866,854,139**	**689,989,279**
EQUITY	29		
Share capital		37,347,200	37,300,480
Share premium		17,009,560	16,968,725
Revaluation reserve for investment securities		650,042	333,435
Retained earnings		46,220,276	35,155,308
Total equity		**101,227,078**	**89,757,948**
Total liabilities and equity		**968,081,217**	**779,747,227**

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

	Notes	2019 AMD'000	2018* AMD'000
Cash flows from operating activities			
Interest receipts		60,612,689	58,733,901
Interest payments		(27,533,867)	(33,083,438)
Fee and commission receipts		5,439,164	4,511,231
Fee and commission payments		(1,501,380)	(1,111,594)
Net receipts from financial assets at fair value through profit and loss		697,736	453,772
Net receipts from foreign exchange transactions		4,043,700	3,586,028
Other operating (payments)/receipts		(343,748)	1,766,590
Salaries and other payments to employees		(9,611,889)	(7,165,324)
Other general administrative expenses payments		(3,818,407)	(4,888,861)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(1,070,037)	(2,240,960)
Loans and advances to banks		(22,263,721)	5,247,616
Amounts receivable under reverse repurchase agreements		(16,602,636)	1,924,073
Loans and advances to customers		(52,411,736)	(89,537,762)
Other assets		(1,656,875)	(1,651,412)
(Decrease)/increase in operating liabilities			
Financial instruments at fair value through profit or loss		(743,702)	(579,945)
Deposits and balances from banks		(8,058,493)	4,427,815
Amounts payable under repurchase agreements		(16,999,992)	10,913,628
Current accounts and deposits from customers		195,650,670	32,999,639
Other liabilities		578,480	2,678,452
Net cash from/(used in) operating activities before income tax paid		**104,405,956**	**(13,016,551)**
Income tax paid		(3,591,966)	(2,758,200)
Cash flows from/(used in) operations		**100,813,990**	**(15,774,751)**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(2,847,579)	(4,348,326)
Acquisition of investment securities measured at fair value through other comprehensive income		(6,077,857)	(8,735,406)
Proceeds from sale and repayment of investment securities measured at fair value through other comprehensive income		7,532,357	6,909,824
Acquisition of investment securities measured at amortized cost		(11,148,512)	(12,208,815)
Proceeds from sale and repayment of investment securities measured at amortized cost		17,106,225	15,956,823
Cash flows from/(used in) investing activities		**4,564,634**	**(2,425,900)**
Cash flows from financing activities			
Payment of lease liabilities	22	(1,444,183)	-
Dividends paid	29	(1,050,000)	(1,148,000)
Proceeds from issue of share capital	29	87,555	14,426,666
Receipt of other borrowed funds and subordinated liabilities	27	39,072,808	118,532,201
Repayment of other borrowed funds and subordinated liabilities	27	(43,493,485)	(85,915,500)
Proceeds from debt securities issued	26	21,864,967	24,855,545
Repayment of debt securities issued	26	(17,659,493)	(12,849,554)
Cash flows (used in)/from financing activities		**(2,621,831)**	**57,901,358**
Net increase in cash and cash equivalents		**102,756,793**	**39,700,707**
Effect of changes in exchange rates on cash and cash equivalents		266,334	(2,919,971)
Effect of changes in impairment allowance		(23,349)	(43,192)
Cash and cash equivalents as at the beginning of the year		144,353,912	107,616,368
Cash and cash equivalents as at the end of the year	16	**247,353,690**	**144,353,912**

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

AMD'000	**Share capital**	**Share premium**	**Revaluation reserve for investment securities**	**Retained earnings**	**Total equity**
Balance as at 1 January 2018	32,087,360	7,755,179	338,214	29,721,118	69,901,871
Adjustment on initial application of IFRS 9, net of tax	-	-	57,554	(3,920,254)	(3,862,700)
Restated balance as at 1 January 2018	32,087,360	7,755,179	395,768	25,800,864	66,039,171
Profit for the year	-	-	-	10,502,444	10,502,444
Other comprehensive loss					
Fair value reserve for investment securities					
- net change in fair value	-	-	61,959	-	61,959
- net amount reclassified to profit or loss	-	-	(124,292)	-	(124,292)
Total comprehensive income for the year	**-**	**-**	**(62,333)**	**10,502,444**	**10,440,111**
Transactions with owners, recorded directly in equity					
Issue of share capital	5,213,120	9,213,546	-	-	14,426,666
Dividends	-	-	-	(1,148,000)	(1,148,000)
Total transactions with owners	**5,213,120**	**9,213,546**	**-**	**(1,148,000)**	**13,278,666**
Balance as at 31 December 2018*	**37,300,480**	**16,968,725**	**333,435**	**35,155,308**	**89,757,948**
Balance as at 1 January 2019	37,300,480	16,968,725	333,435	35,155,308	89,757,948
Profit for the year	-	-	-	12,114,968	12,114,968
Other comprehensive income					
Fair value reserve for investment securities					
- net change in fair value	-	-	593,045	-	593,045
- net amount reclassified to profit or loss	-	-	(276,438)	-	(276,438)
Total comprehensive income for the year	**-**	**-**	**316,607**	**12,114,968**	**12,431,575**
Transactions with owners, recorded directly in equity					
Issue of share capital	46,720	40,835	-	-	87,555
Dividends	-	-	-	(1,050,000)	(1,050,000)
Total transactions with owners	**46,720**	**40,835**	**-**	**(1,050,000)**	**(962,445)**
Balance as at 31 December 2019	**37,347,200**	**17,009,560**	**650,042**	**46,220,276**	**101,227,078**

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

1 Background

(a) Organization and operations

Ameriabank CJSC (formerly Armimpexbank CJSC) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%.

On 23 December 2015 European Bank for Reconstruction and Development (EBRD) purchased in full additionally issued 20,749 shares of the Bank.

On 21 December 2016 ESPS Holding Limited purchased 13.5% of Bank shares from Ameria Group (CY).

On 14 February 2018 Asian Development Bank (ADB) purchased additionally issued all 16,291 shares of the Bank for AMD 14,426,666 thousand.

On 4 March 2019 ESPS Holding Limited purchased in full additionally issued 146 shares of the Bank for AMD 87,555 thousand.

The shareholders of the Bank as at 31 December 2019 are Ameria Group (CY) 56.53%, EBRD 17.78%, ADB 13.96% and ESPS Holding Limited 11.73%.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank’s assets and liabilities are located in Armenia.

The Bank has 19 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 2 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia.

The number of the Bank’s employees as at 31 December 2019 was 1,050 (2018: 891).

Related party transactions are detailed in Note 34.

(b) Armenian business environment

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

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

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the stock market indices. These developments can further increase the level of uncertainty in the Armenian business environment. The government has pledged to an AMD 300 billion support program, which on the other hand can soften the negative impact on Armenian economy and businesses (see Note 36).

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

The AMD is also the presentation currency for the purposes of these financial statements. The official CBA exchange rates at 31 December 2019 and 31 December 2018, were AMD 479.7 and AMD 483.75 to USD 1 , and AMD 537.26 and AMD 553.65 to EUR 1, respectively.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 30(c).

Assumptions and estimations uncertainty

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

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 30(c);
- estimates of fair values of financial assets and liabilities – Note 35.

3 Changes in significant accounting policies

IFRS 16

The Bank initially applied IFRS 16 Leases from 1 January 2019. The Bank has applied IFRS 16 using the modified retrospective approach and has chosen to measure the right of use asset at an amount equal to lease liability (subject to certain adjustments). Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and IFRIC 4. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

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

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

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

(b) As a lessee

As a lessee, the Bank leases many assets such as office spaces for head office and branches.

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

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

Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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

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

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

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

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

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

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

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

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

(i) Leases classified as operating leases under IAS 17

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

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

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(ii) Leases classified as finance leases under IAS 17

The Bank did not have lease contracts classified as finance leases under IAS 17 as at 1 January 2019.

(c) As a lessor

The Bank enters into finance lease arrangements with customers and recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. If an arrangement contains lease and non-lease components, then the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Bank does not have sub-lease arrangements; therefore lessor accounting remains unchanged.

(d) Impact on financial statements

*(i) Impact on transition**

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

’000 AMD	**1 January 2019**
Right-of-use assets	10,984,619
Other assets (prepayments given)	(739,942)
Lease liabilities	(10,244,677)

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 12.92%.

’000 AMD	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank’s financial statements	2,763,036
Inclusion of lease payments under cancellable leases	17,241,900
Undiscounted lease liabilities at 1 January 2019	**20,004,936**
Weighted average incremental borrowing rate of the Bank as a lessee at 1 January 2019	12.92%
Lease liabilities recognised at 1 January 2019	**10,244,677**

* For the impact of IFRS 16 on profit or loss for the period, see Note 22.

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below.

4 Significant accounting policies

Except for the changes disclosed in Note 3 the accounting policies set out below are applied consistently to all periods presented in these financial statements. Other new standards and amendments to standards effective from 1 January 2019 did not have impact on the accounting policies of the Bank, presented below.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

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

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

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

(b) Cash and cash equivalents

Cash and cash equivalents include Notes and coins on hand, balances held with the CBA, including obligatory reserves denominated in AMD, unrestricted balances (nostro accounts) held with other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

For information on when financial assets are credit-impaired, see Note 4 (e)(iv).

Presentation

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

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

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

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

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 4(c)).

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the CBA. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans (Note 4(e)(iii)).

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

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

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

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

iv. Impairment

See also Note 30 (c).

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

–
– financial assets that are debt instruments;
– net investments in finance leases;
– financial guarantee contracts issued; and
– loan commitments issued.

No impairment loss is recognised on equity investments.

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

– debt investment securities that are determined to have low credit risk at the reporting date; and
– other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 30 (c)).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

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

See also Note 30(c).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 4(e)(ii)) and ECL are measured as follows.

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 30(c)).
– 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, and net investments in finance leases 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 addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

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

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

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Non-integral financial guarantee contracts

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

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

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

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

(f) Loans and advances to customers

Loans and advances to customers caption in the statement of financial position include:

- loans to customers, receivables from factoring and receivables from letter of credit measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- net investments in finance leases.

(g) Deposits, debt securities issued and subordinated liabilities

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

(h) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 4(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

For other loan commitments the Bank recognises a loss allowance (see Note 4(e)(iv)) in accordance with IFRS 9.

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

(i) Repurchase and reverse repurchase agreements

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

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

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

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- leasehold improvements	5-20 years
- computers and communication equipment	5 to 10 years
- fixtures and fittings	5 to 10 years
- motor vehicles	7 years

(k) Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(l) Provisions

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

(m) Share capital

(i) Ordinary shares

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

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognized as a share premium.

(iii) Dividends

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

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

(n) Repossessed property

Repossessed property is stated at lower of cost and net realizable value.

(o) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(p) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate and investment banking, Trading.

(q) Taxation

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

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

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

(r) Standards issued but not yet effective

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

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

5 Segment information

For management purposes, the Bank is organised into three operating segments based on products and services as follows:

Retail banking	Principally handling individual and small and micro legal entity customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate and investment banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and provision of investment banking services such as underwriting, financial consulting, etc.
Trading	Currency conversion transactions, management of bonds portfolio, attractions or disbursement of short-term funds through interbank loans and repo agreements for liquidity management, provision of brokerage services, etc.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes is managed on a profit before income tax basis and is allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

2019	**Retail banking AMD'000**	**Corporate and investment banking AMD'000**	**Trading AMD'000**	**Total AMD'000**
Net interest income	6,049,625	20,393,147	4,555,842	30,998,614
Net non-interest income	1,519,349	3,895,845	3,535,000	8,950,194
Inter-segment revenue	9,803,150	(5,747,293)	(4,055,857)	-
Operating profit	**17,372,124**	**18,541,699**	**4,034,985**	**39,948,808**
Credit loss expense	(3,309,378)	(3,861,650)	-	(7,171,028)
Other impairment	-	(29,783)	-	(29,783)
Depreciation and amortization	(2,093,029)	(599,723)	(165,842)	(2,858,594)
Personnel and other general administrative expenses	(9,095,247)	(3,905,817)	(918,825)	(13,919,889)
Profit before income tax	**2,874,470**	**10,144,726**	**2,950,318**	**15,969,514**
Income tax expense	(626,582)	(2,584,849)	(643,115)	(3,854,546)
Profit for the year	**2,247,888**	**7,559,877**	**2,307,203**	**12,114,968**

2019	**Retail banking AMD'000**	**Corporate and investment banking AMD'000**	**Trading AMD'000**	**Total AMD'000**
Interest earning financial assets	178,203,827	421,360,830	77,843,858	677,408,515
Interest bearing financial liabilities	336,668,100	501,886,209	6,936,319	845,490,628

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortized cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

2018	**Retail banking AMD'000**	**Corporate banking AMD'000**	**Trading and investment banking AMD'000**	**Total AMD'000**
Net interest income	1,382,860	21,223,002	4,725,209	27,331,071
Net non-interest income	1,438,143	3,435,683	4,577,401	9,451,227
Inter-segment revenue	12,266,116	(8,441,826)	(3,824,290)	-
Operating profit	**15,087,119**	**16,216,859**	**5,478,320**	**36,782,298**
Credit loss expense	(2,425,331)	(6,797,680)	(157,954)	(9,380,965)
Other impairment	-	(22,749)	-	(22,749)
Depreciation and amortization	(985,516)	(160,440)	(83,397)	(1,229,353)
Personnel and other general administrative expenses	(8,327,863)	(3,015,020)	(1,482,380)	(12,825,263)
Profit before income tax	**3,348,409**	**6,220,970**	**3,754,589**	**13,323,968**
Income tax expense	(709,069)	(1,283,923)	(828,532)	(2,821,524)
Profit for the year	**2,639,340**	**4,937,047**	**2,926,057**	**10,502,444**

2018	**Retail banking AMD'000**	**Corporate banking AMD'000**	**Trading and investment banking AMD'000**	**Total AMD'000**
Interest earning financial assets	118,651,578	445,244,596	66,142,737	630,038,911
Interest bearing financial liabilities	280,388,443	377,860,540	22,638,025	680,887,008

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortized cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2019 and 2018 was as follows:

2019	**Retail banking AMD'000**	**Corporate and investment banking AMD'000**	**Trading AMD'000**	**Total AMD'000**
Fee and commission income	3,454,430	1,829,542	155,192	5,439,164
Income from advisory and arrangement services	-	1,001,576	-	1,001,576
Other revenue from contracts with customers	365,843	292,164	-	658,007
Total revenue from contracts with customers	**3,820,273**	**3,123,282**	**155,192**	**7,098,747**

2018	**Retail banking AMD'000**	**Corporate banking AMD'000**	**Trading and investment banking AMD'000**	**Total AMD'000**
Fee and commission income	2,722,827	1,569,308	219,095	4,511,230
Income from advisory and arrangement services	-	721,322	1,800,617	2,521,939
Other revenue from contracts with customers	166,569	171,340	-	337,909
Total revenue from contracts with customers	**2,889,396**	**2,461,970**	**2,019,712**	**7,371,078**

6 Net interest income

	2019 AMD'000	**2018 AMD'000**
Interest income calculated using the effective interest method		
Financial assets measured at amortized cost		
Loans and advances to customers	53,157,387	47,053,601
Investment securities measured at amortized cost	3,015,197	3,056,988
Receivables from factoring	939,980	677,225
Amounts receivable under reverse repurchase agreements	538,526	542,952
Receivables from letters of credit	504,202	471,902
Loans and advances to banks	124,304	417,820
Other	38,959	22,237
	58,318,555	**52,242,725**
Financial assets measured at fair value through other comprehensive income		
Investment securities measures at FVOCI	852,706	711,566
Interest income calculated using the effective interest method	**59,171,261**	**52,954,291**
Other interest income		
Investment securities measured at FVTPL	624,945	396,791
Receivables from finance leases	375,741	196,270
Derivative financial assets	188,819	92,814
Other interest income	**1,189,505**	**685,875**
Total interest income	**60,360,766**	**53,640,166**
Interest expense		
Current accounts and deposits from customers	12,166,015	10,669,140
Other borrowed funds and subordinated borrowings	9,976,484	10,895,124
Debt securities issued	3,123,159	2,604,298
Deposits and balances from banks	1,708,196	1,225,204
Lease liabilities	1,294,627	-
Amounts payable under repurchase agreements	558,606	281,181
Payables under letters of credit and issued guarantees	521,002	631,857
Other	14,063	2,291
	29,362,152	**26,309,095**
Net interest income	**30,998,614**	**27,331,071**

7 Fee and commission income

	2019 AMD'000	2018 AMD'000
Plastic card servicing fees	2,602,582	2,051,820
Money transfers	933,286	942,134
Cash withdrawal, account service and distance system services	806,024	890,990
Brokerage services and underwriting	585,077	184,281
Guarantee and letter of credit issuance	267,337	261,087
Settlement operations	167,842	136,278
Other	77,016	44,640
	5,439,164	**4,511,230**

(a) Revenue from contracts with customers

The Bank's revenue from contract with customers mainly comprises fee and commission income and revenue from provision of advisory and arrangement services. Bank' recognises majority of revenue from fees and commission and from advisory and arrangement services at a point in time. Revenue from contracts with customers recognized in the statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 2018 comprised to:

	2019 AMD'000	2018 AMD'000
Fee and commission income	5,439,164	4,511,230
Income from advisory and arrangement services	1,001,576	2,521,939
Other revenue from contracts with customers	658,007	337,909
	7,098,747	**7,371,078**

(b) Contract balances

The following table provides information about receivable from contracts with customers.

	2019 AMD'000	2018 AMD'000
Receivable included in other assets	80,815	30,387

8 Fee and commission expense

	2019 AMD'000	2018 AMD'000
Plastic card maintenance	1,158,619	828,537
Money transfers	228,980	169,092
Guarantee and letter of credit issuance	41,777	55,364
Other	72,004	58,601
	1,501,380	**1,111,594**

9 Net gain on financial instruments at fair value through profit or loss

	2019 AMD'000	2018 AMD'000
Net gain from investment securities at fair value through profit or loss	414,608	244,025
Net (loss)/gain from currency and interest rate derivative instruments	(99,450)	751,552
	315,158	**995,577**

10 Net foreign exchange gain

	2019 AMD'000	2018 AMD'000
Net gain on spot transactions	4,043,700	3,586,028
Net gain/(loss) from revaluation of financial assets and liabilities	533,971	(451,969)
	4,577,671	**3,134,059**

11 Other operating income

	2019 AMD'000	2018 AMD'000
Income from fines and penalties	1,121,772	1,382,383
Income from advisory and arrangement services	1,001,576	2,521,939
Gain from sale of investment securities measured at amortized cost	398,569	-
Net income from sale of repossessed assets	232,127	106,280
Other	425,880	231,629
	3,179,924	**4,242,231**

12 Other operating expenses

	2019 AMD'000	2018 AMD'000
Payment system charges	831,320	626,757
Guarantee payments to Armenian Deposit Guarantee Fund	684,933	485,453
Software maintenance	362,373	341,874
Effect of initial recognition of loans to customers at market rates	280,787	-
Agent fee	209,165	197,039
Fees for terminal usage	109,368	126,706
Collateral registration charges	106,482	53,038
Financial system mediator	78,260	67,411
Encashment	74,842	64,444
Credit register charges	68,789	60,938
Depositary services	35,386	26,848
Cashback and referrals	24,515	35,603
Monitoring services	18,696	21,192
Other	520,974	368,338
	3,405,890	**2,475,641**

13 Net impairment losses on financial instruments

The table below shows the impairment losses on financial instruments recorded in the statement of comprehensive income for the year ended 31 December 2019:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	(19,843)	-	-	(19,843)
Amounts receivable under reverse repurchase agreements	(8)	-	-	(8)
Loans and advances to banks	61,602	-	-	61,602
Loans and advances to customers	1,080,240	1,756,197	4,653,501	7,489,938
Receivables from finance leases	7,599	-	(53,803)	(46,204)
Receivables from factoring	(27,120)	-	-	(27,120)
Receivables from letter of credits	(22,854)	-	-	(22,854)
Investment securities measured at amortised cost	(373,558)	-	-	(373,558)
Investment securities measured at FVOCI	(79,423)	-	-	(79,423)
Other financial assets	(10,541)	258	222,722	212,439
Commitments	(4,000)	(5,613)	(14,328)	(23,941)
Total credit loss expense	**612,094**	**1,750,842**	**4,808,092**	**7,171,028**

The table below shows the impairment losses on financial instruments recorded in the statement of comprehensive income for the year ended 31 December 2018:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	17,021	-	-	17,021
Amounts receivable under reverse repurchase agreements	7	-	-	7
Loans and advances to banks	(5,651)	-	60,652	55,001
Loans and advances to customers	4,454,462	182,071	4,135,777	8,772,310
Receivables from finance leases	2,486	-	211,682	214,168
Receivables from factoring	24,455	-	-	24,455
Receivables from letter of credits	21,618	(112,660)	-	(91,042)
Investment securities measured at amortised cost	85,437	-	-	85,437
Investment securities measured at FVOCI	72,517	-	-	72,517
Other financial assets	8,024	(2,025)	270,040	276,039
Commitments	(20,546)	(17,082)	(7,320)	(44,948)
Total credit loss expense	**4,659,830**	**50,304**	**4,670,831**	**9,380,965**

14 Other general administrative expenses

	2019 AMD'000	2018 AMD'000
Depreciation and amortization *	2,858,594	1,229,353
Advertising and marketing	899,241	698,705
Other lease expense (2018: operating lease)	472,016	2,204,391
Repairs and maintenance	413,885	319,010
Professional services	263,041	223,635
Loan recovery charges	210,898	114,508
Security	200,941	168,667
Training and education	180,677	104,121
Communications and information services	150,939	130,506
Business trips and representation	128,400	134,270
Charity and sponsorship	124,058	94,191
Electricity and utilities	95,144	103,734
Office supplies	85,938	46,405
Insurance	44,427	36,276
Taxes other than on payroll and income	23,998	24,563
Other	525,225	485,879
	6,677,422	**6,118,214**

* Included in depreciation and amortization for the year ended 31 December 2019 is AMD 1,027,215 thousand related to amortization of right of use asset under IFRS 16 – *Leases* standard requirements, see Note 22.

15 Income tax expense

	2019 AMD'000	2018 AMD'000
Current tax expense	2,784,667	2,923,474
Adjustments in respect of current income tax of previous year	-	127,794
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	1,069,879	(229,744)
Total income tax expense	**3,854,546**	**2,821,524**

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

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

	2019 AMD'000	%	2018 AMD'000	%
Profit before tax	15,969,514		13,323,968	
Income tax at the applicable tax rate	(3,193,903)	(20.0)	(2,664,794)	(20.0)
Non-deductible expenses	(754,970)	(4.7)	(37,641)	(0.3)
Tax rate reduction effect *	94,327	0.6	-	-
Prior period income tax correction	-	-	(127,794)	(1.0)
Net gain from revaluation of financial assets and liabilities and net loss on financial instruments at fair value through profit or loss (non-taxable part)	-	-	8,705	0.1
Total income tax expense	**(3,854,546)**	**(24.1)**	**(2,821,524)**	**(21.2)**

* In accordance with the tax decree from 25 June 2019, the new tax code will become effective from 1 January 2020 which reduces the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during the reporting period, the deferred tax balances as at 31 December 2019 were calculated using the applicable tax rate expected at the time of reversal.

(a) Deferred tax asset and liability

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

The deductible temporary differences do not expire under current tax legislation.

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

AMD'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Financial instruments at fair value through profit or loss	(36,011)	(34,929)	-	(70,940)
Investment securities at fair value through other comprehensive income	(54,470)	(14,296)	(34,464)	(103,230)
Loans and advances to customers	(179,080)	(1,078,514)	-	(1,257,594)
Other financial instruments at amortised cost and provisions	(18,770)	(119,645)	-	(138,415)
Property and equipment	(51,740)	34,824	-	(16,916)
Right of use asset/Lease liabilities	-	89,699	-	89,699
Other assets	44,296	38,437	-	82,733
Other liabilities	594,242	7,053	-	601,295
Other borrowed funds	(112,569)	7,492	-	(105,077)
Total deferred tax asset/(liability)	**185,898**	**(1,069,879)**	**(34,464)**	**(918,445)**

AMD'000	Balance 1 January 2018	Effect of adoption of IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Financial instruments at fair value through profit or loss	(30,281)	-	(5,730)	-	(36,011)
Investment securities at fair value through other comprehensive income	(84,556)	-	14,503	15,583	(54,470)
Loans and advances to customers	(1,075,288)	792,452	103,756	-	(179,080)
Other financial instruments at amortised cost and provisions	(197,755)	173,222	5,763	-	(18,770)
Property and equipment	(68,334)	-	16,594	-	(51,740)
Other assets	25,243	-	19,053	-	44,296
Other liabilities	448,558	-	145,684	-	594,242
Other borrowed funds	(42,690)	-	(69,879)	-	(112,569)
Total deferred tax asset/ (liability)	**(1,025,103)**	**965,674**	**229,744**	**15,583**	**185,898**

16 Cash and cash equivalents

	2019 AMD'000	2018 AMD'000
Cash on hand	30,542,976	23,812,923
Nostro accounts with the Central Bank of Armenia	192,296,163	108,760,743
Nostro accounts with other banks		
- rated Aa1 to Aa3	15,619,437	-
- rated A1 to A3	3,872,463	2,055,194
- rated from Baa1 to Baa3	4,351,050	8,659,732
- rated from Ba1 to Ba3	591,763	363,521
- not rated	103,187	744,991
Total nostro accounts with other banks	**24,537,900**	**11,823,438**
Total gross cash and cash equivalents	**247,377,039**	**144,397,104**
Credit loss allowance	(23,349)	(43,192)
Total net cash and cash equivalents	**247,353,690**	**144,353,912**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality.

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

As at 31 December 2019 the Bank has placement with one bank besides the Central Bank of Armenia (2018: placement with no bank besides the Central Bank of Armenia) whose balances exceeded 10% of the Bank's equity. The gross value of this balance as at 31 December 2019 is AMD 15,619,437 thousand.

Nostro accounts with the Central Bank of Armenia

Nostro accounts with the Central Bank of Armenia are related to settlement activity (see Note 18) and are readily available for withdrawal.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for cash and cash equivalents for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(43,192)	-	-	(43,192)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	43,192	-	-	43,192
New financial assets originated or purchased	(23,349)	-	-	(23,349)
Balance at 31 December 2019	**(23,349)**	**-**	**-**	**(23,349)**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(26,171)	-	-	(26,171)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	26,171	-	-	26,171
New financial assets originated or purchased	(43,192)	-	-	(43,192)
Balance at 31 December 2019	**(43,192)**	**-**	**-**	**(43,192)**

17 Investment securities and derivative financial assets

(a) Financial instruments measured at fair value through profit or loss

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	5,639,623	3,896,848
Government Eurobonds of the Republic of Armenia	496,024	495,621
Total government bonds	**6,135,647**	**4,392,469**
Corporate bonds of Armenian companies		
- rated from B1 to B3	882,314	1,027,465
- not rated	1,164,084	745,688
Total corporate bonds	**2,046,398**	**1,773,153**
Total debt and other fixed-income instruments held by the Bank	**8,182,045**	**6,165,622**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	-	526,169
Total government bonds	**-**	**526,169**
Total investment securities measured at fair value through profit or loss	**8,182,045**	**6,691,791**
Derivative financial assets		
Interest rate swaps	-	84,237
Currency swaps	73,561	40,982
Total derivative financial assets	**73,561**	**125,219**
Total financial assets measured at fair value through profit or loss	**8,255,606**	**6,817,010**
Derivative financial liabilities		
Currency swaps	35,314	20,621
Total derivative financial assets	**35,314**	**20,621**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through profit or loss.

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

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	7,037,868	4,645,203
Government Eurobonds of the Republic of Armenia	-	3,019,309
Government Eurobonds of other countries	-	1,273,589
Total government bonds	**7,037,868**	**8,938,101**
Corporate bonds of Armenian companies		
- rated from Ba1 to Ba3	204,154	-
- rated from B1 to B3	90,458	1,766,415
- not rated	1,815,190	758,467
Corporate bonds of foreign companies		
- rated from B1 to B3	1,631,420	-
Total corporate bonds	**3,741,222**	**2,524,882**
Total debt and other fixed-income instruments	**10,779,090**	**11,462,983**
Equity investments		
Corporate shares	69,895	139,145
Total investment securities measured at fair value through other comprehensive income	**10,848,985**	**11,602,128**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through other comprehensive income.

Investment securities measured at fair value through other comprehensive income are fully in Stage 1 as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at fair value through other comprehensive income for the years ended 31 December 2019 and 2018. The loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities measured at fair value through other comprehensive income is their fair value.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	(144,460)	-	-	(144,460)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	70,802	-	-	70,802
Assets repaid	1,854	-	-	1,854
Assets sold	101,135	-	-	101,135
New assets originated or purchased	(94,368)	-	-	(94,368)
Balance at 31 December	**(65,037)**	**-**	**-**	**(65,037)**

	2018			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	(71,943)	-	-	(71,943)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(28,375)	-	-	(28,375)
Assets repaid	2,396	-	-	2,396
Assets sold	38,289	-	-	38,289
New assets originated or purchased	(84,827)	-	-	(84,827)
Balance at 31 December	**(144,460)**	**-**	**-**	**(144,460)**

(i) Non-quoted equity investment securities designated at fair value through other comprehensive income

Included in financial assets at fair value through other comprehensive income are non-quoted equity securities as follows:

Name	Country of incorporation	Main activity	% controlled 2019	% controlled 2018	2019 AMD’000	2018 AMD’000
Artsakh bank CJSC	Republic of Armenia	Banking	-	0.3%	-	69,250
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
SWIFT	Belgium	Money transfer	0.00%	0.00%	33,466	33,466
					69,895	**139,145**

As at 31 December 2019 investments primarily include mandatory shares in exchanges and clearing houses. The Bank’s management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2019 and 2018.

(c) Investment securities measured at amortized cost

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government bonds of the Republic of Armenia	30,880,481	8,247,384
Government Eurobonds of the Republic of Armenia	2,542,987	13,480,810
Total government bonds	**33,423,468**	**21,728,194**
Corporate bonds of Armenian companies		
- rated from B1 to B3	152,571	484,608
- not rated	-	302,996
Total corporate bonds	**152,571**	**787,604**
Total debt and other fixed-income instruments held by the Bank	**33,576,039**	**22,515,798**
Credit loss allowance	(65,149)	(246,681)
Total net investment securities measured at amortized cost held by the Bank	**33,510,890**	**22,269,117**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government Eurobonds of the Republic of Armenia	-	16,748,372
Total government bonds	**-**	**16,748,372**
Total gross investment securities measured at amortized cost pledged under sale and repurchase agreements	**-**	**16,748,372**
Credit loss allowance	-	(192,026)
Total net investment securities measured at amortized cost pledged under sale and repurchase agreements	**-**	**16,556,346**
Total net debt securities at amortized cost	**33,510,890**	**38,825,463**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at amortized cost.

In August 2019 Moody's rating agency upgraded the Government of Armenia's local and foreign currency long-term issuer and foreign currency senior unsecured debt ratings to Ba3 from B1. The outlook has been changed to stable from positive. Rating upgrade resulted in decrease of risk of default of government securities of the Republic of Armenia as at 31 December 2019.

Investment securities measured at amortised cost are fully in Stage 1 as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at amortized cost for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(438,707)	-	-	(438,707)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	310,003	-	-	310,003
Assets repaid	146,524	-	-	146,524
Assets sold	203,662	-	-	203,662
New assets originated or purchased	(286,631)	-	-	(286,631)
Balance at 31 December	**(65,149)**	**-**	**-**	**(65,149)**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(353,270)	-	-	(353,270)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(115,355)	-	-	(115,355)
Assets repaid	109,625	-	-	109,625
Assets sold	26,628	-	-	26,628
New assets originated or purchased	(106,335)	-	-	(106,335)
Balance at 31 December	**(438,707)**	**-**	**-**	**(438,707)**

18 Loans and advances to banks

	2019 AMD'000	**2018 AMD'000**
Due from the Central Bank of Armenia		
Credit card settlement deposit with the Central Bank of Armenia	2,093,500	1,691,000
Deposit with the Central Bank of Armenia, obligatory reserves	23,303,790	-
Loans and deposits with other banks		
Armenian banks	1,684,372	1,838,147
OECD banks	-	1,483,537
Total loans and deposits with other banks	**1,684,372**	**3,321,684**
Total gross loans and advances to banks	**27,081,662**	**5,012,684**
Credit loss allowance	(67,022)	(66,072)
Total net loans and advances to banks	**27,014,640**	**4,946,612**

(a) Balances with the Central Bank of Armenia

The credit card settlement deposit with the Central Bank of Armenia is a non-interest bearing deposit calculated in accordance with regulations issued by the Central Bank of Armenia and withdrawability of which is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 2% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 12% is maintained in AMD and 6% in the respective currency of funds attracted. The Bank’s ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 16) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks. The requirement for obligatory daily minimum reserve came into force in 2019. As of 31 December 2019, included in deposits with the Central Bank of Armenia is the amount of obligatory reserve of AMD 23,303,790 thousand for the amounts attracted in foreign currency (2018: nil).

(b) Concentration of loans and advances to banks

As at 31 December 2019 the Bank has no counterparty except for the Central Bank of Armenia (2018: no bank), whose balances exceed 10% of equity.

No loans and advances to banks are past due or impaired and are fully in Stage 1 as at 31 December 2019. No loans and advances to banks are past due or impaired and are fully in Stage 1 as at 31 December 2018 except for impaired loan to one bank in the amount of AMD 60,652 thousand classified to Stage 3. All the loans and advance to banks are measured at amortized cost as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans and advances to banks for the years ended 31 December 2019 and 2018.

	2019			
AMD’000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortized cost				
Balance at 1 January	5,420	-	60,652	66,072
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(5,420)	-	-	(5,420)
Amounts written off	-	-	(58,975)	(58,975)
Foreign currency adjustments	-	-	(1,677)	(1,677)
New assets originated or purchased	67,022	-	-	67,022
Balance at 31 December	**67,022**	**-**	**-**	**67,022**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortized cost				
Balance at 1 January	11,071	-	-	11,071
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(11,071)	-	-	(11,071)
Reclassification from cash and cash equivalents	-	-	60,652	60,652
New assets originated or purchased	5,420	-	-	5,420
Balance at 31 December	**5,420**	**-**	**60,652**	**66,072**

19 Amounts receivable under reverse repurchase agreements

	2019 AMD'000	2018 AMD'000
Amounts receivable from small and medium Armenian financial institutions, not rated	12,934,713	3,977,218
Amounts receivable from medium size Armenian banks, not rated	10,614,848	2,769,206
Total gross amounts receivable under reverse repurchase agreements	**23,549,561**	**6,746,424**
Credit loss allowance	(2)	(10)
Total net amounts receivable under reverse repurchase agreements	**23,549,559**	**6,746,414**

As at 31 December 2019 and 2018 the Bank has no banks and other financial institutions, whose balances exceeded 10% of equity.

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks and financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2019 and 2018.

(a) Collateral accepted as security for assets

As at 31 December 2019 amounts receivable under reverse repurchase agreements were collateralized by government securities with fair value of AMD 25,415,586 thousand (2018: 7,148,759 thousand).

20 Loans and advances to customers

	Notes	2019 AMD'000	2018 AMD'000
Loans to legal entities	20 (a)	426,653,712	440,285,372
Loans to individuals	20 (a)	151,235,570	102,282,025
Receivables from factoring	20 (b)	10,707,784	10,720,377
Receivables from letter of credit	20 (c)	5,060,739	8,305,930
Total gross loans and advances to customers at amortised cost		**593,657,805**	**561,593,704**
Receivables from finance lease	20 (d)	5,906,852	2,301,830
Credit loss allowance		(13,822,758)	(15,952,351)
Total net loans and advances to customers		**585,741,899**	**547,943,183**

(a) Loans to legal entities and individuals

	2019 AMD'000	2018 AMD'000
Loans to legal entities		
Loans to large companies	322,130,999	346,631,927
Loans to small and medium size companies	104,522,713	93,653,445
Total loans to legal entities	**426,653,712**	**440,285,372**
Loans to individuals		
Mortgage loans	78,403,125	44,827,381
Other consumer loans to individuals	72,832,445	57,454,644
Total loans to individuals	**151,235,570**	**102,282,025**
Total gross loans to legal entities and individuals	**577,889,282**	**542,567,397**
Credit loss allowance	(13,554,046)	(15,603,207)
Total net loans to legal entities and individuals	**564,335,236**	**526,964,190**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to legal entities for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	406,904,273	18,940,841	14,440,258	440,285,372
New assets originated or purchased	149,704,032	-	-	149,704,032
Assets repaid	(148,454,597)	(5,792,401)	(2,272,602)	(156,519,600)
Transfer to Stage 1	479,943	(479,943)	-	-
Transfer to Stage 2	(13,426,278)	13,426,278	-	-
Transfer to Stage 3	(334,326)	(6,933,868)	7,268,194	-
Recoveries	-	-	355,367	355,367
Amounts written off	(1,466,802)	-	(5,704,657)	(7,171,459)
Balance at 31 December	**393,406,245**	**19,160,907**	**14,086,560**	**426,653,712**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	379,798,966	22,426,969	14,489,190	416,715,125
New assets originated or purchased	188,072,142	-	-	188,072,142
Assets repaid	(142,830,985)	(10,431,544)	(3,616,256)	(156,878,785)
Transfer to Stage 1	2,364	(2,364)	-	-
Transfer to Stage 2	(15,396,444)	15,396,444	-	-
Transfer to Stage 3	(2,741,770)	(8,448,664)	11,190,434	-
Recoveries	-	-	323,055	323,055
Amounts written off	-	-	(7,946,165)	(7,946,165)
Balance at 31 December	**406,904,273**	**18,940,841**	**14,440,258**	**440,285,372**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to legal entities for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to legal entities				
Balance at 1 January	3,832,635	2,749,302	6,516,837	13,098,774
New assets originated or purchased	419,171	-	-	419,171
Assets repaid	(1,039,182)	(838,870)	(1,501,091)	(3,379,143)
Transfer to Stage 1	1,377	(1,377)	-	-
Transfer to Stage 2	(1,103,102)	1,103,102	-	-
Transfer to Stage 3	(126,067)	(1,513,111)	1,639,178	-
Unwinding of discount	-	-	(40,619)	(40,619)
Changes to models and inputs used for ECL calculations and impact of transfer between the stages	651,340	2,500,665	3,941,487	7,093,492
Recoveries	-	-	355,367	355,367
Amounts written off	(1,466,802)	-	(5,704,657)	(7,171,459)
Balance at 31 December	**1,169,370**	**3,999,711**	**5,206,502**	**10,375,583**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	2,938,873	4,113,375	7,186,602	14,238,850
New assets originated or purchased	3,899,001	-	-	3,899,001
Assets repaid	(645,996)	(955,677)	(1,136,512)	(2,738,185)
Transfer to Stage 1	516	(516)	-	-
Transfer to Stage 2	(969,110)	969,110	-	-
Transfer to Stage 3	(810,516)	(2,514,209)	3,324,725	-
Unwinding of discount	-	-	(131,078)	(131,078)
Changes to models and inputs used for ECL calculations and impact of transfer between the stages	(580,133)	1,137,219	4,896,210	5,453,296
Recoveries	-	-	323,055	323,055
Amounts written off	-	-	(7,946,165)	(7,946,165)
Balance at 31 December	**3,832,635**	**2,749,302**	**6,516,837**	**13,098,774**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to individuals for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	97,861,470	477,659	3,942,896	102,282,025
New assets originated or purchased	115,984,020	-	-	115,984,020
Assets repaid	(63,438,697)	(452,970)	(456,420)	(64,348,087)
Transfer to Stage 1	16,116	(16,116)	-	-
Transfer to Stage 2	(813,891)	813,891	-	-
Transfer to Stage 3	(2,009,295)	(5,720)	2,015,015	-
Recoveries	-	-	671,202	671,202
Amounts written off	-	-	(3,353,590)	(3,353,590)
Balance at 31 December	**147,599,723**	**816,744**	**2,819,103**	**151,235,570**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	58,546,213	271,405	3,072,191	61,889,809
New assets originated or purchased	60,128,910	-	-	60,128,910
Assets repaid	(18,076,429)	(37,418)	(1,172,672)	(19,286,519)
Transfer to Stage 1	11,871	(11,871)	-	-
Transfer to Stage 2	(477,659)	477,659	-	-
Transfer to Stage 3	(2,271,436)	(222,116)	2,493,552	-
Recoveries	-	-	347,174	347,174
Amounts written off	-	-	(797,349)	(797,349)
Balance at 31 December	**97,861,470**	**477,659**	**3,942,896**	**102,282,025**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to individuals for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	1,038,623	127,091	1,338,719	2,504,433
New assets originated or purchased	1,565,037	-	-	1,565,037
Assets repaid	(387,728)	(7,083)	(289,367)	(684,178)
Transfer to Stage 1	11,225	(5,526)	(5,699)	-
Transfer to Stage 2	(114,647)	114,647	-	-
Transfer to Stage 3	(576,341)	(113,563)	689,904	-
Impact on period end ECL of exposures transferred between stages during the period	(10,115)	101,485	778,768	870,138
Unwinding of discount	-	-	(73,513)	(73,513)
Changes to models and inputs used for ECL calculations	(118,283)	-	1,797,217	1,678,934
Recoveries	-	-	671,202	671,202
Amounts written off	-	-	(3,353,590)	(3,353,590)
Balance at 31 December	**1,407,771**	**217,051**	**1,553,641**	**3,178,463**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	204,014	44,149	769,452	1,017,615
New assets originated or purchased	1,827,045	-	-	1,827,045
Assets repaid	(44,243)	(731)	(350,139)	(395,113)
Transfer to Stage 1	539	(539)	-	-
Transfer to Stage 2	(119,926)	119,926	-	-
Transfer to Stage 3	(827,594)	(36,974)	864,568	-
Impact on period end ECL of exposures transferred between stages during the period	(188)	1,260	189,400	190,472
Unwinding of discount	-	-	(220,575)	(220,575)
Changes to models and inputs used for ECL calculations	(1,024)	-	536,188	535,164
Recoveries	-	-	347,174	347,174
Amounts written off	-	-	(797,349)	(797,349)
Balance at 31 December	**1,038,623**	**127,091**	**1,338,719**	**2,504,433**

(i) Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2019:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large corporate customers				
- not overdue	294,555,716	16,707,172	2,918,679	314,181,567
- overdue less than 30 days	-	1,085,331	-	1,085,331
- overdue more than 90 days	-	-	6,864,101	6,864,101
Total gross loans to large corporate customers	**294,555,716**	**17,792,503**	**9,782,780**	**322,130,999**
Credit loss allowance	(829,702)	(3,977,372)	(3,675,775)	(8,482,849)
Total net loans to large corporate customers	**293,726,014**	**13,815,131**	**6,107,005**	**313,648,150**
Loans to small and medium size companies				
- not overdue	98,606,100	1,338,607	427,982	100,372,689
- overdue less than 30 days	244,429	-	73,462	317,891
- overdue more than 30 days and less than 90 days	-	29,797	188,438	218,235
- overdue more than 90 days	-	-	3,613,898	3,613,898
Total gross loans to small and medium size companies	**98,850,529**	**1,368,404**	**4,303,780**	**104,522,713**
Credit loss allowance	(339,668)	(22,339)	(1,530,727)	(1,892,734)
Total net small and medium size companies	**98,510,861**	**1,346,065**	**2,773,053**	**102,629,979**
Total gross loans to corporate customers	**393,406,245**	**19,160,907**	**14,086,560**	**426,653,712**
Total net loans to corporate customers	**392,236,875**	**15,161,196**	**8,880,058**	**416,278,129**
Mortgage loans				
- not overdue	77,690,211	6,830	69,967	77,767,008
- overdue less than 30 days	79,102	7,331	-	86,433
- overdue more than 30 days and less than 90 days	-	103,527	28,239	131,766
- overdue more than 90 days	-	-	417,918	417,918
Total gross mortgage loans	**77,769,313**	**117,688**	**516,124**	**78,403,125**
Credit loss allowance	(28,558)	(4,846)	(196,218)	(229,622)
Total net mortgage loans	**77,740,755**	**112,842**	**319,906**	**78,173,503**
Other consumer loans to retail customers*				
- not overdue	69,358,576	222,073	360,333	69,940,982
- overdue less than 30 days	471,834	55,780	263,337	790,951
- overdue more than 30 days and less than 90 days	-	421,203	207,859	629,062
- overdue more than 90 days	-	-	1,471,450	1,471,450
Total gross other consumer loans to retail customers	**69,830,410**	**699,056**	**2,302,979**	**72,832,445**
Credit loss allowance	(1,379,213)	(212,205)	(1,357,423)	(2,948,841)
Total net other consumer loans to retail customers	**68,451,197**	**486,851**	**945,556**	**69,883,604**
Total gross loans to retail customers	**147,599,723**	**816,744**	**2,819,103**	**151,235,570**
Total net loans to retail customers	**146,191,952**	**599,693**	**1,265,462**	**148,057,107**
Total gross loans to customers	**541,005,968**	**19,977,651**	**16,905,663**	**577,889,282**
Total net loans to customers	**538,428,827**	**15,760,889**	**10,145,520**	**564,335,236**

* Other consumer loans to retail customers mainly include credit cards and overdrafts to retail customers, online consumer loans and loans to retail customers for credit purchases.

The following table provides information on the credit quality loans to legal entities and individuals as at 31 December 2018:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large corporate customers				
- not overdue	322,257,991	15,295,351	5,703,381	343,256,723
- overdue less than 30 days	-	-	1,814,251	1,814,251
- overdue more than 90 days	-	-	1,560,953	1,560,953
Total gross loans to large corporate customers	**322,257,991**	**15,295,351**	**9,078,585**	**346,631,927**
Credit loss allowance	(3,226,121)	(2,220,152)	(4,524,892)	(9,971,165)
Total net loans to large corporate customers	**319,031,870**	**13,075,199**	**4,553,693**	**336,660,762**
Loans to small and medium size companies				
- not overdue	84,638,728	3,641,269	573,278	88,853,275
- overdue less than 30 days	7,554	-	-	7,554
- overdue more than 30 days and less than 90 days	-	4,221	586,159	590,380
- overdue more than 90 days	-	-	4,202,236	4,202,236
Total gross loans to small and medium size companies	**84,646,282**	**3,645,490**	**5,361,673**	**93,653,445**
Credit loss allowance	(606,514)	(529,150)	(1,991,945)	(3,127,609)
Total net small and medium size companies	**84,039,768**	**3,116,340**	**3,369,728**	**90,525,836**
Total gross loans to corporate customers	**406,904,273**	**18,940,841**	**14,440,258**	**440,285,372**
Total net loans to corporate customers	**403,071,638**	**16,191,539**	**7,923,421**	**427,186,598**
Mortgage loans				
- not overdue	44,292,393	-	22,865	44,315,258
- overdue less than 30 days	55,668	2,825	-	58,493
- overdue more than 90 days	-	-	453,630	453,630
Total gross mortgage loans	**44,348,061**	**2,825**	**476,495**	**44,827,381**
Credit loss allowance	(120,745)	(219)	(170,623)	(291,587)
Total net mortgage loans	**44,227,316**	**2,606**	**305,872**	**44,535,794**
Other consumer loans to retail customers				
- not overdue	53,155,284	82,158	304,257	53,541,699
- overdue less than 30 days	358,125	24,788	107,934	490,847
- overdue more than 30 days and less than 90 days	-	367,888	29,543	397,431
- overdue more than 90 days	-	-	3,024,667	3,024,667
Total gross other consumer loans to retail customers	**53,513,409**	**474,834**	**3,466,401**	**57,454,644**
Credit loss allowance	(917,878)	(126,872)	(1,168,096)	(2,212,846)
Total net other consumer loans to retail customers	**52,595,531**	**347,962**	**2,298,305**	**55,241,798**
Total gross loans to retail customers	**97,861,470**	**477,659**	**3,942,896**	**102,282,025**
Total net loans to retail customers	**96,822,847**	**350,568**	**2,604,177**	**99,777,592**
Total gross loans to customers	**504,765,743**	**19,418,500**	**18,383,154**	**542,567,397**
Total net loans to customers	**499,894,485**	**16,542,107**	**10,527,598**	**526,964,190**

(ii) Analysis of collateral and other credit enhancements

Loans to legal entities

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment, inventory and cash collateral.
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

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

Loans to individuals

Mortgage loans are secured by the underlying housing real estate.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Auto loans are secured by the underlying cars. As of 31 December 2019 consumer loans are secured by real estate, movable property, salary, cash and individual guarantees.

The following tables provide information on the collateral pledged for the loans to customers classified at Stage 3 as of 31 December 2019 and 2018.

31 December 2019	**Gross carrying amount**	**Estimated market value of collateral**					**Net exposure**	**Associated ECL**
		Real estate	**Vehicles**	**Other**	**Surplus**	**Total collateral**		
Loans to legal entities	14,086,560	9,884,809	472,493	1,053,315	(503,854)	10,906,763	3,179,797	5,206,502
Mortgage loans	516,124	471,901	-	-	(108,953)	362,948	153,176	196,218
Other consumer loans	2,302,979	917,339	158,963	33,600	(409,049)	700,853	1,602,126	1,357,423
Total	**16,905,663**	**11,274,049**	**631,456**	**1,086,915**	**(1,021,856)**	**11,970,564**	**4,935,099**	**6,760,143**

31 December 2018	**Gross carrying amount**	**Estimated market value of collateral**					**Net exposure**	**Associated ECL**
		Real estate	**Vehicles**	**Other**	**Surplus**	**Total collateral**		
Loans to legal entities	14,440,258	6,323,371	434,900	3,311,887	(570,944)	9,499,214	4,941,044	6,516,836
Mortgage loans	476,495	457,883	-	-	(80,883)	377,000	99,495	170,623
Other consumer loans	3,467,106	2,533,102	8,900	13,700	(689,305)	1,866,397	1,600,709	1,168,543
Total	**18,383,859**	**9,314,356**	**443,800**	**3,325,587**	**(1,341,132)**	**11,742,611**	**6,641,248**	**7,856,002**

As at 31 December 2019, the balance of cash-covered loans for which no impairment for allowance was created because of the collateral, amounted to AMD 1,977,340 thousand (2018: 11,001,416 thousand).

Repossessed collateral

During the year ended 31 December 2019, the Bank obtained certain assets by taking possession of collateral for loans to customers with a carrying amount of AMD 1,685,144 thousand (2018: AMD 1,898,495 thousand). Part of the repossessed collateral in the amount of AMD 1,255,565 thousand was sold during the year ended 31 December 2019 (2018: AMD 600,405 thousand). As at 31 December 2019 and 2018, the repossessed collateral comprises:

	2019 AMD'000	**2018 AMD'000**
Real estate	3,117,737	2,680,912
Other	89,467	96,711
Write down to net realizable value	(178,749)	(148,964)
Total repossessed collateral	**3,028,455**	**2,628,659**

The Bank's intention is to sell these assets as soon as it is practicable.

(iii) Industry and geographical analysis of the loans to legal entities and individuals

Loans to customers were issued to finance in the following economic sectors:

	2019 AMD'000	**2018 AMD'000**
Wholesale trade	92,693,412	97,912,612
Mining/metallurgy	60,432,117	61,847,784
Construction	39,223,197	23,371,992
Hotel service	34,366,797	37,495,210
Retail trade	33,312,917	28,884,100
Food and beverage	32,508,253	23,692,826
Energy	30,213,023	21,980,801
Transportation	27,187,452	28,449,596
Agriculture, forestry and timber	19,177,522	18,570,577
Real estate	16,645,697	12,375,233
Manufacturing	16,023,886	7,483,143
Communication services	8,294,421	20,615,886
Finance and investment	6,144,886	43,073,908
Other	10,430,132	14,531,704
Loans to individuals	151,235,570	102,282,025
	577,889,282	**542,567,397**
Credit loss allowance	(13,554,046)	(15,603,207)
	564,335,236	**526,964,190**

The geographical concentration of Bank's loans to legal entities (net loans) is set out below:

	2019 AMD'000	**2018 AMD'000**
Armenia	372,080,229	351,974,113
OECD and EU	24,817,189	35,463,833
Other foreign countries	19,380,711	39,748,652
	416,278,129	**427,186,598**

(iv) Significant credit exposures

As at 31 December 2019 the Bank has eight borrowers or groups of connected borrowers (2018: eleven), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans (net of cash collateral received) as at 31 December 2019 is AMD 100,346,776 thousand (2018: AMD 124,491,863 thousand).

(v) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(b) Receivables from factoring

	2019 AMD'000	**2018 AMD'000**
Receivables from factoring	10,707,784	10,720,377
Credit loss allowance	(7,012)	(34,132)
	10,700,772	**10,686,245**

As at 31 December 2019 the Bank has no customers whose balances exceed 10% of the Bank's equity (2018: one customer). The gross value of the exposure to this customer as at 31 December 2018 is AMD 9,642,384 thousand.

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from factoring for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	10,720,377	-	-	10,720,377
New assets originated or purchased	10,672,728	-	-	10,672,728
Assets repaid	(10,685,321)	-	-	(10,685,321)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**10,707,784**	**-**	**-**	**10,707,784**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	6,752,241	-	-	6,752,241
New assets originated or purchased	10,720,378	-	-	10,720,378
Assets repaid	(6,752,242)	-	-	(6,752,242)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**10,720,377**	**-**	**-**	**10,720,377**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from factoring for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	34,132	-	-	34,132
New assets originated or purchased	6,998	-	-	6,998
Assets repaid	(34,118)	-	-	(34,118)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**7,012**	**-**	**-**	**7,012**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	9,677	-	-	9,677
New assets originated or purchased	34,128	-	-	34,128
Assets repaid	(9,673)	-	-	(9,673)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**34,132**	**-**	**-**	**34,132**

Receivables from factoring are secured by real estate, equipment and vehicles.

(c) Receivables from letters of credit

	2019 AMD'000	**2018 AMD'000**
Receivables from letters of credit from legal entities	5,060,739	8,305,930
Credit loss allowance	(14,537)	(37,391)
	5,046,202	**8,268,539**

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

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from letters of credit for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	8,305,930	-	-	8,305,930
New assets originated or purchased	2,752,132	-	-	2,752,132
Assets repaid	(5,997,323)	-	-	(5,997,323)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**5,060,739**	**-**	**-**	**5,060,739**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	3,508,851	-	620,897	4,129,748
New assets originated or purchased	7,492,016	-	-	7,492,016
Assets repaid	(2,694,937)	-	(620,897)	(3,315,834)
Transfer to Stage 1	-	-	-	
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**8,305,930**	**-**	**-**	**8,305,930**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from letters of credit for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	37,391	-	-	37,391
New assets originated or purchased	7,806	-	-	7,806
Assets repaid	(30,660)	-	-	(30,660)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**14,537**	**-**	**-**	**14,537**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	15,773	-	112,660	128,433
New assets originated or purchased	33,057	-	-	33,057
Assets repaid	(8,716)	-	(112,660)	(121,376)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(2,723)	-	-	(2,723)
Balance at 31 December	**37,391**	**-**	**-**	**37,391**

(d) Receivables from finance leases

	2019 AMD'000	2018 AMD'000
Gross investment in finance leases receivable		
Less than one year	1,620,206	609,931
Between one and five years	1,417,781	1,412,864
More than five years	4,345,955	871,025
	7,383,942	**2,893,820**
Unearned finance income	(1,477,090)	(591,990)
Gross investment in finance lease receivables	**5,906,852**	**2,301,830**
Impairment allowance	(247,162)	(277,625)
Net investment in finance leases	**5,659,690**	**2,024,205**
The net investment in finance leases comprises		
Less than one year	1,241,865	534,622
Between one and five years	1,086,710	1,002,820
More than five years	3,331,115	486,763
	5,659,690	**2,024,205**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from finance leases for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	1,863,354	-	438,476	2,301,830
New assets originated or purchased	4,140,682	-	-	4,140,682
Assets repaid	(394,914)	-	(151,428)	(546,342)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(31,343)	-	31,343	-
Recoveries	-	-	10,682	10,682
Balance at 31 December	**5,577,779**	**-**	**329,073**	**5,906,852**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	1,065,210	86,601	607,659	1,759,470
New assets originated or purchased	1,403,082	-	-	1,403,082
Assets repaid	(313,933)	-	(276,131)	(590,064)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(291,005)	(86,601)	377,606	-
Recoveries	-	-	6,559	6,559
Amounts written off	-	-	(277,217)	(277,217)
Balance at 31 December	**1,863,354**	**-**	**438,476**	**2,301,830**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from finance leases for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	12,064	-	265,561	277,625
New assets originated or purchased	11,601	-	-	11,601
Assets repaid	(4,002)	-	(10,682)	(14,684)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(3,917)	-	3,917	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	(43,121)	(43,121)
Unwinding of discount	-	-	5,059	5,059
Recoveries	-	-	10,682	10,682
Balance at 31 December	**15,746**	**-**	**231,416**	**247,162**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	9,646	15,887	308,582	334,115
New assets originated or purchased	7,999	-	-	7,999
Assets repaid	(1,835)	-	(6,559)	(8,394)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(68)	(15,887)	15,955	-
Impact on period end ECL of exposures transferred between stages during the period	(3,678)	-	-	(3,678)
Unwinding of discount	-	-	218,241	218,241
Recoveries	-	-	6,559	6,559
Amounts written off	-	-	(277,217)	(277,217)
Balance at 31 December	**12,064**	**-**	**265,561**	**277,625**

(i) Quality analysis of finance leases

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2019:

	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total AMD'000**
Receivables from finance leases				
- not overdue	5,577,779	-	-	5,577,779
- overdue less than 30 days	-	-	31,344	31,344
- overdue more than 90 days	-	-	297,729	297,729
Total gross receivables from finance leases	**5,577,779**	**-**	**329,073**	**5,906,852**
Credit loss allowance	(15,746)	-	(231,416)	(247,162)
Total net receivables from finance leases	**5,562,033**	**-**	**97,657**	**5,659,690**

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2018:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Receivables from finance leases				
- not overdue	1,863,354	-	-	1,863,354
- overdue more than 90 days	-	-	438,476	438,476
Total gross finance lease receivables	**1,863,354**	**-**	**438,476**	**2,301,830**
Credit loss allowance	(12,064)	-	(265,561)	(277,625)
Total net finance lease receivables	**1,851,290**	**-**	**172,915**	**2,024,205**

(ii) Concentration of receivables from finance leases

As at 31 December 2019 the Bank has no customers whose balances exceed 10% of the Bank's equity (2018: nil).

(iii) Analysis of collateral

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as of 31 December 2019:

	Gross carrying amount	Estimated market value of collateral					Net exposure	Associated ECL
		Real estate	Vehicles	Other	Surplus	Total collateral		
31 December 2019								
Finance lease	329,072	-	126,500	-	-	126,500	202,572	231,416
Total	**329,072**	**-**	**126,500**	**-**	**-**	**126,500**	**202,572**	**231,416**

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as of 31 December 2018:

	Gross carrying amount	Estimated market value of collateral					Net exposure	Associated ECL
		Real estate	Vehicles	Other	Surplus	Total collateral		
31 December 2018								
Finance lease	438,476	10,600	224,400	-	-	235,000	203,476	265,561
Total	**438,476**	**10,600**	**224,400**	**-**	**-**	**235,000**	**203,476**	**265,561**

21 Property, equipment and intangible assets

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2019	4,531,055	6,267,277	2,321,987	298,130	2,570,230	15,988,679
Additions	279,476	1,448,953	232,688	30,271	856,192	2,847,580
Disposals/write-offs	(51,169)	(72,702)	(48,649)	(24,671)	(274,722)	(471,913)
Balance at 31 December 2019	**4,759,362**	**7,643,528**	**2,506,026**	**303,730**	**3,151,700**	**18,364,346**
Depreciation and amortization						
Balance at 1 January 2019	1,278,411	2,847,926	458,661	98,710	1,064,634	5,748,342
Depreciation and amortization for the year	318,194	807,793	187,465	38,110	479,817	1,831,379
Disposals/write-offs	(51,169)	(39,117)	(40,641)	(22,391)	(224,451)	(377,769)
Balance at 31 December 2019	**1,545,436**	**3,616,602**	**605,485**	**114,429**	**1,320,000**	**7,201,952**
Carrying amount						
At 31 December 2019	**3,213,926**	**4,026,926**	**1,900,541**	**189,301**	**1,831,700**	**11,162,394**

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2018	3,382,399	4,507,730	1,538,154	205,511	2,478,033	12,111,827
Additions	1,261,184	1,785,997	835,103	92,619	373,423	4,348,326
Disposals/write-offs	(112,528)	(26,450)	(51,270)	-	(281,226)	(471,474)
Balance at 31 December 2018	**4,531,055**	**6,267,277**	**2,321,987**	**298,130**	**2,570,230**	**15,988,679**
Depreciation and amortization						
Balance at 1 January 2018	1,134,931	2,351,831	397,295	74,444	1,026,410	4,984,911
Depreciation and amortization for the year	256,008	519,857	109,772	24,266	319,450	1,229,353
Disposals/write-offs	(112,528)	(23,762)	(48,406)	-	(281,226)	(465,922)
Balance at 31 December 2018	**1,278,411**	**2,847,926**	**458,661**	**98,710**	**1,064,634**	**5,748,342**
Carrying amount						
At 31 December 2018	**3,252,644**	**3,419,351**	**1,863,326**	**199,420**	**1,505,596**	**10,240,337**

22 Leases

The Bank leases assets such as head office, branch offices and other spaces. The lease of head office, branch office and other spaces typically run for a period of 10 to 20 years.

Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2019 **AMD'000**
Balance at 1 January	10,984,619
Additions to right of use assets	74,839
Depreciation charge for the period	(1,027,215)
Lease contract modifications and derecognitions	1,202,876
Balance at 31 December	**11,235,119**

(b) Lease liability

	2019 **AMD'000**
Less than one year	1,826,982
One to two years	1,806,574
Two to five years	4,841,814
More than five years	17,548,888
Total undiscounted lease payable	**26,024,258**
Unearned finance cost	(14,651,001)
Lease liability	**11,373,257**

(c) Amounts recognized in profit or loss

	2019 **AMD'000**
Depreciation of right of use asset	1,027,215
Interest on lease liabilities	1,294,627

(d) Amounts recognized in statement of cash flows

	2019 **AMD'000**
Total cash outflow for leases	
Payment of lease liabilities	1,444,183

23 Other assets

	2019 AMD'000	2018 AMD'000
Receivables from unsettled transactions	2,043,477	2,119,304
Restricted accounts with clearing houses	569,931	447,384
Brokerage accounts	373,512	244,954
Credit loss allowance	(42,495)	(18,498)
Total other financial assets at amortised cost	**2,944,425**	**2,793,144**
Prepayments to suppliers	2,299,207	1,880,690
Standard bullions of precious metals	863,805	473,701
Inventories	188,858	145,357
Other	83,685	164,719
Total other non-financial assets	**3,435,555**	**2,664,467**
Total other assets	**6,379,980**	**5,457,611**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for other financial assets for the years ended 31 December 2019 and 31 December 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortized cost				
Balance at 1 January	14,884	209	3,405	18,498
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(37,133)	37,133	-	-
Transfer to Stage 3	-	(37,359)	37,359	-
Net remeasurement of loss allowance	26,592	484	185,327	212,403
Write offs	-	-	(188,406)	(188,406)
Balance at 31 December	**4,343**	**467**	**37,685**	**42,495**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortized cost				
Balance at 1 January	6,860	2,234	43,205	52,299
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(209)	209	-	-
Transfer to Stage 3	(282)	(1,869)	2,151	-
Net remeasurement of loss allowance	8,515	(365)	267,889	276,039
Write offs	-	-	(309,840)	(309,840)
Balance at 31 December	**14,884**	**209**	**3,405**	**18,498**

24 Deposits and balances from banks

	2019 AMD'000	2018 AMD'000
Loans from the Central Bank of Armenia	13,092,867	7,078,390
Loans and term deposits from commercial banks		
- With initial maturity period of less than 12 months	10,674,325	23,530,588
- With initial maturity period of more than 12 months	4,568,199	3,421,295
Liabilities for letters of credit	5,512,922	8,625,734
Vostro accounts	640,500	420,762
	34,488,813	**43,076,769**

According to the agreement the Central Bank of Armenia provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2019 the Bank has no bank except for the Central Bank of Armenia (2018: one bank), whose balances exceed 10% of equity. The gross value of the balance as at 31 December 2019 is nil (2018: AMD 20,643,011 thousand).

25 Current accounts and deposits from customers

	2019 AMD'000	2018 AMD'000
Current accounts and demand deposits		
- Individuals	77,232,696	61,904,034
- Legal entities	260,795,880	145,889,262
Term deposits		
- Individuals	171,586,444	133,060,914
- Legal entities	83,608,413	58,231,922
	593,223,433	**399,086,132**

As at 31 December 2019, the Bank maintained customer current accounts and deposit balances of AMD 1,977,340 thousand (2018: AMD 11,001,416 thousand) that serve as collateral for loans and credit related commitments granted by the Bank.

As at 31 December 2019, the Bank has three customers (31 December 2018: four customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2019 is AMD 144,761,622 thousand (2018: AMD 44,068,684 thousand).

26 Debt securities issued

	2019 AMD'000	2018 AMD'000
Domestic bonds issued	50,000,346	46,233,668
Promissory notes	4,572,709	4,612,688
	54,573,055	**50,846,356**

As at December 2019 the Bank has issued and placed debt securities denominated in AMD and USD with nominal amount of AMD 8bn and USD 86.7m respectively (2018: AMD, USD and EUR denominated debt securities with nominal amount of AMD 5bn, USD 81m and EUR 3m respectively). As at December 2019 carrying value of the bonds is AMD 8,125,944 thousand and AMD 41,874,402 thousand accordingly (2018: AMD 5,090,669 thousand, AMD 39,469,585 thousand and AMD 1,673,414 thousand accordingly).

Bonds issued by the Bank are listed in Armenia Securities Exchange stock exchange.

In 2016 Bank placed USD denominated promissory Notes with four Luxembourg-based funds via its investment manager ResponsAbility Investments AG in amount of USD 20,000,000 with maturity in 2021. As at 31 December 2019 carrying value of the promissory Notes is AMD 4,572,709 thousand (2018: AMD 4,612,688 thousand).

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

	2019 AMD’000	**2018 AMD’000**
Balance at 1 January	50,846,356	40,932,595
Changes from financing cash flows		
Sale of debt securities issued	21,864,967	24,855,545
Repayment of debt securities issued	(17,659,493)	(12,849,554)
Total changes from financing cash flows	**4,205,474**	**12,005,991**
The effect of changes in foreign exchange rates	**(564,912)**	**(96,733)**
Other changes		
Interest expense	3,123,159	2,604,298
Interest paid	(3,037,022)	(4,599,795)
Balance at 31 December	**54,573,055**	**50,846,356**

27 Other borrowed funds and subordinated borrowings

	2019 AMD’000	**2018 AMD’000**
Borrowings from international financial institutions	126,654,327	120,852,547
Borrowings from Armenian financial institutions	31,280	60,662
	126,685,607	**120,913,209**
Subordinated borrowings from international financial institutions	36,495,281	44,489,851
Subordinated borrowings from ultimate controlling party	-	5,924,274
	36,495,281	**50,414,125**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2019, the Bank has loans from five financial institutions (31 December 2018: seven), whose balances exceed 10% of equity. These balances as at 31 December 2019 are AMD 114,833,909 thousand (31 December 2018: AMD 127,166,023 thousand).

(b) Subordinated borrowing

As at 31 December 2019 subordinated borrowing represents:

- Borrowing received from an unrelated party international financial institution (AMD 25,027,671 thousand) maturing on 11 January 2022.
- Borrowing received from other 2 financial institutions in amount of AMD 4,307,276 thousand maturing on 15 January 2026 and in amount of AMD 7,160,334 thousand maturing on 15 January 2027

Borrowing received balance as at 31 December 2018 from ultimate controlling party of AMD 5,924,274 thousand contractually maturing on 11 January 2021 has been repaid in 2019.

The Bank considers borrowings received as subordinated borrowings, if in case of bankruptcy, the repayment of the borrowing will be made after repayment in full of all other liabilities of the Bank.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as at 31 December 2019 and 2018.

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

’000 AMD	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2019	120,913,209	50,414,125
Changes from financing cash flows		
Receipt	36,670,697	2,402,111
Repayments	(28,146,725)	(15,346,760)
Total changes from financing cash flows	**8,523,972**	**(12,944,649)**
The effect of changes in foreign exchange rates	**(2,887,489)**	**(564,649)**
Other changes		
Interest expense	6,198,375	3,778,109
Interest paid	(6,062,460)	(4,187,655)
Balance at 31 December 2019	**126,685,607**	**36,495,281**

’000 AMD	**Other borrowed funds**	**Subordinated borrowings**
Balance at 1 January 2018	98,128,094	40,919,768
Changes from financing cash flows		
Receipt	109,241,838	9,290,363
Repayments	(85,915,500)	-
Total changes from financing cash flows	**23,326,338**	**9,290,363**
The effect of changes in foreign exchange rates	**(552,218)**	**22,123**
Other changes		
Interest expense	4,910,452	5,984,672
Interest paid	(4,899,457)	(5,802,801)
Balance at 31 December 2018	**120,913,209**	**50,414,125**

28 Other liabilities

	2019 AMD'000	2018 AMD'000
Payables to staff	3,433,379	2,944,207
Payables in transit	1,262,818	887,189
Trade payables	995,216	621,549
Financial liabilities related to factoring contracts	954,480	948,514
Payables to deposit guarantee fund	176,713	126,004
Other payables	1,438,284	1,562,388
Total other financial liabilities	**8,260,890**	**7,089,851**
Other taxes payable	305,946	301,576
Replenishment of regulatory capital not yet approved by CBA	95,484	-
Deferred income	3,003	2,385
Total other non-financial liabilities	**404,433**	**303,961**
Total other liabilities	**8,665,323**	**7,393,812**

29 Share capital and treasury shares

(a) Issued capital and share premium

As at 31 December 2019 the authorized, issued and outstanding share capital comprises 116,710 ordinary shares (2018: 116,564). All shares have a nominal value of AMD 320 thousand and are fully paid.

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

In 2019 the Bank issued additional 146 shares at par value of AMD 320,000 (2018: 16,291 shares at par value AMD 320,000) and placement price of AMD 599,687 (2018: AMD 885,560). In 2019 all of the shares issued were fully purchased by ESPS Holding Limited.

(b) Nature and purpose of reserves

Revaluation reserve for investment securities

The revaluation reserve for investment securities comprises the cumulative net change in the fair value of investment securities measured at FVOCI, until the assets are derecognized or impaired.

(c) Dividends

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

Dividends declared and paid by the Bank in 2019 amounted to AMD 1,050,000 thousand (2018: AMD 1,148,000 thousand).

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

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

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

(b) Market risk

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

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

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

Average effective interest rates

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

	2019 Average effective interest rate, %			**2018 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest earning assets						
Investment securities measured at fair value through profit or loss	9.5%	6.7%	4.8%	9.5%	6.4%	4.9%
Investment securities measured at fair value through other comprehensive income	10.2%	7.5%	-	10.9%	5.0%	5.0%
Investment securities measured at amortized cost	8.6%	6.2%	-	9.0%	5.7%	-
Loans and advances to banks	-	5.3%	-	7.3%	-	1.0%
Amounts receivable under reverse repurchase agreements	6.1%	3.4%	0.5%	7.0%	3.0%	1.0%
Loans and advances to customers	12.7%	8.9%	6.2%	13.6%	8.6%	7.1%
Receivables from finance leases	13.9%	7.9%	6.5%	13.7%	7.3%	8.4%
Receivables from factoring	14.2%	8.8%	6.1%	14.8%	8.6%	5.2%
Receivables from letter of credit	-	8.7%	5.3%	-	6.3%	6.7%
Interest bearing liabilities						
Deposits and balances from banks	6.5%	2.2%	1.7%	6.7%	3.3%	0.6%
Amounts payable under repurchase agreements	-	-	-	6.1%	-	-
Term deposits from customers	9.0%	4.1%	1.8%	9.0%	4.1%	3.0%
Debt securities issued	9.7%	5.2%	-	9.7%	5.4%	3.3%
Subordinated borrowings	-	10.2%	6.3%	-	9.4%	6.4%
Other borrowed funds	8.4%	5.0%	2.8%	7.9%	6.1%	3.0%

Interest rate sensitivity analysis

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

	2019 AMD'000	2018 AMD'000
100 bp parallel rise	(1,049,753)	(1,162,410)
100 bp parallel fall	1,049,753	1,162,410

An analysis of the sensitivity of equity as a result of changes in the fair value of financial instruments at fair value though other comprehensive income, based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2019	2018
	Equity AMD'000	**Equity AMD'000**
100 bp parallel rise	(315,398)	(529,312)
100 bp parallel fall	315,398	529,312

Currency risk

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

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

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	31,370,523	136,945,002	5,668,474	173,983,999
Investment securities at fair value through profit or loss	1,788,708	45,873	-	1,834,581
Investment securities at fair value through other comprehensive income	3,353,097	-	-	3,353,097
Investment securities at amortized cost	2,542,987	-	-	2,542,987
Loans and advances to banks	20,101,586	4,824,324	-	24,925,910
Amounts receivable under reverse repurchase agreements	1,346,506	7,524,129	-	8,870,635
Loans and advances to customers	328,225,481	80,824,999	1,740,067	410,790,547
Receivables from letters of credit	1,574,039	3,472,163	-	5,046,202
Receivables from finance leases	1,994,946	948,658	-	2,943,604
Receivables from factoring	6,902,267	3,015,623	2,985	9,920,875
Other assets	1,761,925	29,107	57,915	1,848,947
Total assets	**400,962,065**	**237,629,878**	**7,469,441**	**646,061,384**
LIABILITIES				
Deposits and balances from banks	13,556,167	4,869,901	1,018,093	19,444,161
Current accounts and deposits from customers	361,523,559	63,486,589	7,214,487	432,224,635
Debt securities issued	46,447,112	-	-	46,447,112
Subordinated borrowings	25,027,671	11,467,610	-	36,495,281
Other borrowed funds	74,938,072	36,480,965	-	111,419,037
Other liabilities	1,292,686	450,630	18,164	1,761,480
Total liabilities	**522,785,267**	**116,755,695**	**8,250,744**	**647,791,706**
Net position	**(121,823,202)**	**120,874,183**	**(781,303)**	**(1,730,322)**
Effect of derivatives	118,470,708	(122,495,280)	(239,651)	(4,264,223)
Net position	**(3,352,494)**	**(1,621,097)**	**(1,020,954)**	**(5,994,545)**

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	12,701,409	46,349,316	5,225,918	64,276,643
Investment securities at fair value through profit or loss	1,750,450	80,331	-	1,830,781
Investment securities at fair value through other comprehensive income	5,031,472	1,355,683	-	6,387,155
Investment securities at amortized cost	13,480,810	-	-	13,480,810
Loans and advances to banks	1,328,545	1,273,907	104,764	2,707,216
Amounts receivable under reverse repurchase agreements	914,220	2,769,206	-	3,683,426
Loans and advances to customers	380,471,956	49,326,693	1,887,584	431,686,233
Receivables from letters of credit	6,393,795	1,874,744	-	8,268,539
Receivables from finance leases	1,805,094	155,594	-	1,960,688
Receivables from factoring	6,954,432	3,098,930	1,656	10,055,018
Other assets	2,073,597	302,581	825,200	3,201,378
Total assets	**432,905,780**	**106,586,985**	**8,045,122**	**547,537,887**
LIABILITIES				
Deposits and balances from banks	14,904,074	17,877,791	352,463	33,134,328
Current accounts and deposits from customers	239,398,240	42,178,044	13,640,743	295,217,027
Debt securities issued	44,082,273	1,673,414	-	45,755,687
Subordinated borrowings	41,113,611	9,300,514	-	50,414,125
Other borrowed funds	71,682,222	37,904,405	-	109,586,627
Other liabilities	1,523,212	555,423	23,638	2,102,273
Total liabilities	**412,703,632**	**109,489,591**	**14,016,844**	**536,210,067**
Net position	**20,202,148**	**(2,902,606)**	**(5,971,722)**	**11,327,820**
Effect of derivatives	(9,717,582)	3,321,900	6,028,089	(367,593)
Net position	**10,484,566**	**419,294**	**56,367**	**10,960,227**

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

	2019 AMD'000	2018 AMD'000
10% appreciation of USD against AMD	(335,249)	1,048,457
10% appreciation of EUR against AMD	(162,110)	41,929

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

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (legal entities and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions.

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

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

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

For the analysis of collateral held against loans and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 20.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are 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 ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL 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. Based on the above process, the Bank groups its loans 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 12mECL. 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 LTECL. 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 LTECL.

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 revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default

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

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

PD estimation process

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Loans and advances to customers

Bucketing

The Bank does not have internal credit rating system implemented for corporate customers, which can be used in PD estimation. The following portfolios are segregated by the Bank.

- corporate loans;
- consumer loans;
- mortgages loans.

PDs for loans and advances to customers are based on historic information are calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring between overdue categories from the total number at the beginning of the period. In calculation of PDs the Bank considers forward looking macroeconomic parameters that had material impact on the probability of default.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

For Stage 3 and POCI financial assets exposure at default is equal to the balance amount of the loans.

EAD is derived from the historical behaviour of amortized costs of defaulted loans before the date when the default has occurred.

Loss given default

For Stage 1 loans to customers, as well as for individually not significant Stage 2 and Stage 3 exposures, the Bank calculated LGD on portfolio level. The Bank uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date and discounted to the date of default using effective interest rate of each loan. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.). For individually significant Stage 2 and Stage 3 exposures the Bank calculates LDG individually considering expected cash, including cash flows from realization of collateral.

Significant increase in credit risk

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. The main criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant risk in credit risk of the assets, when payments related to that assets are past due for more than 30 days.

The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- overdue days of the borrower in other financial institutions in Armenia.
- significant difficulties in the financial conditions of the borrower.
- renegotiation of the loan terms resulting from deterioration of the borrower's financial position.
- deterioration of macroeconomic indicators and their possible effect on the borrower's financial performance.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- consumer price index;
- USD/AMD exchange rate;
- RUR/AMD exchange rate;
- volumes of export;
- volumes of import.

The Bank obtains the forward-looking information from third party source (Economic Intelligence Unit). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

	ECL scenario	Assigned probabilities, %	2020	2021
Key drivers				
CPI index				
	Upside	20%	101.805	100.605
	Base case	60%	105.000	103.800
	Downside	20%	108.195	106.995
USD/AMD exchange rate				
	Upside	20%	436.3428	443.6428
	Base case	60%	483.3000	490.6000
	Downside	20%	530.2572	537.5572
RUR/AMD exchange rate				
	Upside	20%	9.5033	9.7233
	Base case	60%	7.0400	7.2600
	Downside	20%	4.5767	4.7967
Export, AMD million				
	Upside	20%	3,161.75	3,356.75
	Base case	60%	2,807.00	3,002.00
	Downside	20%	2,452.25	2,647.25
Import, AMD million				
	Upside	20%	6,165.15	6,567.15
	Base case	60%	5,686.00	6,008.00
	Downside	20%	5,206.86	5,608.86

Along with baseline forecasts (with 60% probability of occurrence) listed in the table above, additionally, the Bank uses shocked macroeconomic variables to calculate the ECL rates under the optimistic (with 20% probability of occurrence) and pessimistic (20% probability of occurrence) scenarios. These rates are weighted together with the baseline scenario rates to form final ECL rates.

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
				Financial instruments	
Amounts receivable under reverse repurchase agreements	23,549,559	-	23,549,559	(23,549,559)	-
Total financial assets	**23,549,559**	**-**	**23,549,559**	**(23,549,559)**	**-**
Amounts payable under repurchase agreements	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
				Financial instruments	
Amounts receivable under reverse repurchase agreements	6,746,414	-	6,746,414	(6,746,414)	-
Total financial assets	**6,746,414**	**-**	**6,746,414**	**(6,746,414)**	**-**
Amounts payable under repurchase agreements	(17,011,404)	-	(17,011,404)	(17,011,404)	-
Total financial liabilities	**(17,011,404)**	**-**	**(17,011,404)**	**(17,011,404)**	**-**

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Repayments which are subject to notice are treated as if notice were to be given immediately, except current accounts and on demand deposits from customers which are stated at expected maturities. 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.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount (inflow)/ outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	7,423,237	382,500	5,422,238	2,996,415	17,722,515	3,279,917	37,226,822	34,488,813
Current accounts and deposits from customers	356,185,087	34,927,937	72,038,201	107,275,162	31,440,265	70,768	601,937,420	593,223,433
Debt securities issued	4,906,704	654,511	3,054,746	6,087,421	40,713,121	-	55,416,503	54,573,055
Subordinated borrowings	1,143,339	-	357,153	1,579,947	30,511,336	12,653,304	46,245,079	36,495,281
Other borrowed funds	2,003,027	3,557,813	6,747,436	13,957,126	109,942,627	4,681,113	140,889,142	126,685,607
Total financial liabilities	**371,661,394**	**39,522,761**	**87,619,774**	**131,896,071**	**230,329,864**	**20,685,102**	**881,714,966**	**845,466,189**
Credit related commitments	**36,452,296**	**-**	**-**	**-**	**-**	**-**	**36,452,296**	**36,452,296**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount (inflow)/ outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	12,893,988	7,048,159	7,088,445	6,888,068	10,129,111	2,022,806	46,070,577	43,076,769
Amounts payable under repurchase agreements	17,011,404	-	-	-	-	-	17,011,404	17,011,404
Current accounts and deposits from customers	132,004,427	52,833,203	57,320,798	98,873,247	65,516,061	83,553	406,631,289	399,086,132
Debt securities issued	358,847	3,210,199	7,862,077	7,600,720	37,289,828	-	56,321,671	50,846,356
Subordinated borrowings	1,549,562	1,154,356	1,094,713	2,156,604	49,767,027	9,250,207	64,972,469	50,414,125
Other borrowed funds	3,989,012	5,824,499	13,739,728	9,706,765	103,060,455	14,813	136,335,272	120,913,209
Other financial liabilities	461,232	3,880,637	3,051,943	-	-	-	7,393,812	7,393,812
Net settled derivative liabilities	20,621	-	-	-	-	-	20,621	20,621
Total financial liabilities	**168,289,093**	**73,951,053**	**90,157,704**	**125,225,404**	**265,762,482**	**11,371,379**	**734,757,115**	**688,762,428**
Credit related commitments	**25,280,062**	**-**	**-**	**-**	**-**	**-**	**25,280,062**	**25,280,062**

Included in due to customers in the table above and in the table below are term deposits of individuals. In accordance with the legislation of the Republic of Armenia, the Bank is obliged to repay term deposits of individuals upon demand of a depositor, forfeiting the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	247,353,690	-	-	-	-	-	-	247,353,690
Financial instruments at fair value through profit or loss	73,561	79,022	1,038,564	4,535,502	2,528,957	-	-	8,255,606
Investment securities at fair value through other comprehensive income	-	90,547	808,703	5,970,379	3,909,460	69,896	-	10,848,985
Debt securities at amortized cost	-	123,001	11,113,364	17,540,179	4,734,346	-	-	33,510,890
Loans and advances to banks	-	-	1,675,211	-	-	25,339,429	-	27,014,640
Amounts receivable under reverse repurchase agreements	20,528,933	3,020,626	-	-	-	-	-	23,549,559
Loans and advances to customers	15,704,060	37,817,854	95,597,882	261,472,206	142,038,626	-	11,704,607	564,335,235
Receivables from letters of credit	57,104	166,237	941,852	3,881,009	-	-	-	5,046,202
Receivables from finance leases	19,361	222,207	989,947	3,591,396	736,957	-	99,822	5,659,690
Receivables from factoring	3,768,376	2,546,638	4,385,758	-	-	-	-	10,700,772
Property, equipment and intangible assets	-	-	-	-	-	11,162,394	-	11,162,394
Right of use asset	-	-	-	-	-	11,235,119	-	11,235,119
Reposessed assets	-	-	-	-	-	3,028,455	-	3,028,455
Other assets	2,080,176	189,450	2,672,652	-	-	1,437,702	-	6,379,980
Total assets	**289,585,261**	**44,255,582**	**119,223,933**	**296,990,671**	**153,948,346**	**52,272,995**	**11,804,429**	**968,081,217**
LIABILITIES								
Derivative financial liabilities	35,314	-	-	-	-	-	-	35,314
Deposits and balances from banks	7,413,097	363,086	16,029,223	7,670,584	3,012,823	-	-	34,488,813
Current accounts and deposits from customers	309,442,880	49,002,050	190,132,871	44,586,889	58,743	-	-	593,223,433
Debt securities issued	4,894,341	315,412	11,754,830	37,608,472	-	-	-	54,573,055
Subordinated borrowings	1,042,671	-	23,934	23,985,000	11,443,676	-	-	36,495,281
Other borrowed funds	2,000,252	3,078,393	16,554,283	100,816,265	4,236,414	-	-	126,685,607
Deferred tax liability	-	-	279,389	-	-	-	-	279,389
Current tax liability	-	-	-	918,445	-	-	-	918,445
Lease liabilty	37,939	77,307	354,050	1,923,342	8,980,619	-	-	11,373,257
Provision for commitments	116,222	-	-	-	-	-	-	116,222
Other liabilities	3,717,426	516,300	4,431,597	-	-	-	-	8,665,323
Total liabilities	**328,700,142**	**53,352,548**	**239,560,177**	**217,508,997**	**27,732,275**	**-**	**-**	**866,854,139**
Net position	**(39,114,881)**	**(9,096,966)**	**(120,336,244)**	**79,481,674**	**126,216,071**	**52,272,995**	**11,804,429**	**101,227,078**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	144,353,912	-	-	-	-	-	-	144,353,912
Financial instruments at fair value through profit or loss	323,197	139,695	328,036	3,058,640	2,967,442	-	-	6,817,010
Investment securities at fair value through other comprehensive income	88,864	155,750	282,669	5,541,529	5,394,171	139,145	-	11,602,128
Debt securities at amortized cost	353,263	592,527	5,620,577	29,066,323	3,192,773	-	-	38,825,463
Loans and advances to banks	3,255,612	-	-	-	-	1,691,000	-	4,946,612
Amounts receivable under reverse repurchase agreements	6,746,414	-	-	-	-	-	-	6,746,414
Loans and advances to customers	26,971,795	23,059,924	121,233,308	242,571,649	106,226,222	-	6,901,292	526,964,190
Receivables from letters of credit	43,322	187,342	5,647,337	2,390,538	-	-	-	8,268,539
Receivables from finance leases	41,031	71,111	310,302	992,485	436,361	-	172,915	2,024,205
Receivables from factoring	430,846	2,833,607	7,421,796	-	-	-	-	10,686,249
Property, equipment and intangible assets	-	-	-	-	-	10,240,337	-	10,240,337
Deferred tax asset	-	-	-	185,898	-	-	-	185,898
Other assets	2,375,790	2,777,413	2,008,052	–	-	925,015	-	8,086,270
Total assets	**184,984,046**	**29,817,369**	**142,852,077**	**283,807,062**	**118,216,969**	**12,995,497**	**7,074,207**	**779,747,227**
LIABILITIES								
Derivative financial liabilities	20,621	-	-	-	-	-	-	20,621
Amounts payable under repurchase agreements	17,011,404	-	-	-	-	-	-	17,011,404
Deposits and balances from banks	12,798,545	6,887,130	13,430,651	8,556,905	1,403,538	-	-	43,076,769
Current accounts and deposits from customers	131,252,194	51,539,948	152,505,404	63,718,571	70,015	-	-	399,086,132
Debt securities issued	111,329	2,696,535	13,759,546	34,278,946	-	-	-	50,846,356
Subordinated borrowings	1,190,128	435,488	16,411	39,521,888	9,250,210	-	-	50,414,125
Other borrowed funds	3,465,015	8,061,402	16,176,215	93,195,761	14,816	-	-	120,913,209
Current tax liability	-	-	1,086,688	-	-	-	-	1,086,688
Provision for commitments	140,163	-	-	-	-	-	-	140,163
Other liabilities	461,232	3,880,637	3,051,943	-	-	-	-	7,393,812
Total liabilities	**166,450,631**	**73,501,140**	**200,026,858**	**239,272,071**	**10,738,579**	**-**	**-**	**689,989,279**
Net position	**18,533,415**	**(43,683,771)**	**(57,174,781)**	**44,534,991**	**107,478,390**	**12,995,497**	**7,074,207**	**89,757,948**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

As at 31 December 2019 the Bank had a long-term borrowing agreement signed with an international financial organizations in the amount of AMD 14,391,000 thousand (USD 30,000,000), the amount of which was not withdrawn as at reporting date.

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 31 December and during the reporting period are as follows:

	2019 AMD'000 Unaudited	**2018 AMD'000 Unaudited**
At 31 December	100.7%	89%
Average for December	94.5%	79%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA which is set as not less than 60%.

31 Capital management

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 maximize shareholders' value.

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank. Under the current capital requirements set by the Central Bank of Armenia, banks have to maintain a minimum total capital of AMD 30,000,000 thousand (2018: AMD 30,000,000 thousand). The Bank is in compliance with minimum total capital requirements as at 31 December 2019 and 2018.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2019 and 2018, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2019 and 2018.

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December:

	2019 AMD'000 Unaudited	2018 AMD'000 Unaudited
Tier 1 capital	93,090,744	87,918,917
Tier 2 capital	22,059,312	27,240,435
Total capital	**115,150,056**	**115,159,352**
Total risk weighted assets	**781,286,761**	**637,670,106**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.74%**	**18.06%**

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

32 Credit related commitments

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

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

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

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

	2019 AMD'000	2018 AMD'000
Contracted amount		
Credit card commitments	16,219,615	13,602,109
Non-financial guarantees	9,745,780	2,362,080
Financial guarantees and letters of credit	5,649,694	5,542,370
Undrawn overdraft facilities	4,837,207	3,773,503
	36,452,296	**25,280,062**
Impairment allowance	(116,222)	(140,163)

In addition to the above credit related commitments, the Bank has undrawn loans and credit lines the withdrawal of which is subject to additional approval by the Bank. The Bank considers such balances as uncommited. The total amount of such uncommited balances as at 31 December 2019 comprised AMD 16,588,493 thousand (2018: AMD 18,237,090 thousand).

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for commitments for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	120,080	5,755	14,328	140,163
New exposures originated	112,346	-	-	112,346
Exposures expired	(22,837)	(5,231)	(326)	(28,394)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(4,892)	4,892	-	-
Transfer to Stage 3	-	(1,414)	1,414	-
Net remeasurement of loss allowance	(93,509)	(382)	(14,002)	(107,893)
Balance at 31 December	**111,188**	**3,620**	**1,414**	**116,222**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	160,709	17,082	84,493	262,284
New exposures originated	80,514	-	-	80,514
Exposures expired	(66,889)	(17,082)	(7,320)	(91,291)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(20,083)	20,083	-	-
Transfer to Stage 3	-	(14,328)	14,328	-
Net remeasurement of loss allowance	(34,171)	-	-	(34,171)
Write off	-	-	(77,173)	(77,173)
Balance at 31 December	**120,080**	**5,755**	**14,328**	**140,163**

33 Contingencies

(a) Litigation

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

(b) Taxation contingencies

The taxation system in Armenia is relatively new and is characterized 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.

34 Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 56.53% of the share capital as at 31 December 2019.

The ultimate controlling party and final beneficiary owner of the Bank is Mr. Ruben Vardanyan.

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

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

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2019 AMD'000	2018 AMD'000
Short-term employee benefits	**2,801,262**	**2,157,647**

These amounts include cash benefits in respect of members of the Board of Directors and the Management Board.

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

	2019 AMD'000	Average effective interest rate, %	2018 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans and advances to customers	1,006,530	8.04%	1,273,721	7.79%
Other assets	2,188	-	1,832	-
Current accounts and deposits from customers	987,153	6.31%	460,725	5.74%
Subordinated borrowings*	-	-	5,924,274	6.00%
Other liabilities	1,185,957	-	1,478,022	-

* Subordinated borrowings were received from ultimate controlling party of the Bank (see Note 27).

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

	2019 AMD'000	2018 AMD'000
Profit or loss		
Interest income	87,384	96,310
Interest expense	(31,792)	(361,765)

(c) Transactions with other related parties

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

	Parent company		**Shareholder with significant influence**		**Subsidiaries of the immediate parent company**		**Other entities under common control and other related parties**		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position									
Assets									
Loans and advances to customers	-	-	-	-	-	-	1,371,580	8.89%	1,371,580
Other asset	-	-	9,243	-	4,375	-	119	-	13,737
Liabilities									
Current accounts and deposits from customers									
- Current accounts and demand deposits	378,387	-	197,134	-	133,145	-	1,007,886	-	1,716,552
- Term deposits	-	-	-	-	976,068	4.81%	381,946	5.70%	1,358,015
Other borrowed funds	-	-	13,585,997	5.89%	-	-	-	-	13,585,997
Other liabilities	-	-	10,443	-	359.13	-	123	-	10,566
Items not recognised in the statement of financial position									
Guarantees received	-	-	8,870,606	1.10%	-	-	-	-	8,870,606
Profit (loss)									
Interest income	-	-	-	-	-	-	131,328	-	131,328
Interest expense	-	-	(1,330,627)	–	(35,373)	-	(5,414)	-	(1,371,414)
Other income	572,268	-	2,984				25,909		601,161
Operating lease expenses	-	-	-	-	(1,313,124)	-	-	-	(1,313,124)

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

	Parent company		**Shareholder with significant influence**		**Subsidiaries of the immediate parent company**		**Other entities under common control and other related parties**		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position									
Assets									
Loans and advances to customers	-	-	-	-	-	-	4,061,715	6.66%	4,061,715
Other asset	-	-	62,619	0.00%	879,324	0.00%	-	-	941,943
Liabilities									
Current accounts and deposits from customers									
- Current accounts and demand deposits	20,562	0.00%	62,690	0.00%	1,085,613	0.00%	1,376,258	0.00%	2,545,123
- Term deposits	-	-	-	-	659,326	4.00%	77,155	6.47%	736,481
Other borrowed funds	-	-	21,215,696	6.04%	-	-	-	-	21,215,696
Other liabilities	-	-	13,209	0.00%	-	-	-	-	13,209
Items not recognised in the statement of financial position									
Guarantees received	-	-	13,323,384	1.05%	-	-	-	-	13,323,384
Profit (loss)									
Interest income	-	-	-	-	-	-	575,789	-	575,789
Interest expense	-	-	(1,384,459)	-	(21,291)	-	(337,771)	-	(1,743,521)
Operating lease expenses	-	-	-	-	(1,627,177)	-	-	-	(1,627,177)

35 Financial assets and liabilities: fair values and accounting classifications

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;

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

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

As at 31 December 2019 and 2018 the estimated fair values of all financial instruments except for loans and advances to customers and investment securities at amortised cost approximate their carrying values. The fair value of loans and advances to customers is categorized in Level 3 fair value hierarchy and fair value of investment securities measured at amortized cost is categorized in Level 2 in fair value hierarchy.

The table below sets out the carrying amounts and fair values of loans and advances to customers and investment securities at amortized cost as at 31 December 2019 and 2018:

	Carrying amount AMD'000	Fair value AMD'000	Unrealized gain/(loss) AMD'000
Loans and advances to customers	585,741,899	583,700,810	(2,041,089)
Investment securities at amortized cost	33,510,890	34,902,288	1,391,398
Total	**619,252,789**	**618,603,098**	**(649,691)**

	Carrying amount AMD'000	Fair value AMD'000	Unrealized gain/(loss) AMD'000
Loans and advances to customers	547,943,183	538,682,849	(9,260,334)
Investment securities at amortized cost	38,825,463	40,193,704	1,368,241
Total	**586,768,646**	**578,876,553**	**(7,892,093)**

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

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Debt and other fixed-income instruments	-	8,182,045	-	8,182,045
- Derivative assets	-	73,561	-	73,561
- Derivative liabilities	-	(35,314)	-	(35,314)
Financial assets at fair value through other comprehensive income				
- Investment securities	1,631,420	9,217,567	-	10,848,987
	1,631,420	**17,437,859**	**-**	**19,069,279**

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

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Debt and other fixed-income instruments	-	6,691,791	-	6,691,791
- Derivative assets	-	125,219	-	125,219
- Derivative liabilities	-	(20,621)	-	(20,621)
Financial assets at fair value through other comprehensive income				
- Investment securities	-	11,602,128	-	11,602,128
	-	**18,398,517**	**-**	**18,398,517**

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of loans and advances to customers: discount rates of 8%-9.8% for loans denominated in foreign currency and 10.8%-13.8% for loans denominated in Armenian drams, are used for discounting future cash flows from loans and advances to customers.

36 Events after reporting period

(i) On 21 February 2020, ESPS Holding Limited purchased in full additionally issued 124 shares of the Bank with nominal value of AMD 320,000 per share for AMD 770,031 per share. As a result of the transaction, the shareholding structure of the Bank changed as follows: America Group (CY) (56.47%), EBRD (17.76%), ADB (13.94%) and ESPS Holding Limited (11.83%).

On 6 December 2019 the General Meeting of Shareholders of the Bank, approved two transactions:

- acquisition of 8,788 ordinary shares, owned by Ameria Group (CY) Limited and comprising to 7.52% of share capital, by Noubar Afeyan,
- transfer of the stated shares by Noubar Afeyan to Afeyan Foundation for Armenia Inc.

The transactions were finalized on 11 March 2020. As a result of the transaction the shareholding structure of the Bank changed as follows: Ameria Group (CY) (48.95%), EBRD (17.76%), ADB (13.94%), ESPS Holding Limited (11.83%) and Afeyan Foundation for Armenia Inc. (7.52%).

(ii) Subsequent to 31 December 2019 outbreak of COVID 19 resulted in significant global market turmoil. Together with other factors, this has resulted in a sharp decrease in the stock market indices, oil and other commodity prices. As of the date of approval of these financial statements, the Bank continued to operate without interruptions. Part of the employees have switched to remote working. Operations of several branches have been suspended due to closure of trade centres, where the branches were located.

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

The Bank has provided a credit vacation to its retail borrowers for a period of two months starting from 13 March 2020. The retail borrowers can defer the payments of principal and interest for their loans falling in the period of vacation, without further adverse effect in their credit history. The deferred payments will be equally reallocated to June - December 2020. As of the date of this report approximately 30% of eligible borrowers have used this opportunity.

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

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

However, the Bank acknowledges that extended lock down periods may have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. The Bank continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur. The Bank estimates the probability of extension of lockdown beyond 14 May 2020 as remote, as the Prime Minister of the Republic of Armenia has announced that the country will end the state of emergency by the stated date.