Converse Bank CJSC

Consolidated financial statements

For the period ended 31 March 2020

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as of 31 March 2020

(thousands of Armenian drams)

	Notes	31/03/2020	31/12/2019
Assets			
Cash and cash equivalents	6	53,230,476	52,343,932
Trading securities	7	286,299	646,487
Amounts due from banks	8	2,945,495	11,737,257
Loans and advances to customers	9	232,593,376	226,678,839
Investment securities	10	24,194,911	20,326,218
Investment securities pledged under repurchase agreements	10	2,057,322	-
Property, plant and equipment	11	9,929,399	10,175,489
Intangible assets	12	322,272	337,260
Repossessed assets	13	1,973,787	2,023,928
Other assets	14	1,660,343	2,289,063
Total assets		**329,193,680**	**326,558,473**
Liabilities			
Amounts due to banks	15	4,193,789	6,717,884
Derivative financial liabilities	16	39,757	220,078
Amounts due to customers	17	224,098,844	222,172,144
Debt securities issued	18	20,942,595	19,920,288
Current income tax liabilities		436,473	522,946
Deferred income tax liabilities	19	1,125,184	1,261,850
Other borrowed funds	20	21,987,356	21,177,406
Lease liabilities	11	1,999,147	2,085,366
Subordinated debt	21	6,213,099	5,806,646
Provisions on commitments and contingencies	22	37,989	41,851
Other liabilities	14	1,966,817	1,659,775
Total liabilities		**283,041,050**	**281,586,234**
Equity	23		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		2,798,799	2,798,799
Revaluation surplus for land and buildings		4,086,712	4,021,187
Revaluation reserve for financial assets at FVOCI		725,726	790,516
Retained earnings		22,061,527	20,881,871
Total equity		**46,152,630**	**44,972,239**
Total equity and liabilities		**329,193,680**	**326,558,473**

Signed and authorised for release on behalf of the Management Board of the Bank.

Arthur Hakobyan Chief Executive Officer − Chairman of Executive Management

Davit Azatyan Chief Accountant

The accompanying notes on pages 5 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss

for the period ended 31 March 2020

(thousands of Armenian drams)

	Note.	01/01/2020-31/03/2020	01/01/2019-31/03/2019
Interest revenue calculated using effective interest rate	24	6,468,028	5,765,928
Other interest revenue	24	20,596	21,759
Interest expense	24	(2,995,179)	(2,698,340)
Net interest income		**3,493,445**	**3,089,347**
Credit loss expense	25	(954,887)	(31,536)
Net interest income after credit loss expense		**2,538,558**	**3,057,811**
Fee and commission income	26	782,002	648,274
Fee and commission expense	26	(311,217)	(219,122)
Net trading income	27	287,982	265,328
Net loss/(gain) from foreign currency translation		239,757	38,772
Gains less losses from investment securities measured at fair value through other comprehensive income		128,840	89,811
Other income	28	325,569	169,342
Non-interest income		**1,452,933**	**992,405**
Personnel expenses	29	(1,539,210)	(1,329,959)
Depreciation of property and equipment	11	(301,182)	(232,860)
Amortization of intangible assets	12	(18,159)	(16,719)
Administrative and other operating expenses	29	(820,915)	(700,784)
Non-interest expense		**(2,679,466)**	**(2,280,322)**
Profit before income tax expense		**1,312,025**	**1,769,894**
Income tax expense	19	(169,200)	(370,764)
Profit for the period		**1,142,825**	**1,399,130**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		102,356	-
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized gains/(losses) on investments at fair value through other comprehensive income		27,413	63,206
Realised gains on investment securities available-for-sale transferred to profit or loss		(128,840)	(89,811)
Income tax effect	19	36,637	239,259
Net other comprehensive (loss)/income to be reclassified subsequently to profit or loss		**(64,790)**	**212,654**
Other comprehensive (loss)/income for the period, net of tax		**37,566**	**212,654**
Total comprehensive income for the period		**1,180,391**	**1,611,784**

The accompanying notes on pages 5 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the period ended 31 March 2020

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2019	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**
Distribution to general reserve	–	–	–	–	–	-	–
Dividends to shareholders	–	–	–	–	–	-	-
Transactions with owners	–	–	–	–	–	-	-
Profit for the period	–	–	–		–	1,399,130	1,399,130
Other comprehensive income for the period	–	–	–	(926,048)	–	1,138,702	212,654
Total comprehensive income for the period	–	–	–	**(926,048)**	–	**2,537,832**	**1,611,784**
Depreciation of revaluation reserve	–	–	–	–	(30,798)	30,798	–
Balance as at 31 March 2019	**16,416,633**	**63,233**	**1,898,319**	**725,362**	**3,027,083**	**18,515,455**	**40,646,085**
Balance as at 1 January 2020 (audited)	**16,416,633**	**63,233**	**2,798,799**	**790,516**	**4,021,187**	**20,881,871**	**44,972,239**
	–	–	–	-	-	-	-
Distribution to general reserve	–	–	–	-	-	-	-
Dividends to shareholders	–	–	–	-	-	-	-
Transactions with owners	–						
		–	–				
Profit for the period	–	–	–			**1,142,825**	**1,142,825**
Other comprehensive income for the period	–	–	–	**(64,790)**	**102,356**		**37,566**
Total comprehensive income for the period	–			**(64,790)**	**102,356**	**1,142,825**	**1,180,391**
		–	–				
Depreciation of revaluation reserve	–	–	–	–	(36,831)	36,831	-
Balance as at 31 March 2020	**16,416,633**	**63,233**	**2,798,799**	**725,726**	**4,086,712**	**22,061,527**	**46,152,630**

The accompanying notes on pages 5 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the period ended 31 March 2020

(thousands of Armenian drams)

	Note	01/01/2020-31/03/2020	01/01/2019-31/03/2019
Cash flows from operating activities			
Interest received		5,865,234	5,326,939
Interest paid		(2,318,584)	(2,339,065)
Fees and commissions received		782,002	648,274
Fees and commissions paid		(311,217)	(219,122)
Net income from financial assets at fair value through profit or loss		287,982	265,328
Other income received		316,276	159,670
Administrative expenses paid		(1,512,478)	(1,302,912)
Other operating expenses paid		(835,098)	(846,456)
Cash flows from operating activities before changes in operating assets and liabilities		**2,274,117**	**1,692,656**
Net (increase)/decrease in operating assets			
Trading securities		360,188	(484,079)
Amounts due from banks		8,560,576	2,136,464
Loans and advances to customers		1,081,626	(4,744,235)
Repossessed assets		50,141	(6,604)
Other assets		653,290	(308,957)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		(2,275,352)	(188,045)
Amounts due to customers		(5,015,745)	4,524,051
Derivative financial liabilities		32,237	(6,871)
Other liabilities		(381,490)	(583,844)
Net cash used in operating activities before income tax		**5,339,588**	**2,030,536**
Income tax paid		(300,839)	(253,347)
Net cash used in operating activities		**5,038,749**	**1,777,189**
Cash flows from investing activities			
Purchase of investment securities at FVOCI		(8,039,143)	(2,359,460)
Proceeds from sale and redemption of investment securities at FVOCI		2,113,136	4,119,364
Purchase/redemption of securities at amortised cost		413,959	800,561
Purchase of intangible assets		(3,172)	(59,875)
Purchase of property and equipment		(53,577)	(329,654)
Proceeds from sale of property and equipment		-	2,332
Net cash used in investing activities		**(5,568,797)**	**2,173,267**
Cash flows from financing activities		-	-
Proceeds from issue of share capital		-	-
From bonds issued		-	-
Proceeds from other borrowed funds		1,104,565	930,760
Repayment of other borrowed funds		(501,787)	(715,601)
Lease liability		(145,660)	(130,460)
Repayment of subordinated debt		-	-
Dividends paid to shareholders		-	-
Net cash from financing activities		**457,118**	**84,699**
Net increase/(decrease) in cash and cash equivalents		**(72,930)**	**4,035,155**
Cash and cash equivalents at the beginning of the year		52,343,932	40,470,858
Effect of exchange rates changes on cash and cash equivalents		959,475	131,607
Cash and cash equivalents at the end of the year	6	53,230,476	**44,637,620**

The accompanying notes on pages 5 to 70 are an integral part of these consolidated financial statements.

(thousands of Armenian drams)

1. Principal activities

"Converse Bank" CJSC (the "Bank") is the parent company in the Group. It was formed on 1994 as a closed joint-stock bank under the laws of the Republic of Armenia. The Bank operates under a general banking license issued by the Central Bank of Armenia (the "CBA") on 28 November 1994 and conducts its business under license number 57.

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

The Bank's main office is in Yerevan and its 35 branches are located in Yerevan and in different regions, and 1 branch is located in NKR.

As of 31 March, 2020 781 employees were hired by the parent company and 25 by its subsidiary.

Converse Collection was formed as a limited liability company under the laws of the Republic of Armenia on 20 April 2000. The company's principal activity is transportation of cash, cash equivalents and other assets. The company is a subsidiary of the Bank and was consolidated in these financial statements.

As of 31 March, 2020 the following shareholders of the Bank are:

Shareholder	*31/03/2020 %*	*31/12/2019 %*
Advanced Global Investments LLC	80.94	80.94
Haypost Trust Management BV	14.06	14.06
Mother See of Holy Etchmiadzin	5.00	5.00
Total	**100.0**	**100.0**

The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and investment securities at FVOCI , derivative financial instruments have been measured at fair value.

Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiary's functional and presentation currency is Armenian dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Group. The Group prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These consolidated financial statements are based on the Group's books and records as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

(thousands of Armenian drams)

~~2. Basis of preparation (continued)~~

3. Summary of accounting policies

Basis of consolidation

Subsidiary, which is entity where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiary is consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group. Subsidiary has a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from banks, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- ► The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ► 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ► How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ► The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ► How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ► The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and under IFRS 9– an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

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

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the consolidated statement of financial position. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

Repurchase and reverse repurchase agreements and securities lending

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

The Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

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

Leases

Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

Operating Lease: The Group as Lessee

Operating Lease is the lease of an asset when all ownership risks and benefits are retained by Lessor.
At the point of initial recognition of the lease contract, the Bank recognizes the right-of-use asset and the lease liability, except the low-cost and short-term leases.

Initial Recognition
At the commencement day of the lease, the Lessee recognizes a right-of-use asset and a lease liability.
The right-of-use asset is initially measured at the lease liability plus initial direct costs, adjusted if any for upfront lease payments, dismantling, removing and restoring costs and lease incentives received.
The lease liability is initially measured at the present value of lease payments to be made over the lease term, discounted at the contracted rate, if easily defined. Otherwise the Bank applies its incremental borrowing rate as a discount rate.

Subsequent Measurement
The right-of-use asset is measured subsequently by the initial cost model less depreciation and impairment, adjusted for re-measurement of the lease liability.

The Bank's fixed assets depreciation policy serves a ground for the measurement of depreciation of the right-of-use asset.
After the initial recognition, the Bank re-measures the lease liability by:
Increasing the carrying amount to reflect the accruing interest on the lease liability
Decreasing the carrying amount to reflect the lease payments
Re-measuring the carrying amount to reflect the re-measurements or revisions of the lease contract.

Operating – Group as lessor

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of

the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation, except land and buildings. The Bank’s buildings are stated at revalued amounts. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at revalued amount. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	***Rate (%)***
Buildings	20	5
Computers and communication equipment	1	100
Vehicles	8	12.5
Equipment	8	12.5
Other fixed assets	8	12.5

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

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

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

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Intangible assets

Intangible assets include computer software, licenses and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Repossessed assets

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

Grants

Grants relating to the assets are included in other liabilities and are credited to the consolidated statement of comprehensive income on a straight line basis over the expected lives of the related assets.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

Share capital

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Share capital (continued)

Share premium

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

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for investment securities

This reserve records fair value changes in available-for-sale-investments / investments at fair value through other comprehensive income.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the consolidated statement of profit or loss.

Fee and commission income

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

Dividend income

Revenue is recognised when the Group’s right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Armenian drams, which is the Group’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBA exchange rates at 31 March 2020 and 31 December 2019 were AMD 504.47 and AMD 479.70 to 1 USD, respectively.

4. Significant accounting judgments and estimates

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

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

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The Group engages independent experts for valuation of its premises.

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 31).

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

5. Segment information

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

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Trading and Investment banking	Treasury and finance, investment banking, leasing and other central functions.

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 31 March 2020 or 31 March 2019.

(thousands of Armenian drams)

5. Segment information (continued)

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

As of March 31, 2020	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
External income				
Interest revenue calculated using effective interest rate	3,490,661	2,357,465	619,902	**6,468,028**
Other interest revenue	10,598	1,331	8,667	**20,596**
Interest expense	(1,087,643)	(1,451,493)	(456,043)	**(2,995,179)**
Net interest income	**2,413,616**	**907,303**	**172,526**	**3,493,445**
Credit loss expense	(335,485)	(604,166)	(15,236)	**(954,887)**
Fee and commission income	623,038	149,360	9,604	**782,002**
Fee and commission expense	(252,065)	(59,152)	-	**(311,217)**
Other non-interest income	425,476	505,844	50,828	**982,148**
Non-interest expense	(1,087,525)	(1,246,548)	(345,392)	**(2,679,465)**
Segment profit	**1,787,055**	**(347,359)**	**(127,671)**	**1,312,025**
Income tax expense	(230,460)	44,796	16,465	**(169,200)**
Profit for the period	**1,556,594**	**(302,563)**	**(111,206)**	**1,142,825**

As of March 31, 2019	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
External income				
Interest revenue calculated using effective interest rate	2,858,749	2,280,092	627,087	**5,765,928**
Other interest revenue	-	1,405	20,354	**21,759**
Interest expense	(921,198)	(1,251,919)	(525,223)	**(2,698,340)**
Net interest income	**1,937,551**	**1,029,578**	**122,218**	**3,089,347**
Credit loss expense	(296)	(254)	(30,986)	**(31,536)**
Fee and commission income	464,446	169,956	13,872	**648,274**
Fee and commission expense	(217,180)	(1,942)	-	**(219,122)**
Other non-interest income	383,509	100,775	78,969	**563,253**
Non-interest expense	(1,087,525)	(1,246,548)	(345,392)	**(2,679,465)**
Segment profit/(loss)	**1,639,449**	**272,133**	**(141,688)**	**1,769,894**
Income tax expense	(326,707)	(57,007)	29,681	**(370,764)**
Profit for the period	**1,312,742**	**215,126**	**(112,007)**	**1,399,130**

The following table presents segment assets of the Group's operating segments:

	As of March 31, 2020				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non interest bearing*	*Total*
Assets	115,432,422	117,160,954	29,484,027	67,116,277	**329,193,680**
Liabilities	102,659,921	127,690,011	47,163,497	5,527,621	**283,041,050**

	As of March 31, 2019				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non interest bearing*	*Total*
Assets	93,714,870	107,921,553	29,563,489	56,417,099	**287,617,011**
Liabilities	87,241,692	108,304,124	48,488,526	2,881,668	**246,916,010**

(thousands of Armenian drams)

Interest earning assets include financial assets through profit and loss, investment securities, loans to banks, loans and advances to customers.

Interest bearing financial liabilities include deposit and balances from banks, current accounts and deposits from customers, bonds issued by the Group, subordinated and other borrowings.

(thousands of Armenian drams)

5. Segment information (continued)

Geographic information

The Group's operations are primarily concentrated in Armenia. The Group has no current assets outside Armenia other than financial instruments.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the period ended 31 March 2020 and 31 March 2019 are as follows:

As of March 31, 2020	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	385,673	-	-	**385,673**
Wire transfer fees	89,579	45,961	328	**135,868**
Settlement operation	35,601	26,484	9,159	**71,244**
Loan accounts servicing fees	34,136	36,085	-	**70,221**
Guarantees and letters of credit	30	13,488	-	**13,518**
Other	78,019	27,342	117	**105,478**
Total revenue from contracts with customers	**623,038**	**149,360**	**9,604**	**782,002**

As of March 31, 2019	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	271,560	–	–	**271,560**
Wire transfer fees	101,201	45,131	559	**146,892**
Settlement operation	14,423	26,178	13,223	**53,824**
Loan accounts servicing fees	28,414	54,493	–	**82,907**
Guarantees and letters of credit	-	13,227	–	**13,227**
Other	48,847	30,927	90	**79,865**
Total revenue from contracts with customers	**464,446**	**169,956**	**13,872**	**648,275**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31/03/2020	31/12/2019
Cash on hand	11,198,159	11,396,567
Current accounts with the Central Bank, including obligatory reserves	38,820,202	34,983,103
Placements with other banks	3,215,877	5,966,764
Less – allowance for impairment	(3,762)	(2,502)
Cash and cash equivalents	53,230,476	52,343,932

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	31/03/2020	31/12/2019
ECL allowance as at 1 January 2020	**2,502**	**5,844**
Changes in ECL	1,260	(3,342)
At 31 March 2020	3,762	2,502

As of 31 March 2020 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group denominated in foreign currency(12% in AMD, 6% in currency), and amounts to AMD 29,248,719 thousand (2019: AMD 28,753,783 thousand). There are no restrictions on the withdrawal

(thousands of Armenian drams)

of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 March 2020 placements with other banks in the amount of AMD 2,801,002 thousand (87.11%) were due from two banks (2019: AMD 5,442,954 thousand (91.2%) were due from three banks).

7. Trading securities

Trading securities owned comprise:

	31/03/2020	31/12/2019
Investments in funds	286,235	276,517
Debt securities issued by the RA government	64	369,970
Trading securities	**286,299**	**646,487**

(thousands of Armenian drams)

8. Amounts due from banks

Amounts due from banks comprise:

	31/03/2020	31/12/2019
Loans and deposits to banks	1,107,635	2,419,415
Receivables from payment and settlement operations	568,617	814,008
Deposits and deposited funds with CBA	247,000	4,546,377
Other amounts	1,026,077	913,881
Reverse repurchase agreements	-	3,054,369
	2,949,329	**11,748,050**
Less – allowance for impairment	(3,834)	(10,793)
Amounts due from banks	**2,945,495**	**11,737,257**

As at 31 March 2020 the Group has loans and deposits due from banks in amount of AMD 1,107,635 thousand (as at 31 December 2019 the Group has the balances included loans and deposits to banks in amount of AMD 2,419,415 thousand).

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

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the period ended 31 March 2020 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2020	**11,748,050**	**11,748,050**
New assets originated or purchased	148,546	148,546
Assets repaid	(9,183,571)	(9,183,571)
Foreign exchange adjustments	236,305	236,305
At 31 March 2020	**2,949,329**	**2,949,329**

	Stage 1	*Total*
ECL allowance as at 1 January 2020	**10,794**	**10,794**
New assets originated or purchased	14,576	14,576
Assets repaid	(21,659)	(21,659)
Changes to models and inputs used for ECL calculations	123	123
At 31 March 2020	**3,834**	**3,834**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the year ended 31 December 2019 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2019	**5,225,142**	**5,225,142**
New assets originated or purchased	8,474,615	8,474,615
Assets repaid	(2,123,043)	(2,123,043)
Foreign exchange adjustments	171,336	171,336
At 31 December 2019	**11,748,050**	**11,748,050**

	Stage 1	*Total*
ECL allowance as at 1 January 2019	**12,655**	**12,655**
New assets originated or purchased	42,666	42,666
Assets repaid	(44,372)	(44,372)
Changes to models and inputs used for ECL calculations	(788)	(788)
Foreign exchange adjustments	632	632
At 31 December 2019	**10,794**	**10,794**

(thousands of Armenian drams)

9. Loans and advances to customers

	31/03/2020	31/12/2019
Loans to customers	192,198,970	187,856,798
Overdrafts	37,696,865	35,709,999
Reverse repurchase agreements	7,193,092	7,066,707
Financial lease receivables	394,193	338,427
Factoring	132,182	144,376
Letter of credit	3,252	2,619
	237,618,554	**231,118,926**
Less − allowance for loan impairment	(5,025,178)	(4,440,087)
Total loans and advances to customers	**232,593,376**	**226,678,839**

	31/03/2020	31/12/2019
Large business loans	80,878,777	79,327,720
SME loans	41,404,018	40,479,951
Consumer loans	46,307,763	45,180,825
Mortgage loans	47,027,715	44,600,296
Gold loans	22,000,281	21,530,134
Gross loans and advances to customers	**237,618,554**	**231,118,926**
Less – allowance for impairment	(5,025,178)	(4,440,087)
Total loans and advances to customers	**232,593,376**	**226,678,839**

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

An analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans as of 31 March 2020

Large Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**73,893,985**	**824,701**	**4,609,034**	**79,327,720**
New assets originated or purchased	15,275,518			**15,275,518**
Assets repaid	(13,692,684)	(29,161)	(2,616)	(13,724,461)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(260,258)	260,258	-	-
Transfers to Stage 3	-	(438,848)	438,848	-
Recoveries			-	-
Amounts written off			-	-
At 31 March 2020	**75,216,561**	**616,949**	**5,045,266**	**80,878,777**

Large Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**172,644**	**237,277**	**1,501,688**	**1,911,608**
New assets originated or purchased	17,347			**17,347**
Assets repaid	(18,628)	-	(281)	**(18,909)**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	-	(158,842)	158,842	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	-	4,928	**4,928**
Unwinding of discount (recognised in interest revenue)			985	**985**
Changes to models and inputs used for ECL calculations	1,323	6,540	208,831	**216,693**
Recoveries			-	**-**
Amounts written off			-	**-**
At 31 March 2020	**172,686**	**84,974**	**1,874,993**	**2,132,653**

(thousands of Armenian drams)

An analysis of changes in the gross carrying value and corresponding ECL in relation to SME loans as of 31 March 2020

SME loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**38,242,644**	**480,226**	**1,757,081**	**40,479,951**
New assets originated or purchased	4,296,414			**4,296,414**
Assets repaid	(3,318,935)	2,805	(95,520)	**(3,411,650)**
Transfers to Stage 1	223,022	(223,022)	-	**-**
Transfers to Stage 2	(656,168)	663,752	(7,584)	**-**
Transfers to Stage 3	(21,046)	(183,292)	204,338	**-**
Recoveries			42,102	**42,102**
Amounts written off			(2,799)	**(2,799)**
At 31 March 2020	**38,765,930**	**740,469**	**1,897,619**	**41,404,018**

SME loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**382,857**	**25,185**	**558,522**	**966,564**
New assets originated or purchased	30,526			**30,526**
Assets repaid	(17,655)	-	(439)	**(18,094)**
Transfers to Stage 1	13,812	(13,812)	-	**-**
Transfers to Stage 2	(7,390)	13,322	(5,932)	**-**
Transfers to Stage 3	(212)	(4,999)	5,211	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,608)	61,613	37,005	**87,009**
Unwinding of discount (recognised in interest revenue)			2,236	**2,236**
Changes to models and inputs used for ECL calculations	963	1,783	(11,849)	**(9,103)**
Recoveries			42,102	**42,102**
Amounts written off			(2,799)	**(2,799)**
At 31 March 2020	**391,292**	**83,091**	**624,059**	**1,098,442**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans as of 31 March 2020

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**42,381,882**	**1,033,819**	**1,765,124**	**45,180,825**
New assets originated or purchased	6,403,456			**6,403,456**
Assets repaid	(4,425,670)	(44,378)	(453,074)	**(4,923,122)**
Transfers to Stage 1	255,171	(255,171)	-	**-**
Transfers to Stage 2	(1,191,831)	1,212,945	(21,114)	**-**
Transfers to Stage 3	(200,256)	(957,707)	1,157,962	**-**
Recoveries			187,272	**187,272**
Amounts written off			(540,668)	**(540,668)**
At 31 March 2020	**43,222,754**	**989,508**	**2,095,502**	**46,307,763**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**150,975**	**71,352**	**569,824**	**792,151**
New assets originated or purchased	18,969			**18,969**
Assets repaid	(9,879)	(1,656)	(11,710)	**(23,246)**
Transfers to Stage 1	16,887	(16,887)	-	**-**
Transfers to Stage 2	(4,151)	12,047	(7,896)	**-**
Transfers to Stage 3	(869)	(38,056)	38,925	**-**
Impact on period end ECL of exposures transferred between stages during the period	(15,981)	42,459	189,611	**216,089**
Unwinding of discount (recognised in interest revenue)			12,148	**12,148**
Changes to models and inputs used for ECL calculations	387	626	246,064	**247,077**
Recoveries			187,272	**187,272**
Amounts written off			(540,668)	**(540,668)**
At 31 March 2020	**156,338**	**69,885**	**683,570**	**909,793**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans as of 31 March 2020

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**42,785,196**	**351,489**	**1,463,611**	**44,600,296**
New assets originated or purchased	4,187,403			**4,187,403**
Assets repaid	(1,636,413)	1,906	(92,046)	**(1,726,554)**
Transfers to Stage 1	126,533	(126,533)	-	**-**
Transfers to Stage 2	(665,718)	667,720	(2,003)	**-**
Transfers to Stage 3	(5,018)	(310,023)	315,042	**-**
Recoveries			60,597	**60,597**
Amounts written off			(94,027)	**(94,027)**
At 31 March 2020	**44,791,983**	**584,558**	**1,651,174**	**47,027,715**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**31,245**	**17,258**	**623,509**	**672,012**
New assets originated or purchased	1,932			**1,932**
Assets repaid	(576)	-	(2,343)	**(2,918)**
Transfers to Stage 1	6,609	(6,609)	-	**-**
Transfers to Stage 2	(363)	815	(452)	**-**
Transfers to Stage 3	(4)	(8,173)	8,177	**-**
Impact on period end ECL of exposures transferred between stages during the period	(6,518)	33,198	28,536	**55,216**
Unwinding of discount (recognised in interest revenue)			2,247	**2,247**
Changes to models and inputs used for ECL calculations	396	771	81,194	**81,194**
Recoveries			60,597	**60,597**
Amounts written off			(94,027)	**(94,027)**
At 31 March 2020	**32,723**	**37,259**	**707,438**	**777,419**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold loans as of 31 March 2020

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**21,001,527**	**289,246**	**239,362**	**21,530,134**
New assets originated or purchased	7,229,482			**7,229,482**
Assets repaid	(6,461,718)	(92,034)	(153,584)	**(6,707,336)**
Transfers to Stage 1	37,383	(37,383)	-	**-**
Transfers to Stage 2	(361,191)	363,776	(2,585)	**-**
Transfers to Stage 3	(31,897)	(204,426)	236,323	**-**
Recoveries			46,885	**46,885**
Amounts written off			(98,884)	**(98,884)**
At 31 March 2020	**21,413,586**	**319,178**	**267,517**	**22,000,281**

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**16,227**	**13,409**	**68,116**	**97,752**
New assets originated or purchased	10,259			**10,259**
Assets repaid	(3,795)	(3,227)	(10,729)	**(17,751)**
Transfers to Stage 1	1,649	(1,649)	-	**-**
Transfers to Stage 2	(2,700)	3,387	(687)	**-**
Transfers to Stage 3	(2,432)	(6,787)	9,219	**-**
Impact on period end ECL of exposures transferred between stages during the period	(1,624)	10,089	30,926	**39,391**
Unwinding of discount (recognised in interest revenue)			1,218	**1,218**
Changes to models and inputs used for ECL calculations	(1,068)	(302)	29,370	**28,000**
Recoveries			46,885	**46,885**
Amounts written off			(98,884)	**(98,884)**
At 31 March 2020	**16,517**	**14,920**	**75,434**	**106,871**

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

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

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

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired (stage 3) assets.

(thousands of Armenian drams)

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario						
		Cash	Property	Other*	Surplus collateral	Total collateral	Net exposure	Associated ECL
31 March 2020								
Corporate lending SME	1,897,619		4,061,573	538,708	(2,702,662)	1,897,619	-	624,059
Corporate lending Large	5,045,266		4,538,945	2,334,768	(1,828,447)	5,045,266	-	1,874,993
Residential mortgages	1,651,174		2,457,482	20,480	(826,788)	1,651,174	-	707,438
Gold	267,517		0	341,350	(80,136)	254,909	6,304	75,434
Consumer lending	2,095,502	0	3,639,575	566,848	(2,829,108)	659,128	718,187	683,570
	10,957,078	**0**	**14,697,575**	**3,802,154**	**(8,267,142)**	**9,508,096**	**724,491**	**3,965,493**

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario						
		Cash	Property	Other*	Surplus collateral	Total collateral	Net exposure	Associated ECL
31 December 2019								
Corporate lending SME	1,757,081		4,351,333	538,708	(3,132,959)	1,757,081	0	558,522
Corporate lending Large	4,609,034		5,319,825	2,020,552	(2,731,343)	4,609,034	0	1,501,688
Residential mortgages	1,463,611		2,413,002	20,480	(969,871)	1,463,611	0	623,509
Gold	239,362		–	401,780	(168,583)	227,032	6,165	68,361
Consumer lending	1,765,124	3,838	3,850,711	576,528	(3,352,492)	392,045	686,540	569,824
	9,834,212	**3,838**	**15,934,871**	**3,558,049**	**(10,355,249)**	**8,448,804**	**692,704**	**3,321,904**

* Vehicles, machinery, other fixed assets, inventory and trade receivables.

Concentration of loans and advances to customers

As at 31 March 2020 the Group had a concentration of loans totaling to AMD 51,386,150 thousand due from the ten largest groups of borrowers (21.63% of gross loan portfolio) (2019: AMD 48,564,640 thousand or 21.01% of gross loan portfolio). An allowance for impairment in amount of AMD 1,714,454 thousand (2019: AMD 1,396,186 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	31/03/2020	*31/12/2019*
Private companies	112,616,038	110,354,663
Individuals	117,226,571	113,067,740
Financial organizations	7,193,092	7,066,707
State companies	582,853	629,816
	237,618,554	**231,118,926**

Loans are made principally within Armenia in the following industry sectors:

	31/03/2020	*31/12/2019*
Consumer loans to individuals	68,308,044	66,710,959
Mortgage	47,027,715	44,600,296
Trade	33,218,930	33,532,841
Other	45,410,996	42,749,221
Construction	12,488,879	13,168,716
Services	10,122,503	9,276,092
Agriculture (including loans to individuals)	8,038,851	8,573,890
Energy	3,680,290	3,349,927
Manufacturing	6,341,190	6,191,512
Transport and communication	2,981,156	2,965,472
Gross loan portfolio	**237,618,554**	**231,118,926**
Less allowance for loan impairment	(5,025,178)	(4,440,087)
Total	**232,593,376**	**226,678,839**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 March 2020 is as follows:

	31/03/2020	*31/12/2019*
Gross investment in finance lease, receivable		
Not later than 1 year	95,591	75,230
1-5 years	374,158	324,670
More than 5 years	81,468	82,865
	551,217	**482,765**
Unearned future finance income on finance lease	(157,024)	(144,338)
Net investment in financial lease, before impairment allowance	**394,194**	**338,427**
Impairment allowance	(3,827)	(3,398)
Net investment in finance lease	**390,367**	**335,029**

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31/03/2020	*31/12/2019*
Debt securities at amortised		
RA government bonds	291,896	726,031
RA corporate bonds	1,009,226	959,738
Less – allowance for impairment	(5,760)	(5,809)
Debt securities at amortised cost	**1,295,362**	**1,679,960**
RA government bonds pledged under repo	-	-
Less – allowance for impairment	-	-
Debt securities at amortised pledged under repurchase agreements	**-**	**-**
Debt securities at FVOCI		
RA government bonds	16,740,561	13,102,410
RA corporate bonds	6,095,860	5,480,721
Debt securities at FVOCI	**22,836,421**	**18,583,131**
RA government bonds	2,057,322	-
Debt securities at FVOCI pledged under repurchase agreements	**2,057,322**	**-**
Equity securities at FVOCI		
Equity shares of OECD countries	5,333	5,333
RA equity shares	57,794	57,794
Equity securities at FVOCI	**63,127**	**63,127**
Total	**26,252,233**	**20,326,218**

(thousands of Armenian drams)

10. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost is as follows as at 31 March 2020:

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2020	1,685,769	**1,685,769**
New assets originated or purchased	53,688	**53,688**
Assets repaid	(438,335)	**(438,335)**
At 31 March 2020	1,301,122	**1,301,122**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2020	5,809	**5,809**
New assets originated or purchased	-	**-**
Assets repaid	(62)	**(62)**
Changes to models and inputs used for ECL calculations	13	**13**
At 31 March 2020	5,760	**5,760**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2020	18,583,131	**18,583,131**
New assets originated or purchased	8,280,859	**8,280,859**
Assets repaid	-	**-**
Assets sold	(1,970,247)	**(1,970,247)**
At 31 March 2020	24,893,743	**24,893,743**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2020	69,408	**69,408**
New assets originated or purchased	20,378	**20,378**
Assets repaid	-	**-**
Assets sold	5,218	**5,218**
Changes to models and inputs used for ECL calculations	(10,360)	**(10,360)**
At 31 March 2020	84,644	**84,644**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost is as follows as at 31 March 2019:

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2019	2,671,339	**2,671,339**
New assets originated or purchased	1,685,769	**1,685,769**
Assets repaid	(2,671,339)	**(2,671,339)**
At 31 March 2019	1,685,769	**1,685,769**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2019	9,823	**9,823**
New assets originated or purchased	5,809	**5,809**
Assets repaid	(9,823)	**(9,823)**
Changes to models and inputs used for ECL calculations	-	**-**
At 31 March 2019	5,809	**5,809**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

(thousands of Armenian drams)

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2019	22,702,608	**22,702,608**
New assets originated or purchased	8,161,161	**8,161,161**
Assets repaid	(937,755)	**(937,755)**
Assets sold	(11,342,883)	**(11,342,883)**
At 31 March 2019	18,583,131	**18,583,131**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2019	274,838	**274,838**
New assets originated or purchased	22,003	**22,003**
Assets repaid	(8,360)	**(8,360)**
Assets sold	(134,219)	**(134,219)**
Changes to models and inputs used for ECL calculations	(84,854)	**(84,854)**
At 31 March 2019	69,408	**69,408**

(thousands of Armenian drams)

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Equipment*	*Vehicles*	*Computers*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2019	**5,857,027**	**779,101**	**246,408**	**4,059,190**	**940,895**	**1,398,031**	**2,392,309**	**15,672,961**
Additions	286	12,161	-	22,709	11,130	16,750	4,175	67,211
Disposals and write-offs	-	-	-	-	-	-		-
Internal flow	-	-	-	-	(12,119)	-		(12,119)
31 March 2020	**5,857,313**	**791,262**	**246,408**	**4,081,899**	**939,906**	**1,414,781**	**2,396,484**	**15,728,053**
Accumulated depreciation								
31 December 2019	**-**	**595,022**	**208,270**	**2,798,017**	**672,126**	**832,143**	**391,894**	**5,497,472**
Depreciation charge	55,160	9,328	1,170	84,961	12,586	28,801	109,176	301,182
Disposals and write-offs	-	-	-	-	-	-		-
31 March 2020	**55,160**	**604,350**	**209,440**	**2,882,978**	**684,712**	**860,944**	**501,070**	**5,798,654**
Net book value								
31 December 2019	**5,857,027**	**184,079**	**38,138**	**1,261,173**	**268,769**	**565,888**	**2,000,415**	**10,175,489**
31 March 2020	**5,802,153**	**186,912**	**36,968**	**1,198,921**	**255,194**	**553,837**	**1,895,414**	**9,929,399**

	Land and buildings	*Equipment*	*Vehicles*	*Computers*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**-**	**11,854,579**
IFRS 16 impact							**2,256,704**	
Additions	85,512	82,339	35,793	433,061	90,757	116,801	135,605	979,868
Disposals and write-offs	-	(73,422)	-	(48,844)	(67,418)	-		(189,684)
Effect of revaluation	771,494							771,494
31 December 2019	**5,857,027**	**779,101**	**246,408**	**4,059,190**	**940,895**	**1,398,031**	**2,392,309**	**15,672,961**
Accumulated depreciation								
31 December 2018	**385,992**	**629,088**	**206,385**	**2,535,956**	**628,302**	**729,818**	**-**	**5,115,541**
Depreciation charge	200,944	39,356	1,885	310,860	52,388	102,325	391,894	1,099,652
Disposals and write-offs	-	(73,422)	-	(48,799)	(8,564)	-		(130,785)
Effect of revaluation	(586,936)							(586,936)
31 December2019	**-**	**595,022**	**208,270**	**2,798,017**	**672,126**	**832,143**	**391,894**	**5,497,472**
Net book value								
31 December 2018	**4,614,029**	**141,096**	**4,230**	**1,139,017**	**289,254**	**551,412**	**-**	**6,739,038**
31 December 2019	**5,857,027**	**184,079**	**38,138**	**1,261,173**	**268,769**	**565,888**	**2,000,415**	**10,175,489**

(thousands of Armenian drams)

11. Property and equipments (continued)

Revaluation of assets

The buildings and land owned by the Group where revalued by an independent appraiser in 2019. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 809,529 thousand as of 31 March 2020 (2019: AMD 819,487 thousand).

Fully depreciated items

As of 31 March 2020 property, plant and equipment included fully depreciated assets in amount of AMD 1,827,734 thousand (2019: AMD 1,952,561 thousand).

Property, plant and equipment in the phase of installation

As of 31 March 2020 property, plant and equipment included assets in the phase of installation in amount of AMD 87,369 thousand (2019: AMD 123,757 thousand).

Restrictions on title of property, plant and equipment

As of 31 March 2020 and 31 December 2019, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

The movements in goodwill and other intangible assets were as follows:

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2019	**838,367**	**145,365**	**217,388**	**1,201,120**
Additions	3,171	-	-	3,171
Disposals and write-offs	-	-	-	-
31 March 2020	**841,538**	**145,365**	**217,388**	**1,204,291**
Accumulated amortization and impairment				
31 December 2019	**715,166**	**55,406**	**93,288**	**863,860**
Amortisation charge	10,343	798	7,018	18,159
Disposals and write-offs	–	–	–	–
31 March 2020	**725,509**	**56,204**	**100,306**	**882,019**
Net book value				
31 December 2019	**123,201**	**89,959**	**124,100**	**337,260**
31 March 2020	**116,029**	**89,161**	**117,082**	**322,272**

(thousands of Armenian drams)

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2018	**767,915**	**145,365**	**172,708**	**1,085,988**
Additions	70,452	-	44,680	115,132
Disposals and write-offs	–	–	–	–
31 December 2019	**838,367**	**145,365**	**217,388**	**1,201,120**
Accumulated amortization and impairment				
31 December 2018	**671,969**	**52,216**	**65,472**	**789,657**
Amortisation charge	43,197	3,190	27,816	74,203
Disposals and write-offs	–	–	–	–
31 December 2019	**715,166**	**55,406**	**93,288**	**863,860**
Net book value				
31 December 2018	**95,946**	**93,149**	**107,236**	**296,331**
31 December 2019	**123,201**	**89,959**	**124,100**	**337,260**

(thousands of Armenian drams)

12. Intangible assets (continued)

Fully amortized items

As of 31 March 2020, intangible assets included fully amortized assets in amount of AMD 595,503 thousand (2019: AMD 595,503 thousand).

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 March 2020 and 31 December 2019 are shown below:

	31/03/2020	31/12/2019
Property, plant and equipment	1,944,016	1,994,157
Other assets	29,771	29,771
Total repossessed collateral	**1,973,787**	**2,023,928**

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

14. Other assets and liabilities

Other assets comprise:

	31/03/2020	31/12/2019
Other financial assets		
Accounts receivables	226,429	482,268
Receivables from unsettled transactions	73,089	167,712
Receivables on cash transfers	18,398	50,897
Total other financial assets	**317,916**	**700,877**
Less – allowance for impairment of other financial assets	(16,270)	(17,427)
Total net other financial assets	**301,646**	**683,450**
Other non-financial assets		
Precious metals	670,620	1,018,709
Prepayments to suppliers	295,981	162,013
Other prepaid taxes	116,333	76,796
Materials	246,127	295,309
Unamortized insurance premium	27,452	35,072
Settlements with employees	318	15,849
Other	1,865	1,865
Total other non-financial assets	**1,358,696**	**1,605,613**
Other assets	**1,660,342**	**2,289,063**

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2020	**9,342**	**74**	**8,011**	**17,427**
Assets originated and repaid (net amount)	1,184	35	(45)	**1,174**
Transfers to Stage 1	6	(4)	(2)	**-**
Transfers to Stage 2	(2)	2	-	**-**
Transfers to Stage 3	(26)	(51)	77	**-**
Impact on period end ECL of exposures transferred between stages during the period	(3,295)	50	790	**(2,455)**
Recoveries			1,850	**1,850**
Amounts written off			(1,726)	**(1,726)**
At 31 March 2020	**7,209**	**107**	**8,954**	**16,270**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**15,401**	**66**	**10,259**	**25,726**
Assets originated and repaid (net amount)	1,462	39	3,227	**4,728**
Transfers to Stage 1	278	(2)	(276)	**-**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	-	(1)	1	**-**
Impact on period end ECL of exposures transferred between stages during the period	(7,931)	(28)	(9,598)	**(17,557)**
Recoveries			28,255	**28,255**
Amounts written off			(23,857)	**(23,857)**
Foreign exchange adjustments	133	-	(1)	**132**
At 31 December 2019	**9,342**	**74**	**8,011**	**17,427**

Other liabilities comprise:

	31/03/2020	31/12/2019
Other financial liabilities		
Due to personnel	1,324,477	833,744
Accounts payables	458,135	394,400
Total other financial liabilities	**1,782,612**	**1,228,144**
Other non-financial liabilities		
Tax payable, other than income tax	160,358	400,969
Grants related to assets	20,558	21,164
Other	3,293	9,498
Total other non-financial liabilities	**184,209**	**431,631**
Total other liabilities	**1,966,821**	**1,659,775**

15. Amounts due to banks

Amounts due to banks comprise:

	31/03/2020	**31/12/2019**
Loans from banks	1,680,296	5,131,658
Repurchase agreements with CBA	2,002,054	-
Correspondent accounts of other banks	148,411	145,943
Other liabilities	363,028	1,440,283
Total amounts due to banks	**4,193,789**	**6,717,884**

As of 31 March 2020 the Group has received loans from 2 banks (2019: from 4 banks).

(thousands of Armenian drams)

As of 31 March 2020 87% of correspondent accounts of other banks are concentrated within 1 counterparty (2019: 87% within 1 counterparty).

(thousands of Armenian drams)

16. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31/03/2020			*31/12/2019*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps – foreign currency	3,944,821	–	39,757	4,650,063	–	220,078
Total derivative assets/liabilities	**3,944,821**	**–**	**39,757**	**4,650,063**	**–**	**220,078**

As of 31 March 2020, the Group has positions in the following types of derivatives:

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

17. Amounts due to customers

The amounts due to customers include the following:

	31/03/2020	**31/12/2019**
Corporate customers		
Current/settlement accounts	54,309,057	55,943,380
Time deposits	67,167,855	66,314,442
	121,476,912	**122,257,822**
Retail customers		
Current/settlement accounts	27,529,435	27,979,337
Time deposits	75,092,497	71,934,985
	102,621,932	**99,914,322**
Amounts due to customers	**224,098,844**	**222,172,144**

As of 31 March 2020 included in amounts due to customers are deposits amounting to AMD 38,463,864 thousand (2019: AMD 36,954,707 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates their carrying amount.

As of 31 March 2020 the aggregate balance of top ten customers of the Group amounts to AMD 85,293,763 thousand (2019: AMD 88,104,066 thousand) or 38.06% of total customer accounts (2019: 39.66%).

18. Debt securities issued

Debt securities issued consisted of the following:

	31/03/2020	*31/12/2019*
Domestic bonds in USD	12,915,452	12,121,332
Domestic bonds in AMD	5,211,979	5,092,932
Domestic bonds in EUR	2,815,164	2,706,024
Debt securities issued	**20,942,595**	**19,920,288**

The contractual maturity of AMD and USD bonds ranges from 2021-2022, The contractual maturity of EUR denominated bonds is in 2021.Bonds issued by the Bank are listed on Armenia Securities Exchange.

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	31/03/2020	31/03/2019
Current tax charge	166,874	299,304
Deferred tax charge/(credit) – origination and reversal of temporary differences	2,326	71,460
Total income tax expense	**169,200**	**370,764**

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2020: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

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

	31/03/2020	31/03/2019
Profit before tax	**1,312,025**	**1,769,894**
Statutory tax rate	18%	20%
Theoretical income tax expense at the statutory rate	**236,165**	**353,979**
Non-deductible expenses	(66,965)	16,785
Income tax expense	**169,200**	**370,764**

Deferred tax assets and liabilities as of 31 March 2020 and 31 December 2019 and their movements for the respective periods comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 31 December 2018	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2019*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 March 2020*
Other liabilities	135,877	19,916	–	155,793	-	–	155,793
Repossessed assets	57,999	-	–	57,999	-	–	57,999
Loans and advances to customers	(569,724)	(271,630)	–	(841,354)	(17,813)	–	(859,167)
Investment securities at FVOCI	(384,764)	(41,086)	215,224	(210,626)	1,354	36,637	(172,635)
Property, plant and equipment	(181,314)	50,413	(271,624)	(402,526)	(6,289)	102,356	(306,459)
Other impairment and provisions	8,414	(23,846)	–	(15,432)	20,421	–	4,988
Amounts due to customers	(4,721)	(982)	–	(5,703)		–	(5,703)
Net deferred tax liabilities	**(938,233)**	**(267,219)**	**(56,400)**	**(1,261,850)**	**(2,327)**	**138,993**	**(1,125,184)**

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31/03/2020	**31/12/2019**
Loans from CBA	5,594,285	5,565,432
Loans from refinancing credit organizations	13,287,343	12,649,697
Loans from international financial institution	3,055,646	2,912,194
Loans from Government of the RA	50,082	50,083
Other borrowed funds	**21,987,356**	**21,177,406**

As of 31 March 2020 Loan from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

(thousands of Armenian drams)

Loans from international financial organizations include loans from Eurasian Development Bank.

Loans from refinancing credit organizations include loans from National Mortgage Company and Home for Youth.

(thousands of Armenian drams)

20. Other borrowed funds (continued)

Covenants

As at 31 March 2020 and 31 December 2019 the Group was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	31/03/20	*31/12/19*
Subordinated debt provided by related party	6,213,099	5,806,646
Subordinated loans	**6,213,099**	**5,806,646**

Subordinate debt represents a long term borrowing agreements, which, in case of the Group's default, would be subordinated to the Group's other obligations, including deposits and other debt instruments.

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity from January 2023 (2019: 7.12% and with contractual maturity to January 2023) (See note 35).

22. Commitments and contingencies

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

Commitments and contingencies

As of 31 March 2020 the Group's commitments and contingencies comprised the following:

	31/03/2020	*31/12/2019*
Credit related commitments		
Undrawn loan commitments	11,237,959	13,260,404
Financial guarantees	3,279,733	3,225,978
Letters of credit	1,302,840	1,834,846
Total	**15,820,532**	**18,321,228**
ECL	37,989	41,851

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

An analysis of changes in the ECLs at 31 March 2020 is as follows:

(thousands of Armenian drams)

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2020	**15,748**	**15,748**
New exposures	2,830	2,830
Expired exposures	(3,092)	(3,092)
Impact on period end ECL of exposures transferred between stages during the period	(2,176)	(2,176)
At 31 March 2020	**13,310**	**13,310**

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2020	9,464	**9,464**
New exposures	1,905	1,905
Expired exposures	(4,785)	(4,785)
Impact on period end ECL of exposures transferred between stages during the period	141	141
At 31 March 2020	**6,725**	**6,725**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2020	**16,638**	**16,638**
New exposures	3,271	3,271
Expired exposures	(2,789)	(2,789)
Impact on period end ECL of exposures transferred between stages during the period	834	834
At 31 March 2020	**17,954**	**17,954**

An analysis of changes in the ECLs at 31 December 2019 is as follows:

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2019	13,783	13,783
New exposures	9,083	9,083
Expired exposures	(3,822)	(3,822)
Impact on period end ECL of exposures transferred between stages during the period	(3,237)	(3,237)
Foreign exchange adjustments	(59)	(59)
At 31 December 2019	**15,748**	**15,748**

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2019	**16,203**	**16,203**
New exposures	4,914	4,914
Expired exposures	(6,502)	(6,502)
Impact on period end ECL of exposures transferred between stages during the period	(5,071)	(5,071)
Foreign exchange adjustments	(81)	(81)
At 31 December 2019	**9,464**	**9,464**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2019	**40,070**	**40,070**
New exposures	11,319	11,319
Expired exposures	(27,485)	(27,485)
Impact on period end ECL of exposures transferred between stages during the period	(7,282)	(7,282)
Foreign exchange adjustments	16	16
At 31 December 2019	**16,638**	**16,638**

(thousands of Armenian drams)

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 March 2020 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

23. Equity

As of 31 March 2020 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2019: AMD 16,416,633 thousand).

In accordance with the Bank's statues, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2019: 54,722 ordinary shares and 333 privileged shares).

The respective shareholdings as at 31 March 2020 and 31 December 2019 may be specified as follows:

	31/03/2020		***31/12/2019***	
	Paid-in share capital	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	16,416,633	**100**	**16,416,633**	**100**

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

(thousands of Armenian drams)

23. Equity (continued)

The preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes.

24. Net interest income

Net interest income comprises:

	01/01/20-31/03/20	01/01/19-31/03/19
Financial assets measured at amortized cost		
Loans to customers	5,980,637	5,218,336
Amounts due from banks	20,978	5,320
Investment securities	5,864	29,721
Cash equivalents	3,125	5,695
Other interest income	1,216	2,348
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI	456,208	504,508
Interest revenue calculated using effective interest rate	**6,468,028**	**5,765,928**
Trading securities	8,667	20,354
Finance leases	11,929	1,405
Other interest revenue	**20,596**	**21,759**
Total interest revenue	**6,488,624**	**5,787,687**
Amounts due to customers	2,162,918	1,605,937
Other borrowed funds	354,674	551,750
Debt securities issued	306,435	252,717
Subordinated loans	101,956	101,742
Amounts due to banks	13,930	126,659
Lease payables	55,266	59,535
Interest expense	**2,995,179**	**2,698,340**
Net interest income	**3,493,445**	**3,089,347**

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss at 31 March 2020 and 31 March 2019:

	Note	*01/01/20-31/03/20*	*01/01/19-31/03/19*
Cash and cash equivalents	6	1,260	1,525
Amounts due from banks	8	(6,960)	(5,550)
Loans and advances to customers	9	965,778	26,075
Debt securities measured at amortised cost	10	(49)	54
Other financial assets	14	(1,281)	5,092
Off-balance items	22	(3,861)	4,340
Total credit loss expense		**954,887**	**31,536**

26. Net fee and commission income

Net fee and commission income comprises:

	01/01/20-31/03/20	01/01/19-31/03/19
Plastic cards operations	385,673	271,561
Wire transfer fees	135,868	146,892
Settlement operation	71,244	53,835
Fees and commission income from loans	70,221	82,895
Guarantees and letters of credit	13,518	13,227
Other	105,478	79,864
Fee and commission income	**782,002**	**648,274**
Plastic cards operations	235,234	145,334
Wire transfer fees	39,166	40,391
Settlement operations	17,754	17,496
Guarantees and letters of credit	2,097	1,944
Other expenses	16,966	13,957
Fee and commission expense	**311,217**	**219,122**
Net fee and commission income	**470,785**	**429,152**

27. Net trading income

	01/01/20-31/03/20	01/01/19-31/03/19
Net gains from foreign currency transactions	390,495	282,789
Net gain/(loss) on derivative financial instruments	(133,025)	(8,395)
Net gain from trading securities	30,512	(9,066)
Total net trading income	**287,982**	**265,328**

(thousands of Armenian drams)

28. Other income

	01/01/20-3103/20	0/01/19-31/03/19
Fines and penalties received	167,707	86,513
Income from cash collection services	9,242	9,672
Net income from operations with precious metals	104,528	37,965
Dividend income	-	1,660
Income from grants	606	606
Other income	43,486	32,926
Total other income	**325,569**	**169,342**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	01/01/20-31/03/20	01/01/19-31/03/19
Salaries	1,499,481	1,307,288
Other expenses	39,729	22,671
Personnel expenses	**1,539,210**	**1,329,959**
Advertising costs	134,227	114,883
Operating lease expenses	8,524	18,869
Insurance of deposits	67,269	54,984
Expenses related to Armenian Card payment system	59,072	52,428
Security	57,880	48,748
Software maintenance expenses	57,174	54,669
Fixed assets maintenance	40,525	29,647
Communications	39,123	32,700
Consulting and other service	24,839	24,507
Insurance expenses	28,294	30,871
Utility expenses	36,928	35,756
Taxes, other than income tax, duties	41,079	14,115
Business trip expenses	5,434	5,659
Office supplies	14,124	14,268
Financial system mediator	8,039	7,012
Penalties paid	41	315
Other operating expenses	62,673	39,107
Other expenses	135,670	122,246
Other operating expenses	**820,915**	**700,784**

30. Risk management

Introduction

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

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Group and is designed to improve the financial position and the reputation of the Group.

The aim of the risk management process is the assistance to the management of the Group in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Group and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Group's authorized body. The identification, measurement, supervision

(thousands of Armenian drams)

and monitoring of the Group's risks are ongoing and regular processes. The risk analysis is an integral part of the Group's strategic planning, as well as the evaluation of investment programs. The Group's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Group's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Group, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Board

The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- Approval of complex measures, in agreement with the Board, based on the Group's risk management, associated with the Group's profitability in the critical situations, as well as operating, strategic, reputational and legal risks;
- Determining prohibitions for several transactions;
- Determining limits for transactions without collateral in inter-bank markets;
- Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Group's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Group's liquidity financial risks. The Executive Board is designed to fulfil the functions of the Group's Assets and Liabilities Management Committee.

Risk management division

The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Group, as well as monitoring over their implementation;
- Analysis of the risk level of loans issued by the Group and the monitoring over the lending process in the framework of program loans;
- Monitoring of issued loans, identification of issues related to them and reporting;
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property;
- Organization of the insurance process of the Group's property;
- Management of the doubtful loans portfolio.

Internal audit

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

Risk measurement and reporting systems

Depending upon various factors, the Group divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Group are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Group using the rating of international rating agencies (Moody's, S&P, Fitch), granted to international banks and organizations. The risk management division monitors the rating of internal bank counterparties of the Group and quarterly presents to the Bank's Executive Board approval the limits for each bank.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Group and its competitors.

The interest rate risk is managed by the Risk Management Division of the Group by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Group's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models for interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis.

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Group's Risk management division presents monthly analysis of the Group's expected repayments, amounts to be lent and the positions to the Group's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Group, limits of amounts attracted by the Group, their types or gross interest expenses, limits on concentrations of the financial sources used by the Group for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Group's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Group's assets and liabilities, the ways of coordinating the Group's other divisions activities, who can influence the Group's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.). The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti-money laundering legislation and Bank's internal legal acts.

Excessive risk concentrations

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

For avoiding the excessive risk concentrations, the Group's policy and processes includes special principles aimed at maintaining diversified assets types, loan and securities portfolios.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. 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 considering the possible credit risk. 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 Group 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 Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group 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 Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group 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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 91 days past due on its contractual payments.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as the quality of credits due to affiliated parties, the state of being rescheduled which are approved by the management.

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

For stage 1 and stage 2 loans to customers, as well as for individually not significant stage 3 exposures, the Group calculates ECL on portfolio level. The following portfolios are segregated by the Group.

- Large business loans;
- SME loans;
- Consumer loans;
- Mortgage loans;
- Gold loans

PDs for loans to customers are based on historic information and 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 to defaulted category during 12-month period from the total number of credits at the beginning of the period. In calculation of PDs the Group considers forward looking macroeconomic parameters that had significant impact on the probability of default estimated through time series regression analysis. The forecasts of PDs are evaluated based on the officially available forward looking macroeconomic parameters.

Based on the estimated deviation of the historical forecasts of the selected macroeconomic parameters from the actual trends three scenarios of the forward looking macroeconomic development are directed to the final outcome of three PD PIT transition matrices, which are weighted by 10%, 80% and 10% probabilities corresponding to the best, base and worst case scenarios.

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 Group 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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Loss given default

The Group 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 per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. 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.).

Significant increase in credit risk

The Group 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. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower 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;
- Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

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

- GDP annual growth;
- USD/AMD exchange rate
- Central Bank base rate growth
- Unemployment rate

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

31/03/2020	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	25,673	42,010,406	–	–	**42,036,079**
Amounts due from banks	8	Stage 1	431,160	2,518,170	–	–	**2,949,330**
Loans and advances to customers	9						
-SME loans		Stage 1	176,111	38,589,819	-	-	**38,765,930**
		Stage 2	-	-	740,469	-	**740,469**
		Stage 3	-	-	-	1,897,619	**1,897,619**
- Large business loans		Stage 1	30,827,666	44,388,896	-	-	**75,216,561**
		Stage 2	-	-	616,949	-	**616,949**
		Stage 3	-	-	-	5,045,266	**5,045,266**
- Consumer loans		Stage 1	1,629,086	41,593,668	-	-	**43,222,754**
		Stage 2	-	-	989,508	-	**989,508**
		Stage 3	-	-	-	2,095,502	**2,095,502**
- Mortgage loans		Stage 1	-	44,791,983	-	-	**44,791,983**
		Stage 2	-	-	584,558	-	**584,558**
		Stage 3	-	-	-	1,651,174	**1,651,174**
- Gold loans		Stage 1	-	21,413,586	-	-	**21,413,586**
		Stage 2	-	-	319,178	-	**319,178**
		Stage 3	-	-	-	267,517	**267,517**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	-	24,956,871			**24,956,871**
- Measured at amortised cost		Stage 1	-	1,301,122			**1,301,122**
Undrawn loan commitments	22	Stage 1	-	11,237,959			**11,237,959**
Letters of credit	22	Stage 1	-	1,302,840			**1,302,840**
Financial guarantees	22	Stage 1	-	3,279,733	-		**3,279,733**
Total			**33,089,696**	**277,385,052**	**3,250,662**	**10,957,078**	**324,682,488**

(thousands of Armenian drams)

31/12/2019	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	1,617,050	39,332,817	–	–	**40,949,867**
Amounts due from banks	8	Stage 1	402,560	11,345,490	–	–	**11,748,050**
Loans and advances to customers	9						
-SME loans		Stage 1	225,083	38,017,561			**38,242,644**
		Stage 2			480,226		**480,226**
		Stage 3				1,757,081	**1,757,081**
- Large business loans		Stage 1	29,458,414	44,435,571	–	–	**73,893,985**
		Stage 2	–	–	824,701		**824,701**
		Stage 3	–	–	–	4,609,034	**4,609,034**
- Consumer loans		Stage 1	1,311,307	41,070,575	–	–	**42,381,882**
		Stage 2	–	–	1,033,819		**1,033,819**
		Stage 3	–	–	–	1,765,124	**1,765,124**
- Mortgage loans		Stage 1	–	42,785,196	–	–	**42,785,196**
		Stage 2	–	–	351,489	–	**351,489**
		Stage 3	–	–	–	1,463,611	**1,463,611**
- Gold loans		Stage 1	–	21,001,527	–	–	**21,001,527**
		Stage 2	–	–	289,246	–	**289,246**
		Stage 3	–	–	–	239,362	**239,362**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	18,646,258	–	–	**18,646,258**
- Measured at amortised cost		Stage 1	–	1,685,769	–	–	**1,685,769**
Undrawn loan commitments	22	Stage 1	–	13,260,404	–	–	**13,260,404**
Letters of credit	22	Stage 1	–	1,834,846	–	–	**1,834,846**
Financial guarantees	22	Stage 1	–	3,225,978	–	–	**3,225,978**
Total			**33,014,414**	**276,641,991**	**2,979,480**	**9,834,212**	**322,470,098**

In the table below loans to customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises not past due loans below standard grade but not individually impaired.

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 March 2020 and 31 December 2019.

	31 March 2020			
	Armenia	*Other non- OECD countries*	*OECD countries*	*Total*
Cash and cash equivalents	50,014,157	3,190,646	25,673	**53,230,476**
Trading securities	286,299			**286,299**
Amounts due from banks	2,060,485	48	884,962	**2,945,495**
Loans and advances to customers	202,440,096	30,142,085	11,195	**232,593,376**
Investment securities	23,300,955	888,622	5,334	**24,194,911**
Securities pledged under repurchase agreements	2,057,322	-	-	**2,057,322**
Other financial assets	157,684	10,089	133,873	**301,646**
	280,316,998	**34,231,490**	**1,061,037**	315,609,525

(thousands of Armenian drams)

	31 December 2019			
	Armenia	*Other non- OECD countries*	*OECD countries*	*Total*
Cash and cash equivalents	46,376,762	5,939,464	27,706	**52,343,932**
Trading securities	646,487	-	-	**646,487**
Amounts due from banks	10,919,723	48	817,486	**11,737,257**
Loans and advances to customers	198,579,447	28,099,392	-	**226,678,839**
Investment securities	19,466,768	854,117	5,333	**20,326,218**
Securities pledged under repurchase agreements	-	-	-	**-**
Other financial assets	263,773	9,656	410,021	**683,450**
	276,252,961	**34,902,677**	**1,260,546**	312,416,183

30. Risk management (continued)

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Group denominated in Armenian drams and 12% on certain obligations of the Group denominated in foreign currency in Armenian drams and 6% on certain obligations of the Group denominated in foreign currency. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia. As at 31 March, these ratios were as follows:

	Threshold	*31/03/2020, %*	*31/12/2019, %*
N21 “General Liquidity Ratio” (highly liquid assets / total assets)	min 15%	27.12	26.22
N22 “Current Liquidity Ratio” (highly liquid assets / liabilities payable on demand)	min 60%	94.37	88.58

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 March 2020 based on contractual undiscounted repayment obligations. See Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

	31/03/2020					
	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***	***Total***
Financial liabilities						
Amounts due to banks	2,514,419	-	1,611,949	-	75,671	**4,202,039**
Derivative liabilities	39,757					**39,757**
Amounts due to customers	92,519,516	17,285,650	70,860,313	48,157,579	2,843,561	**231,666,619**
Other borrowed funds	217,115	567,476	2,832,828	14,074,967	10,216,943	**27,909,329**
Debt securities issued	644,183	-	631,480	1,347,568	20,379,000	**23,002,230**
Lease liabilities	29,393	58,992	418,180	1,190,760	1,121,893	**2,819,218**
Subordinated debt	-	202,408	214,810	6,980,866	-	**7,398,085**
Total undiscounted financial liabilities	**95,964,383**	**18,114,526**	**76,569,560**	**71,751,740**	**34,637,068**	**297,037,277**
Commitments and contingent liabilities	15,820,532	-	-	-	-	15,820,532

(thousands of Armenian drams)

	31/12/2019					
	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***	***Total***
Financial liabilities						
Amounts due to banks	4,394,207	631,017	1,636,123	-	71,955	**6,733,302**
Derivative liabilities	220,078					**220,078**
Amounts due to customers	91,167,285	13,765,198	73,745,223	48,848,056	2,706,244	**230,232,006**
Other borrowed funds	206,664	254,376	2,741,172	14,143,825	9,696,470	**27,042,506**
Debt securities issued	-	-	1,234,246	20,984,806	-	**22,219,052**
Lease liabilities	29,558	58,861	269,224	1,240,677	1,342,412	**2,940,733**
Subordinated debt	-	-	396,371	6,638,099	-	**7,034,469**
Total undiscounted financial liabilities	**96,017,792**	**14,709,452**	**80,022,358**	**91,855,462**	**13,817,082**	**296,422,146**
Commitments and contingent liabilities	18,321,227	-	-	-	-	18,321,227

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period "Within one year" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor.

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities and on net trading income, based on trading instruments held at 31 March. The sensitivity of equity is calculated by revaluing debt financial assets measured at FVOCI at 31 March for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 31/03/2020*	*Sensitivity of net interest income 31/03/2020*	*Sensitivity of equity 31/03/2020*
AMD	1.00%	(5)	(850,992)
USD	0.35%	-	(28,276)
EUR	0.15%	-	(649)

Currency	*Decrease in basis points 31/03/2020*	*Sensitivity of net interest income 31/03/2020*	*Sensitivity of equity 31/03/2020*
AMD	1.00%	5	850,992
USD	0.35%	-	28,276
EUR	0.15%	-	649

Currency	*Increase in basis points 31/12/2019*	*Sensitivity of net interest income 31/12/2019*	*Sensitivity of equity 31/12/2019*
AMD	1.00%	(26,123)	(697,754)
USD	1.60%	-	(119,346)
EUR	0.20%	-	(953)

Currency	*Decrease in basis points 31/12/2019*	*Sensitivity of net interest income 31/12/2019*	*Sensitivity of equity 31/12/2019*
AMD	3.50%	91,431	2,442,138
USD	0.50%	-	37,296
EUR	0.01%	-	48

(thousands of Armenian drams)

30. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management has set limits on positions by currency.

The tables below indicate the currencies to which the Group had significant exposure at 31 March on its non-trading monetary assets and liabilities. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	31 March 2020		***31 December 2019***	
	Change in currency rate in %	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
Currency				
USD	3.0%	(61,239)	3.5%	(61,826)
USD	(3.0%)	61,239	(3.5%)	61,826
EUR	6.5%	(2,745)	8.0%	4,217
EUR	(6.5%)	2,745	(8.3%)	(4,375)

Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Group. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Group are prepared by the Group’s Legal Department by cooperating with the Group’s appropriate departments and are approved by the Group’s Executive Board. In the Group’s day-to-day operations non-standard contracts between the Group and third parties are allowed only in case of appropriate conclusion from the Group’s Legal Department.

The IT risks are managed in accordance with internal legal acts.

The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts;
- Physical protection of the Group’s assets and critical documents (including loan contracts);
- Establishing and maintaining limits;
- Common preservation of property and records;
- Implementation and archiving of data journals;
- Implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Group’s risks and supervises the Group’s activity and operational risks.

The Group’s compliance with the standards is accompanied by the internal auditor’s periodic observations. The results of those observations are discussed by the Group’s management’s appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

(thousands of Armenian drams)

31. Fair value measurements

Fair value measurement procedures

The Group's management determines the policies and procedures for both recurring fair value measurement, such as trading and available-for-sale securities, derivatives and for non-recurring measurement, such as repossessed assets.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value

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

			31/03/2020		
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	211,683,410	**211,683,410**	**232,593,376**
Cash and cash equivalents	53,230,476	–	–	**53,230,476**	**53,230,476**
Amounts due from banks	–	–	2,945,495	**2,945,495**	**2,945,495**
Investment securities at amortised cost	–	–	1,315,052	1,315,052	**1,295,362**
Other financial assets	–	–	301,646	**301,646**	**301,646**
Financial liabilities					
Amounts due to customers	–	–	224,098,844	**224,098,844**	**224,098,844**
Other borrowed funds	–	–	21,987,356	**21,987,356**	**21,987,356**
Amounts due to banks	–	–	4,193,789	**4,193,789**	**4,193,789**
Debt securities issued		21,182,500	–	**21,182,500**	**20,942,595**
Subordinated debt	–	–	6,213,099	**6,213,099**	**6,213,099**
Other financial liabilities	–	–	1,782,612	**1,782,612**	**1,782,612**

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement procedures (continued)

	31/12/2019				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	206,045,428	**206,045,428**	**226,678,839**
Cash and cash equivalents	52,343,932	–	–	**52,343,932**	**52,343,932**
Amounts due from banks	–	–	11,737,257	**11,737,257**	**11,737,257**
Investment securities at amortised cost	–	–	1,713,412	1,713,412	**1,679,960**
Other financial assets	–	–	683,450	**683,450**	**683,450**
Financial liabilities					
Amounts due to customers	–	–	222,172,144	**222,172,144**	**222,172,144**
Other borrowed funds	–	–	21,177,406	**21,177,406**	**21,177,406**
Amounts due to banks	–	–	6,717,884	**6,717,884**	**6,717,884**
Debt securities issued		19,895,354	–	**19,895,354**	**19,920,288**
Subordinated debt	–	–	5,806,646	**5,806,646**	**5,806,646**
Other financial liabilities	–	–	1,228,144	**1,228,144**	**1,228,144**

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 3% to 24% per annum (2019: 3% to 24% per annum).

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

Financial instruments that are measured at fair value

	31/03/2020		
	Level 1	*Level 2*	*Total*
Financial assets			
Trading securities	–	286,299	**286,299**
Investment securities at FVOCI	-	22,899,549	**22,899,549**
Investment securities at FVOCI pledged under repurchase agreements	–	2,057,322	**2,057,322**
Total	**-**	**25,243,170**	**25,243,170**
Financial liabilities			
Derivative financial liabilities	–	37,989	**37,989**
Total	**–**	**37,989**	**37,989**
Net fair value	**-**	**25,205,181**	**25,205,181**

(thousands of Armenian drams)

	31/12/2019		
	Level 1	***Level 2***	***Total***
Financial assets			
Trading securities	–	646,487	**646,487**
Investment securities at FVOCI	-	18,646,258	**18,646,258**
Investment securities at FVOCI pledged under repurchase agreements	–	-	**-**
Total	**-**	**19,292,745**	**19,292,745**
Financial liabilities			
Derivative financial liabilities	–	220,078	**220,078**
Total	**–**	**220,078**	**220,078**
Net fair value	**-**	**19,072,667**	**19,072,667**

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

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement of non-financial assets and liabilities

	31/03/2020	
	Level 3	*Total*
Non financial assets		
Land and buildings	5,802,153	**5,802,153**
Total	**5,802,153**	**5,802,153**

	31/12/2019	
	Level 3	*Total*
Non financial assets		
Land and buildings	5,857,027	5,857,027
Total	**5,857,027**	**5,857,027**

Fair value measurements in Level 3

The Group's non financial assets classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

Non financial assets	*Land and buildings*	*Total*
Balance as at 1 January 2020	**5,857,027**	**5,857,027**
Purchases	286	286
Disposals	–	–
Revaluation	–	–
Depreciation charge	(55,160)	(55,160)
Net fair value at 31 March 2020	**5,802,153**	**5,802,153**

Non financial assets	*Land and buildings*	*Total*
Balance as at 1 January 2019	**4,614,029**	**4,614,029**
Purchases	85,512	**85,512**
Disposals	–	**–**
Revaluation	1,358,430	**1,358,430**
Depreciation charge	(200,944)	**(200,944)**
Net fair value at 31 December 2019	**5,857,027**	**5,857,027**

Fair value of the Group's main property assets is estimated based on appraisals performed by independent, professionally-qualified property appraisers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed at each reporting date.

The appraisal was carried out using a comparative and income methods that reflect observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the premise in question, including plot size, location, encumbrances and current use.

The land and buildings were revalued during 2019. The land and buildings were previously revalued on 31 December 2016.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

(thousands of Armenian drams)

32. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognised a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, which instead records a separate asset for any cash given.

As at 31 March 2020 the Group has securities sold under repurchase agreements in amount of AMD 2,057,322 thousand which were classified as measured at FVOCI (2019: there were no securities sold under repurchase agreements).

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as at 31 March 2020 as amounts due to banks with carrying amount of AMD 2,002,054 thousand (2019: the Group didn't have any balances)

33. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements which do not result in an offset in the consolidated statement of financial position:

				Related amounts not offset in the consolidated statement of financial position		
31/03/2020	***Gross amount of recognised financial assets***	***Gross amount of recognised financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial assets recognised in the consolidated statement of financial position***	***Financial instruments***	***Non-cash collateral received***	***Net amount***
Financial assets						
Amounts due from banks – reverse repo						
Loans and advances to customers – reverse repo	7,193,092	–	7,193,092	–	(7,193,092)	–
Total	**7,193,092**	**–**	**7,193,092**	**–**	**(7,193,092)**	**–**
Financial liabilities						
Amounts due to banks – repo	2,002,054	–	2,002,054	-	(2,002,054)	–
Total	**2,002,054**	**–**	**2,002,054**	**-**	(2,002,054)	**–**

				Related amounts not offset in the consolidated statement of financial position		
31/12/2019	***Gross amount of recognised financial assets***	***Gross amount of recognised financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial assets recognised in the consolidated statement of financial position***	***Financial instruments***	***Non-cash collateral received***	***Net amount***
Financial assets						
Amounts due from banks – reverse repo	3,054,369		3,054,369		(3,054,369)	
Loans and advances to customers – reverse repo	7,066,707	–	7,066,707	–	(7,066,707)	–
Total	**10,121,076**	**–**	**10,121,076**	**–**	**(10,121,076)**	**–**
Financial liabilities						
Amounts due to banks – repo	-	–	-	-	–	–

(thousands of Armenian drams)

Total	-	-	-	-	-	-

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 30 for the Group's contractual undiscounted repayment obligations.

	31/03/2020			*31/12/2019*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	53,230,476	-	**53,230,476**	52,343,932	-	**52,343,932**
Trading securities	-	286,300	**286,300**	5,875	640,612	**646,487**
Amounts due from banks	1,672,418	1,273,077	**2,945,495**	10,277,876	1,459,381	**11,737,257**
Loans and advances to customers	81,120,591	151,472,785	**232,593,376**	75,434,745	151,244,093	**226,678,838**
Investment securities	2,054,416	22,140,495	**24,194,911**	2,161,013	18,165,205	**20,326,218**
Securities pledged under repurchase agreements	2,057,322	-	**2,057,322**	-	-	**-**
Property, plant and equipment	416,472	9,512,926	**9,929,398**	-	10,175,489	**10,175,489**
Intangible assets	-	322,272	**322,272**	-	337,260	**337,260**
Repossessed assets	1,973,787	-	**1,973,787**	2,023,928	-	**2,023,928**
Other assets	1,606,174	54,168	**1,660,342**	2,253,915	35,147	**2,289,062**
Total	**144,131,656**	**185,062,021**	**329,193,678**	**144,501,284**	**182,057,188**	**326,558,472**
Liabilities						
Amounts due to banks	4,118,118	75,671	**4,193,789**	6,645,929	71,955	**6,717,884**
Derivative liabilities	39,757	-	**39,757**	220,078	-	**220,078**
Amounts due to customers	179,765,383	44,333,460	**224,098,843**	177,677,805	44,494,339	**222,172,144**
Other borrowed funds	2,468,244	19,519,112	**21,987,356**	2,020,552	19,156,854	**21,177,406**
Debt securities issued	563,595	20,379,000	**20,942,595**	241,488	19,678,800	**19,920,288**
Lease liabilities	504,876	1,494,270	**1,999,146**	-	2,085,366	**2,085,366**
Current income tax liabilities	436,473	-	**436,473**	522,946	-	**522,946**
Deferred income tax liabilities	-	1,125,185	**1,125,185**	-	1,261,850	**1,261,850**
Other liabilities	1,946,260	20,558	**1,966,818**	1,638,612	21,164	**1,659,776**
Other provisions	37,989	-	**37,989**	41,851	-	**41,851**
Subordinated debt	109,012	6,104,087	**6,213,099**	2,276	5,804,370	**5,806,646**
Total	**189,989,708**	**93,051,343**	**283,041,051**	**189,011,537**	**92,574,697**	**281,586,235**
Net position	**(45,858,052)**	**92,010,679**	**46,152,630**	**(44,510,253)**	**89,482,490**	**44,972,239**

The maturity analysis in the table above does not reflect the historical behavior and actual repayment pattern of term deposits. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The table below shows an analysis of assets and liabilities analysed according securities instant liquidity as at 31 March 2020.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

Highly liquid portion of investments at fair value through profit or loss and investments at fair value through other comprehensive income other than equity instruments are included in amounts due in the period "Demand and less than 1 month" as the Bank's management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities. Securities at amortised cost state securities are classified as demand and less than 1 month considering the availability of repo agreements.

	31 March 2020								
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*From 1 to 5 years*	*More than 5 years*	*Subtotal more than 12 months*	*No maturity*	*Total*
Cash and cash equivalents	53,230,476	0	0	53,230,476	0	0	0	0	53,230,476
Trading securities	65	0	0	65	0	286,235	286,235	0	286,300
Amounts due from banks	1,672,418	0	0	1,672,418	0	0		1,273,077	2,945,495
Loans and advances to customers	25,127,740	10,341,150	45,651,701	81,120,591	95,449,800	56,022,985	151,472,785	0	232,593,376
Investment securities	18,100,510	126,713	1,355,586	19,582,808	4,549,173	0	4,549,173	62,928	24,194,909
Securities pledged under repurchase agreements	2,057,322	0	0	2,057,322	0	0	0	0	2,057,322
Property, plant and equipment	35,623	70,567	310,282	416,472	1,194,081	284,860		8,033,985	9,929,398
Intangible assets	0	0	0	0	0	0	0	322,272	322,272
Repossessed assets	0	0	1,973,787	1,973,787	0	0	0	0	1,973,787
Other assets	1,258,003	49,892	298,278	1,606,174	46,405	7,763	54,168	0	1,660,342
Total assets	**101,482,157**	**10,588,322**	**49,589,634**	**161,660,113**	**101,239,459**	**56,601,843**	**157,841,302**	**9,692,262**	**329,193,680**
Liabilities									
Amounts due to banks	2,514,261	0	1,603,857	4,118,118	0	0	0	75,671	4,193,789
Derivative financial liabilities	39,757	0	0	39,757	0	0	0	0	39,757
Amounts due to customers	92,519,516	17,282,366	69,963,501	179,765,383	43,150,825	1,182,635	44,333,460	0	224,098,843
Other borrowed funds	191,203	388,746	1,888,295	2,468,244	10,595,175	8,923,937	19,519,112	0	21,987,356
Debt securities issued	563,595	0	0	563,595	0	20,379,000	20,379,000	0	20,942,595
Lease liabilities	29,393	58,986	416,498	504,876	1,021,062	473,208	1,494,270	0	1,999,146
Income tax liabilities	0	0	436,473	436,473	0	0	0	0	436,473
Deferred tax liabilities	0	0	0	0	1,125,185	0	1,125,185	0	1,125,185
Other liabilities	300,310	531,800	1,114,149	1,946,259	0	20,558	20,558	0	1,966,817
Other provisions	37,989	0	0	37,989	0	0	0	0	37,989
Subordinated debt	0	109,012	0	109,012	6,104,087	0	6,104,087	0	6,213,099
Total liabilities	**96,196,024**	**18,370,910**	**75,422,773**	**189,989,707**	**61,996,333**	**30,979,338**	**92,975,672**	**75,671**	**283,041,050**
Net position	5,286,134	(7,782,588)	(25,833,139)	(28,329,594)	39,243,126	25,622,505	74,482,222	9,616,591	46,152,630
Accumulated gap	5,286,134	(2,496,455)	(33,615,728)		13,409,986	74,482,222			

	31 December 2019								
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*From 1 to 5 years*	*More than 5 years*	*Subtotal more than 12 months*	*No maturity*	*Total*
Cash and cash equivalents	52,343,932	0	0	52,343,932	-	-	0	0	52,343,932
Trading securities	364,095	2	5,873	369,970	276,517	0	276,517	0	646,487
Amounts due from banks	9,202,641	1,075,235	0	10,277,876	0	0		1,459,381	11,737,257
Loans and advances to customers	14,391,130	13,204,908	47,838,708	75,434,746	94,978,198	56,265,895	151,244,093	0	226,678,839
Investment securities at FVOCI	13,087,267	156,545	1,258,925	14,502,738	1,012,662	3,067,731	4,080,393	63,127	18,646,258
Investment securities at amortised cost	239,477	199,056	287,697	726,229	953,731	0	953,731	0	1,679,960
Property, plant and equipment	0	0	0	0	411,948	1,588,468	2,000,416	8,175,073	10,175,489
Intangible assets	0	0	0	0	0	0		337,260	337,260
Repossessed assets	0	0	2,023,928	2,023,928	0	0	0	0	2,023,928
Other assets	1,852,042	45,596	356,277	2,253,915	7,650	25,633	33282.4011	1,865	2,289,062
Total assets	**91,480,584**	**14,681,341**	**51,771,408**	**157,933,334**	**97,640,705**	**60,947,727**	**158,588,433**	**10,036,706**	**326,558,472**
Liabilities									
Amounts due to banks	4,392,788	629,523	1,623,617	6,645,929	0	0	0	71,955	6,717,884
Derivative financial liabilities	220,078	0	0	220,078	0	0	0	0	220,078

(thousands of Armenian drams)

Amounts due to customers	91,166,853	13,760,663	72,750,289	**177,677,805**	43,395,690	1,098,648	**44,494,339**	0	**222,172,144**
Other borrowed funds	184,558	125,858	1,710,136	**2,020,552**	10,729,411	8,427,443	**19,156,854**	0	**21,177,406**
Debt securities issued	0	0	241,488	**241,488**	19,678,800	0	**19,678,800**	0	**19,920,288**
Lease liabilities	0	0	0	**0**	496,898	1,588,468	**2,085,366**	0	**2,085,366**
Income tax liabilities	0	0	522,946	**522,946**	0	0	**0**	0	**522,946**
Deferred tax liabilities	0	0	0	**0**	1,261,850	0	**1,261,850**	0	**1,261,850**
Other liabilities	292,959	101,907	1,243,746	**1,638,612**	0	21,164	**21,164**	0	**1,659,776**
Other provisions	41,851	0	0	**41,851**	0	0	**0**	0	**41,851**
Subordinated debt	0	0	2,276	**2,276**	5,804,370	0	**5,804,370**	0	**5,806,646**
Total liabilities	**96,299,087**	**14,617,952**	**78,094,499**	**189,011,537**	**81,367,019**	**11,135,723**	**92,502,742**	**71,955**	**281,586,235**
Net position	(4,818,502)	63,390	(26,323,091)	(31,078,203)	16,273,686	49,812,004	76,050,441	9,964,751	**44,972,238**
Accumulated gap	(4,818,502)	(4,755,112)	26,259,701)		(10,049,405)	76,050,441			

35. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of these consolidated financial statements, related parties include the Parent, entities under common control, members of Group’s Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

(thousands of Armenian drams)

35. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

The income and expense arising from related party transactions are as follows:

	31/03/20			*31/12/19*		
	Parent	***Entities under common control***	***Key management personnel and their close family members***	***Parent***	***Entities under common control***	***Key management personnel and their close family members***
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	**24**	**33,364,278**	**530,410**	**7,263**	**21,618,927**	**594,758**
Loans issued during the period	793	4,905,422	**212,218**	111,602	20,793,012	675,549
Loan repayments during the period	(817)	(1,755,469)	**(158,783)**	(118,841)	(8,710,648)	(734,539)
Loans outstanding at end of reporting period, gross	**-**	**36,514,231**	**583,845**	**24**	**33,701,291**	**535,768**
Less: allowance for loan impairment	-	(365,142)	**(5,838)**	(0)	(337,013)	(5,358)
Loans outstanding at end of reporting period, net	**-**	**36,149,089**	**578,007**	**24**	**33,364,278**	**530,410**
Amounts due to customers						
Deposits at 1 January	**682,507**	**59,150,090**	**599,218**	**213,839**	**46,019,356**	**564,144**
Deposits received during the period	445,236	70,787,301	585,439	1,489,880	612,323,029	3,552,176
Deposits repaid during the period	(430,475)	(70,961,736)	(566,121)	(1,021,212)	(599,192,295)	(3,517,102)
Deposits as of end of reporting period	**697,268**	**58,975,655**	**618,536**	**682,507**	**59,150,090**	**599,218**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	-	5,806,647		-	**5,852,818**	
Subordinated debt repaid during the period	-	710,948	-	-	(97,197)	-
Net result from FX revaluation	-	(304,497)	-	-	51,026	-
Subordinated debt as of end of reporting period	**-**	**6,213,098**	**-**	**-**	**5,806,647**	**-**
Items not recognised in the consolidated statement of financial position						
Guarantees given	-	196,597	27,673	-	188,042	26,863
Consolidated statement of comprehensive income						
Interest income	-	731,368	9,100	-	2,271,369	34,727
Fee and commission income	19	6,922	99	93	34,874	852
Other income	546	13,459	222	1,855	85,874	748
Interest expense	(3,406)	(604,632)	(6,897)	(2,176)	(2,321,838)	(23,087)
Impairment charge	-	(28,129)	(481)	73	(118,640)	650
Other expenses	-	(10,848)	(8,158)	-	(45,132)	(32,661)

Compensation of key management personnel was comprised of the following:

	31/03/2020	*31/03/2019*
Salaries and other short-term benefits	138,146	114,074
Total key management personnel compensation	**138,146**	**114,074**

(thousands of Armenian drams)

36. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
31/03/2020				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
31/12/2019				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

37. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Lease liabilities*	*Total liabilities from financing activities*
Carrying amount at 31 January 2019	18, 20, 21	**16,653,444**	**15,684,413**	**5,852,819**	**2,256,704**	**40,447,380**
Proceeds from issue		14,211,537	8,141,849	-	125,279	22,478,665
Redemption		(10,818,447)	(2,701,525)	-	(524,855)	(14,044,827)
Foreign currency translation		(161,414)	16,665	(51,026)	-	(195,775)
Other		35,168	36,004	4,853	228,238	304,263
Carrying amount at 31 December 2019	18, 20, 21	**19,920,288**	**21,177,406**	**5,806,646**	**2,085,366**	**48,989,706**
Proceeds from issue		935,222	1,104,565	-	4,174	2,043,961
Redemption		(935,222)	(501,787)	-	(145,659)	(1,582,668)
Foreign currency translation		715,874	149,760	304,497	-	1,170,131
Other		306,433	57,412	101,956	55,266	521,067
Carrying amount at 31 March 2020	18, 20, 21	**20,942,595**	**21,987,356**	**6,213,099**	**1,999,147**	**51,142,197**

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities

38. Events after the reporting period

According to decision of extraordinary Meeting of Shareholders dated on 02 April 2020 has been decided to increase the Bank's statutory capital by AMD 3,531,000 thousand, for which additionally allocate 11.770 ordinary shares at AMD 300,000 par value .

The new shareholding structure is as follows

Shareholder	*Paid-in share capital*	*%*
Advanced Global Investments LLC	14,539,800	72.89
Advanced Global Investments LLC /preference shares/	33	-
HayPost Trust Management B.V. Company	4,410,600	22.11
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	997,200	5.00

(thousands of Armenian drams)

Total	**19,947,633**	**100.0**

39. Capital adequacy

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

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

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The Group 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 Basel Capital Accord 1988 principles, banks have to maintain a ratio of total capital to risk weighted assets and a ratio of core capital to risk weighted assets ("N1.1 and N1.2 statutory capital ratios") above the prescribed minimum levels. As at 31 March 2020 and 31 December 2019, the minimum levels of N1.1 and N1.2 ratios were 10% and 12% respectively. The Group is in compliance with the statutory capital ratios as at 31 March 2020 and 31 December 2019.

The following table shows the composition of capital position calculated in accordance with requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles , as at 31 March 2020 and December 31 2019:

	2020	*2019*
Tier 1 capital	34,150,970	33,084,864
Tier 2 capital	6,818,629	7,248,251
Total capital	**40,969,599**	**40,333,115**
Risk-weighted assets	**287,972,486**	**276,192,405**
N1.1 capital adequacy ratio	**11.86%**	**x**
N1.2 capital adequacy ratio	**14.23%**	**14.60%**

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

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