

Converse Bank Closed Joint-Stock Company

Consolidated financial statements

*Year ended 31 December 2020
together with independent auditor's report*

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Independent auditor's report

To the Board and Shareholders of
Converse Bank Closed Joint-Stock Company

Opinion

We have audited the consolidated financial statements of Converse Bank Closed Joint-Stock Company (the Bank) and its subsidiary (together, the Group) which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed it
<i>Allowance for impairment of loans and advances to customers</i>	
<p>Allowance for impairment of loans and advances to customers is a key audit matter due to both the significance of loans and advances to customers and the complexity and judgments related to the estimation of expected credit losses ("ECL") under IFRS 9 <i>Financial Instruments</i> ("IFRS 9").</p> <p>The calculation of ECL on portfolio basis involves estimation techniques that use complex statistical modelling and expert judgment. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data, which is adjusted for forward looking information, including forecast of macroeconomic parameters. ECL on portfolio basis are highly impacted by assessment of whether a significant increase in credit risk has occurred since initial recognition. This assessment is primarily based on the following criteria - days past due (including borrower's overdue exposures in other financial institutions) and renegotiation of loan terms due to deterioration of financial position of the borrower.</p> <p>The calculation of ECL for significant credit-impaired financial assets on an individual basis requires assessment of estimated future cash flows from the realization of collateral and other sources.</p> <p>The management updated ECL estimations techniques and macroeconomic parameters in 2020 due to COVID-19 impact on the Group's portfolio of loans and advances to customers.</p> <p>The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have a material effect on the financial results of the Group.</p> <p>Information on the allowance for impairment of loans and advances to customers is included in Note 9 "Loans and advances to customers" and Note 30 "Risk management".</p>	<p>We focused our audit on the following:</p> <ul style="list-style-type: none"> ▶ Analysis of credit risk models and assumptions used to determine ECL on portfolio basis, including updates to models as compared to prior period due to impact of COVID-19; ▶ Testing controls over the Group's process for identification of significant increase in credit risk; ▶ Testing the ECL for significant credit-impaired loans and advances to customers on an individual basis. <p>To test the allowance calculated on a portfolio basis, we analyzed underlying statistical models, key inputs and assumptions used and forward-looking information incorporated in the calculation of ECL, including updated forecast of macroeconomic parameters. We tested key statistical data underlying credit risk factors calculation, such as overdue days of loans, statistics of recoveries of loans and advances to customers after the default date and behavior of defaulted exposures from the initial recognition date to the default date. We also tested the design and operating effectiveness of the key controls over the process for identification of significant increase in credit risk and assessed the consistency of application of the criteria selected by management to identify significant increase in credit risk as of the reporting date.</p> <p>For significant credit-impaired exposures, we tested calculation of estimated future cash flows from sale of collateral and other sources.</p> <p>We also performed procedures regarding the consolidated financial statements disclosures of the Group's exposure to credit risk.</p>

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board for the consolidated financial statements

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

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

The Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

We also provide the Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



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

The partner in charge of the audit resulting in this independent auditor's report is Eric Hayrapetyan.

CJSC Ernst & Young
Yerevan, Armenia

Partner (Assurance)

30 April 2021

Eric Hayrapetyan



(thousands of Armenian drams)

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

Chief Accountant

Consolidated statement of profit and loss
for the period ended 31 December 2020

(thousands of Armenian drams)

	Note	2020	2019
Interest revenue calculated using effective interest rate	24	25,442,255	23,965,984
Other interest revenue	24	161,705	127,397
Interest expense	24	(11,573,832)	(11,140,589)
Net interest income	24	14,030,128	12,952,792
Credit loss expense	25	(6,112,748)	(1,204,198)
Net interest income after credit loss expense		7,917,380	11,748,594
Fee and commission income	26	3,102,283	3,194,074
Fee and commission expense	26	(1,332,674)	(1,020,933)
Net trading income	27	1,112,370	1,093,450
Net gain from foreign currency translation		236,093	65,291
Gains less losses from investment securities measured at fair value through other comprehensive income		730,554	597,430
Other income	28	1,185,359	1,250,732
Non-interest income		5,033,985	5,180,044
Personnel expenses	29	(5,038,376)	(5,540,998)
Depreciation of property and equipment and right-of-use asset	11	(1,185,548)	(1,099,011)
Amortization of intangible assets	12	(58,378)	(74,203)
Administrative and other operating expenses	29	(3,358,962)	(3,253,254)
Non-interest expense		(9,641,264)	(9,967,466)
Profit before income tax expense		3,310,101	6,961,172
Income tax expense	19	(530,897)	(1,509,035)
Profit for the year		2,779,204	5,452,137

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the period ended 31 December 2020

(thousands of Armenian drams)

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Profit for the year		2,779,204	5,452,137
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation of property and equipment		–	678,391
Income tax effect	19	–	(122,110)
Gains on equity instruments at fair value through other comprehensive income		–	117,487
Income tax effect	19	–	(23,497)
Net other comprehensive income not to be reclassified subsequently to profit or loss		–	650,271
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealised (losses)/gains on debt securities at FVOCI		(658,947)	747,964
Realised gains on debt securities at FVOCI transferred to profit or loss		(730,554)	(597,436)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		26,332	(205,430)
Income tax effect	19	245,370	9,882
Net other comprehensive loss to be reclassified subsequently to profit or loss		(1,117,799)	(45,020)
Other comprehensive (loss)/income for the year, net of tax		(1,117,799)	605,251
Total comprehensive income for the year		1,661,405	6,057,388

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the period ended 31 December 2020
(thousands of Armenian drams)

	Note	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		-	-	900,480	-	-	(900,480)	-
Dividends to shareholders		-	-	-	-	-	(850,381)	(850,381)
Transactions with owners		-	-	900,480	-	-	(1,750,861)	(850,381)
Profit for the year		-	-	-	-	-	5,452,137	5,452,137
Other comprehensive income for the year		-	-	-	48,970	556,281	-	605,251
Total comprehensive income for the year		-	-	-	48,970	556,281	5,452,137	6,057,388
Transfer of accumulated revaluation reserve at disposal of equity instruments at FVOCI		-	-	-	(910,962)	-	910,962	-
Depreciation of revaluation reserve		-	-	-	-	(126,270)	126,270	-
Balance as at 31 December 2019		16,416,633	63,233	2,798,799	789,418	3,487,892	20,685,333	44,241,308
Balance as at 1 January 2020		16,416,633	63,233	2,798,799	789,418	3,487,892	20,685,333	44,241,308
Issue of share capital	23	3,531,000	-	-	-	-	(1,117,666)	2,413,334
Distribution to general reserve		-	-	829,006	-	-	(829,006)	-
Transactions with owners		3,531,000	-	829,006	-	-	(1,946,672)	2,413,334
Profit for the year		-	-	-	-	-	2,779,204	2,779,204
Other comprehensive loss for the year		-	-	-	(1,117,799)	-	-	(1,117,799)
Total comprehensive income for the year		-	-	-	(1,117,799)	-	2,779,204	1,661,405
Depreciation of revaluation reserve		-	-	-	-	(127,204)	127,204	-
Balance as at 31 December 2020		19,947,633	63,233	3,627,805	(328,381)	3,360,688	21,645,069	48,316,047

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the period ended 31 December 2020
(thousands of Armenian drams)

	<i>Note</i>	31 December 2020	31 December 2019
Cash flows from operating activities			
Interest received		23,777,411	23,760,455
Interest paid		(11,853,217)	(10,856,291)
Fees and commissions received		3,102,283	3,194,074
Fees and commissions paid		(1,332,674)	(1,020,933)
Net trading income received		1,135,924	1,288,369
Other income received		922,485	823,570
Personnel expenses paid		(5,316,296)	(5,442,652)
Administrative and other operating expenses paid		(3,562,296)	(3,294,349)
Cash flows from operating activities before changes in operating assets and liabilities		6,873,620	8,452,243
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(271,238)	579,843
Amounts due from banks		4,658,230	(6,349,407)
Loans and advances to customers		6,092,522	(33,296,592)
Repossessioned assets		658,557	837,103
Other assets		402,785	517,517
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to banks		(1,701,817)	(7,095,225)
Amounts due to customers		(7,560,121)	35,646,857
Derivative financial liabilities		13,226	(68,932)
Other liabilities		(34,979)	112,256
Net cash used in operating activities before income tax		9,130,785	(664,337)
Income tax paid		(1,180,148)	(1,189,610)
Net cash used in operating activities		7,950,637	(1,853,947)
Cash flows from investing activities			
Purchase of investment securities		(30,222,401)	(9,391,046)
Proceeds from sale and redemption of investment securities		11,593,708	16,326,197
Purchase of property and equipment		(288,356)	(844,263)
Proceeds from sale of property and equipment		(5,146)	50,337
Purchase of intangible assets		(51,926)	(115,132)
Net cash from / (used) in investing activities		(18,974,121)	6,026,093
Cash flows from financing activities			
Proceeds from issue of share capital	23	2,413,334	-
Proceeds from debt securities issued	36	-	14,211,537
Redemption of debt securities issued	36	-	(10,818,447)
Proceeds from other borrowed funds	36	4,985,907	8,141,849
Repayment of other borrowed funds	36	(2,887,004)	(2,701,526)
Repayment of subordinated loans	36	(5,599,452)	-
Repayment of lease liabilities	36	(346,644)	(317,280)
Dividends paid to shareholders		-	(850,381)
Net cash from financing activities		(1,433,859)	7,665,752
Net increase in cash and cash equivalents		(12,457,343)	11,837,898
Cash and cash equivalents at the beginning of the year		43,540,737	40,470,858
Effect of foreign currency obligatory reserve reclassification	6	-	(8,811,998)
Effect of exchange rates changes on cash and cash equivalents		2,261,369	40,637
Effect of expected credit losses on cash and cash equivalents		(275)	3,342
Cash and cash equivalents at the end of the year	6	33,344,488	43,540,737

The accompanying notes form 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.

As of 31 December 2020, the number of Bank’s employees is 743, the number of subsidiary’s employees is 25.

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 December, the shareholders of the Bank are:

<i>Shareholder</i>	<i>31 December 2020, %</i>	<i>31 December 2019, %</i>
Advanced Global Investments LLC	72.89	80.94
Haypost Trust Management BV	22.11	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

In 2020 GDP of Armenia decreased by 7.6%. The Group operated in an environment of the low economic activity in 2020 due to outbreak of coronavirus pandemic and escalation of military conflict in Nagorno-Karabakh. Amid uncertainty related to the economic and political outlook, Armenian dram depreciated against the US dollar starting from November 2020, causing increase of the 12-month inflation to 3.7% at the end of the year. This resulted to increase of refinancing rate by 1.0 percentage point at the end of the year by the Central Bank of Armenia.

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

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Armenian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government of Armenia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures. The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

Estimation uncertainty

To the extent that information is available as at 31 December 2020, the Group has reflected revised estimates of expected future cash flows in its ECL assessment (Note 9), estimation of fair values of financial instruments (Note 31).

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”).

(thousands of Armenian drams)

2. Basis of preparation (continued)

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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.

3. Summary of accounting policies

Changes in accounting policies

The Group has early adopted Amendment to IFRS 16: *COVID-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Group.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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.

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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 the part of obligatory reserves and amounts due from other banks, which can be converted into cash at short notice.

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.

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 contracts, 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases

i. Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below AMD 500,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. Operating – Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. Finance – Group as a 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. 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- ▶ Change in currency of the loan;
- ▶ Change in counterparty;
- ▶ If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, presented within Interest revenue calculated using effective interest rate in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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	1	100
Network appliances	8	12.5
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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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 December 2020 and 31 December 2019 were AMD 522.59 and AMD 479.70 to 1 USD, respectively.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- ▶ Separate the insurance coverage component and apply IFRS 17 to it;
- ▶ Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2 Amendments* to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group will apply IBOR reform Phase 2 from 1 January 2021.

(thousands of Armenian drams)

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:

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method and income approach. 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.

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. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID-19 pandemic, military conflict and related martial law in Armenia in September – November 2020 may have a significant impact on the Group's ECL measurement. 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.

(thousands of Armenian drams)

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 December 2020 or 31 December 2019.

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

<i>As of 31 December 2020</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
External income				
Interest revenue calculated using effective interest rate	13,490,819	9,205,168	2,746,268	25,442,255
Other interest revenue	41,474	12,602	107,629	161,705
Interest expense	(4,108,954)	(5,569,160)	(1,895,718)	(11,573,832)
Net interest income	9,423,339	3,648,610	958,179	14,030,128
Credit loss expense	(2,165,720)	(3,924,137)	(22,891)	(6,112,748)
Fee and commission income	2,462,693	619,898	19,692	3,102,283
Fee and commission expense	(1,062,501)	(270,173)	–	(1,332,674)
Other non-interest income	1,499,996	1,634,090	130,290	3,264,376
Non-interest expense	(3,847,031)	(4,136,905)	(1,657,328)	(9,641,264)
Segment profit	6,310,776	(2,428,617)	(572,058)	3,310,101
Income tax expense	(1,012,166)	389,518	91,751	(530,897)
Profit for the period	5,298,610	(2,039,099)	(480,307)	2,779,204

<i>As of 31 December 2019</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
External income				
Interest revenue calculated using effective interest rate	12,580,404	9,084,868	2,300,712	23,965,984
Other interest revenue	12,914	2,393	112,090	127,397
Interest expense	(3,840,913)	(5,370,392)	(1,929,284)	(11,140,589)
Net interest income	8,752,405	3,716,869	483,518	12,952,792
Credit loss expense	(292,344)	(696,575)	(215,279)	(1,204,198)
Fee and commission income	2,338,349	800,140	55,585	3,194,074
Fee and commission expense	(763,187)	(257,693)	(53)	(1,020,933)
Other non-interest income	1,502,801	1,108,043	396,059	3,006,903
Non-interest expense	(4,271,134)	(4,076,414)	(1,619,918)	(9,967,466)
Segment profit	7,266,890	594,370	(900,088)	6,961,172
Income tax expense	(1,575,308)	(128,847)	195,120	(1,509,035)
Profit for the period	5,691,582	465,523	(704,968)	5,452,137

(thousands of Armenian drams)

5. Segment information (continued)

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

As of 31 December 2020					
	Interest bearing			Non-interest bearing	Total
	Retail banking	Corporate banking	Trading and IB		
Assets	109,075,115	120,520,506	44,575,798	58,265,495	332,436,914
Liabilities	101,892,680	126,677,634	51,740,204	3,810,349	284,120,867

As of 31 December 2019					
	Interest bearing			Non-interest bearing	Total
	Retail banking	Corporate banking	Trading and IB		
Assets	111,657,131	114,787,860	32,709,962	66,473,572	325,628,525
Liabilities	101,980,885	128,064,468	48,035,656	3,306,208	281,387,217

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.

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 December 2020 and 31 December 2019 are as follows:

As of 31 December 2020	Retail banking	Corporate banking	Investment banking	Total
Commission income				
Plastic cards operations	1,597,673	–	–	1,597,673
Wire transfer fees	416,067	191,656	1,123	608,846
Settlement operation	86,043	111,234	18,164	215,441
Loan accounts servicing fees	97,562	118,337	–	215,899
Guarantees and letters of credit	614	77,235	–	77,849
Other	264,734	121,436	405	386,575
Total revenue from contracts with customers	2,462,693	619,898	19,692	3,102,283

As of 31 December 2019	Retail banking	Corporate banking	Investment banking	Total
Commission income				
Plastic cards operations	1,358,039	–	–	1,358,039
Wire transfer fees	541,535	214,879	1,089	757,503
Loan accounts servicing fees	117,418	220,198	–	337,616
Settlement operation	74,777	133,222	54,022	262,021
Guarantees and letters of credit	30	56,831	–	56,861
Other	246,550	175,010	474	422,034
Total revenue from contracts with customers	2,338,349	800,140	55,585	3,194,074

(thousands of Armenian drams)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020	31 December 2019
Current accounts with the Central Bank, including obligatory reserves in AMD	20,511,050	26,171,105
Cash on hand	9,876,863	11,405,370
Placements with other banks	2,959,352	5,966,764
Less – allowance for impairment	(2,777)	(2,502)
Cash and cash equivalents	33,344,488	43,540,737

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 December 2020	31 December 2019
ECL allowance as at 1 January 2020	2,502	5,844
Changes in ECL	275	(3,342)
At 31 December 2020	2,777	2,502

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 2% (2019: 2%) of the amounts attracted in Armenian drams and 18% (2019: 18%) of the amounts attracted in foreign currencies.

As of 31 December 2020, current accounts with Central Bank of Armenia include obligatory reserve in the amount of AMD 28,924,557 thousand (2019: AMD 28,171,541 thousand).

The banks are required to maintain 10% of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams (2019: 12%), and 8% – in the foreign currency (2019: 6%). The banks' ability to withdraw reserved amounts in foreign currency is restricted. Therefore, the Group classifies obligatory reserves deposited in foreign currency as amounts due from banks (Note 8).

As of 31 December 2020 placements with other banks in the amount of AMD 2,865,480 thousand (96.8%) were due from four banks (2019: AMD 5,442,954 thousand (91.2%) were due from three banks).

7. Trading securities

Trading securities owned comprise:

	31 December 2020	31 December 2019
Debt securities issued by the RA government	587,620	369,970
Investments in funds	291,429	276,517
Trading securities	879,049	646,487

8. Amounts due from banks

Amounts due from banks comprise:

	31 December 2020	31 December 2019
Foreign currency obligatory reserves with CBA (Note 6)	11,981,615	8,811,998
Deposits and deposited funds with CBA	1,248,500	4,546,377
Receivables from payment and settlement operations	1,062,901	814,008
Reverse repurchase agreements	641,242	3,054,369
Loans and deposits to banks	423,079	2,419,415
Other amounts	1,596,558	913,881
	16,953,895	20,560,048
Less – allowance for impairment	(9,569)	(10,793)
Amounts due from banks	16,944,326	20,549,255

(thousands of Armenian drams)

8. Amounts due from banks (continued)

As at 31 December 2020 amounts receivable under reverse repurchase agreements were collateralized by RA government and corporate bonds with fair value of AMD 644,995 thousand (2019: AMD 3,213,398 thousand).

As of 31 December 2020 the balances included loans and deposits to banks in amount of AMD 423,079 thousand due from one counterparty (2019: AMD 2,419,415 thousand due from two counterparties).

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 December 2020 is as follows:

	Stage 1	Total
Gross carrying value as at 1 January 2020	20,560,048	20,560,048
New assets originated or purchased	5,665,655	5,665,655
Assets repaid	(10,288,669)	(10,288,669)
Foreign exchange adjustments	1,016,861	1,016,861
At 31 December 2020	16,953,895	16,953,895

	Stage 1	Total
ECL allowance as at 1 January 2020	10,793	10,793
New assets originated or purchased	5,851	5,851
Assets repaid	(9,547)	(9,547)
Changes to models and inputs used for ECL calculations	(120)	(120)
Foreign exchange adjustments	2,592	2,592
At 31 December 2020	9,569	9,569

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	10,213,494	10,213,494
Assets repaid	(3,861,922)	(3,861,922)
Reclassification of foreign currency obligatory reserves with CBA	8,811,998	8,811,998
Foreign exchange adjustments	171,336	171,336
At 31 December 2019	20,560,048	20,560,048

	Stage 1	Total
ECL allowance as at 1 January 2019	12,655	12,655
New assets originated or purchased	9,755	9,755
Assets repaid	(11,394)	(11,394)
Changes to models and inputs used for ECL calculations	(854)	(854)
Foreign exchange adjustments	631	631
At 31 December 2019	10,793	10,793

(thousands of Armenian drams)

9. Loans and advances to customers

	31 December 2020	31 December 2019
Loans to customers	187,999,269	187,856,798
Overdrafts	38,111,601	35,709,999
Reverse repurchase agreements	11,874,388	7,066,707
Financial lease receivables	435,068	338,427
Factoring	–	144,376
Letter of credit	25,839	2,619
	238,446,165	231,118,926
Less – allowance for loan impairment	(8,850,544)	(4,673,935)
Total loans and advances to customers	229,595,621	226,444,991

	31 December 2020	31 December 2019
Large business loans	89,027,712	79,327,720
SME loans	39,729,258	40,479,951
Consumer loans	40,789,485	45,180,825
Mortgage loans	49,726,023	44,600,296
Gold loans	19,173,687	21,530,134
Gross loans and advances to customers	238,446,165	231,118,926
Less – allowance for impairment	(8,850,544)	(4,673,935)
Total loans and advances to customers	229,595,621	226,444,991

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 December 2020:

Large business loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2020	73,894,548	824,701	4,608,471	79,327,720
New assets originated or purchased	34,015,468	–	–	34,015,468
Assets repaid	(28,744,926)	(150,649)	(83,524)	(28,979,099)
Transfers to Stage 2	(2,530,952)	2,530,952	–	–
Transfers to Stage 3	–	(437,624)	437,624	–
Amounts written off	–	–	(31,872)	(31,872)
Foreign exchange adjustments	4,218,316	44,388	432,791	4,695,495
At 31 December 2020	80,852,454	2,811,768	5,363,490	89,027,712

Large business loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	283,664	283,311	1,747,631	2,314,606
New assets originated or purchased	275,970	–	–	275,970
Assets repaid	(128,085)	(39,927)	(162,138)	(330,150)
Transfers to Stage 2	(35,945)	35,945	–	–
Transfers to Stage 3	–	(211,285)	211,285	–
Impact on period end ECL of exposures transferred between stages during the period	–	304,697	12,166	316,863
Unwinding of discount (recognised in interest revenue)	–	–	11,667	11,667
Changes to models and inputs used for ECL calculations	219,638	175,923	241,993	637,554
Amounts written off	–	–	(31,872)	(31,872)
Foreign exchange adjustments	15,134	19,130	159,212	193,476
At 31 December 2020	630,376	567,794	2,189,944	3,388,114

(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 SME loans as of 31 December 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	9,131,735	–	–	9,131,735
Assets repaid	(11,386,786)	(160,241)	(623,764)	(12,170,791)
Transfers to Stage 1	205,766	(205,766)	–	–
Transfers to Stage 2	(6,552,434)	6,665,439	(113,005)	–
Transfers to Stage 3	–	(4,088,311)	4,088,311	–
Amounts written off	–	–	(250,489)	(250,489)
Foreign exchange adjustments	2,374,443	38,500	125,909	2,538,852
At 31 December 2020	32,015,368	2,729,847	4,984,043	39,729,258

SME loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	397,119	24,420	556,083	977,622
New assets originated or purchased	216,168	–	–	216,168
Assets repaid	(110,951)	(5,124)	(73,191)	(189,266)
Transfers to Stage 1	3,489	(3,489)	–	–
Transfers to Stage 2	(136,076)	143,385	(7,309)	–
Transfers to Stage 3	–	(71,582)	71,582	–
Impact on period end ECL of exposures transferred between stages during the period	(1,268)	283,353	570,529	852,614
Unwinding of discount (recognised in interest revenue)	–	–	9,077	9,077
Changes to models and inputs used for ECL calculations	194,564	4,991	437,746	637,301
Amounts written off	–	–	(250,489)	(250,489)
Foreign exchange adjustments	24,747	1,555	35,604	61,906
At 31 December 2020	587,792	377,509	1,349,632	2,314,933

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

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2020	42,323,168	1,092,531	1,765,126	45,180,825
New assets originated or purchased	12,195,727	–	–	12,195,727
Assets repaid	(15,363,243)	(148,815)	(828,865)	(16,340,923)
Transfers to Stage 1	202,892	(197,728)	(5,164)	–
Transfers to Stage 2	(3,866,908)	3,923,308	(56,400)	–
Transfers to Stage 3	–	(2,859,955)	2,859,955	–
Recoveries	–	–	569,214	569,214
Amounts written off	–	–	(1,966,974)	(1,966,974)
Foreign exchange adjustments	1,044,056	22,639	84,921	1,151,616
At 31 December 2020	36,535,692	1,831,980	2,421,813	40,789,485

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

<i>Consumer loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2020	109,322	55,219	440,881	605,422
New assets originated or purchased	342,261	–	–	342,261
Assets repaid	(28,783)	(8,684)	(52,928)	(90,395)
Transfers to Stage 1	10,760	(9,370)	(1,390)	–
Transfers to Stage 2	(128,255)	149,518	(21,263)	–
Transfers to Stage 3	–	(118,223)	118,223	–
Impact on period end ECL of exposures transferred between stages during the period	(7,472)	248,612	659,683	900,823
Unwinding of discount (recognised in interest revenue)	–	–	36,621	36,621
Changes to models and inputs used for ECL calculations	368,148	11,764	1,293,213	1,673,125
Recoveries	–	–	569,214	569,214
Amounts written off	–	–	(1,966,974)	(1,966,974)
Foreign exchange adjustments	2,578	1,244	19,059	22,881
At 31 December 2020	668,559	330,080	1,094,339	2,092,978

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

<i>Mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	42,785,195	351,489	1,463,612	44,600,296
New assets originated or purchased	9,416,022	–	–	9,416,022
Assets repaid	(5,963,367)	(40,078)	(467,275)	(6,470,720)
Transfers to Stage 1	110,145	(110,145)	–	–
Transfers to Stage 2	(1,470,330)	1,583,238	(112,908)	–
Transfers to Stage 3	–	(1,163,739)	1,163,739	–
Recoveries	–	–	184,381	184,381
Amounts written off	–	–	(520,327)	(520,327)
Foreign exchange adjustments	2,382,282	23,340	110,749	2,516,371
At 31 December 2020	47,259,947	644,105	1,821,971	49,726,023

<i>Mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2020	31,152	14,849	599,269	645,270
New assets originated or purchased	18,062	–	–	18,062
Assets repaid	(4,169)	(2,163)	(68,963)	(75,295)
Transfers to Stage 1	4,947	(4,947)	–	–
Transfers to Stage 2	(4,911)	25,817	(20,906)	–
Transfers to Stage 3	–	(11,771)	11,771	–
Impact on period end ECL of exposures transferred between stages during the period	(2,322)	22,950	181,951	202,579
Unwinding of discount (recognised in interest revenue)	–	–	6,944	6,944
Changes to models and inputs used for ECL calculations	82,218	2,112	282,042	366,372
Recoveries	–	–	184,381	184,381
Amounts written off	–	–	(520,327)	(520,327)
Foreign exchange adjustments	1,733	1,048	48,030	50,811
At 31 December 2020	126,710	47,895	704,192	878,797

(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 December 2020:

Gold loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2020	21,001,528	289,245	239,361	21,530,134
New assets originated or purchased	14,563,644	–	–	14,563,644
Assets repaid	(16,429,713)	(141,543)	(373,462)	(16,944,718)
Transfers to Stage 1	17,424	(16,161)	(1,263)	–
Transfers to Stage 2	(623,165)	624,149	(984)	–
Transfers to Stage 3	–	(456,062)	456,062	–
Recoveries	–	–	153,359	153,359
Amounts written off	–	–	(254,264)	(254,264)
Foreign exchange adjustments	125,210	232	90	125,532
At 31 December 2020	18,654,928	299,860	218,899	19,173,687

Gold loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	22,599	17,992	90,424	131,015
New assets originated or purchased	88,228	–	–	88,228
Assets repaid	(15,363)	(10,526)	(47,414)	(73,303)
Transfers to Stage 1	1,481	(1,018)	(463)	–
Transfers to Stage 2	(68,495)	68,856	(361)	–
Transfers to Stage 3	–	(60,325)	60,325	–
Impact on period end ECL of exposures transferred between stages during the period	(1,464)	13,429	47,487	59,452
Unwinding of discount (recognised in interest revenue)	–	–	4,036	4,036
Changes to models and inputs used for ECL calculations	(672)	59	67,630	67,017
Recoveries	–	–	153,359	153,359
Amounts written off	–	–	(254,264)	(254,264)
Foreign exchange adjustments	134	16	32	182
At 31 December 2020	26,448	28,483	120,791	175,722

An analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans as of 31 December 2019:

Large business loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	68,022,038	–	3,355,741	71,377,779
New assets originated or purchased	33,190,617	–	–	33,190,617
Assets repaid	(23,439,107)	(40,429)	(909,631)	(24,389,167)
Transfers to Stage 2	(3,391,380)	3,391,380	–	–
Transfers to Stage 3	–	(2,526,250)	2,526,250	–
Recoveries	–	–	43,493	43,493
Amounts written off	–	–	(376,351)	(376,351)
Foreign exchange adjustments	(487,620)	–	(31,031)	(518,651)
At 31 December 2019	73,894,548	824,701	4,608,471	79,327,720

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

Large business loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	508,361	–	1,471,545	1,979,906
New assets originated or purchased	162,455	–	–	162,455
Assets repaid	(132,981)	(22)	(29,398)	(162,401)
Transfers to Stage 2	(115,206)	115,206	–	–
Transfers to Stage 3	–	(27,955)	27,955	–
Impact on period end ECL of exposures transferred between stages during the period	–	196,082	571,347	767,429
Unwinding of discount (recognised in interest revenue)	–	–	11,280	11,280
Changes to models and inputs used for ECL calculations	(136,063)	–	40,710	(95,353)
Recoveries	–	–	43,493	43,493
Amounts written off	–	–	(376,351)	(376,351)
Foreign exchange adjustments	(2,902)	–	(12,950)	(15,852)
At 31 December 2019	283,664	283,311	1,747,631	2,314,606

An analysis of changes in the gross carrying value and corresponding ECL in relation to SME loans as of 31 December 2019:

SME loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	37,789,628	80,998	1,711,496	39,582,122
New assets originated or purchased	18,636,439	–	–	18,636,439
Assets repaid	(16,833,449)	(22,512)	(395,657)	(17,251,618)
Transfers to Stage 1	23,051	(16,909)	(6,142)	–
Transfers to Stage 2	(1,148,649)	1,162,042	(13,393)	–
Transfers to Stage 3	–	(723,090)	723,090	–
Recoveries	–	–	213,822	213,822
Amounts written off	–	–	(461,974)	(461,974)
Foreign exchange adjustments	(224,376)	(303)	(14,161)	(238,840)
At 31 December 2019	38,242,644	480,226	1,757,081	40,479,951

SME loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	412,596	24,773	574,046	1,011,415
New assets originated or purchased	202,478	–	–	202,478
Assets repaid	(137,144)	(8,554)	(21,407)	(167,105)
Transfers to Stage 1	10,503	(5,194)	(5,309)	–
Transfers to Stage 2	(26,876)	38,453	(11,577)	–
Transfers to Stage 3	–	(23,973)	23,973	–
Impact on period end ECL of exposures transferred between stages during the period	(10,250)	(992)	128,171	116,929
Unwinding of discount (recognised in interest revenue)	–	–	9,346	9,346
Changes to models and inputs used for ECL calculations	(50,607)	–	118,018	67,411
Recoveries	–	–	213,822	213,822
Amounts written off	–	–	(461,974)	(461,974)
Foreign exchange adjustments	(3,581)	(93)	(11,026)	(14,700)
At 31 December 2019	397,119	24,420	556,083	977,622

(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 consumer loans as of 31 December 2019:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	33,728,877	492,077	1,299,992	35,520,946
New assets originated or purchased	25,760,717	–	–	25,760,717
Assets repaid	(14,093,120)	(47,727)	(1,288,589)	(15,429,436)
Transfers to Stage 1	102,714	(62,203)	(40,511)	–
Transfers to Stage 2	(3,077,944)	3,120,500	(42,556)	–
Transfers to Stage 3	–	(2,408,913)	2,408,913	–
Recoveries	–	–	684,066	684,066
Amounts written off	–	–	(1,248,452)	(1,248,452)
Foreign exchange adjustments	(98,076)	(1,203)	(7,737)	(107,016)
At 31 December 2019	42,323,168	1,092,531	1,765,126	45,180,825

Consumer loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	114,128	34,620	294,283	443,031
New assets originated or purchased	213,651	–	–	213,651
Assets repaid	(32,898)	(7,927)	(37,937)	(78,762)
Transfers to Stage 1	17,318	(4,118)	(13,200)	–
Transfers to Stage 2	(160,433)	172,765	(12,332)	–
Transfers to Stage 3	–	(152,055)	152,055	–
Impact on period end ECL of exposures transferred between stages during the period	(15,203)	12,914	202,482	200,193
Unwinding of discount (recognised in interest revenue)	–	–	31,530	31,530
Changes to models and inputs used for ECL calculations	(26,916)	(885)	390,069	362,268
Recoveries	–	–	684,066	684,066
Amounts written off	–	–	(1,248,452)	(1,248,452)
Foreign exchange adjustments	(325)	(95)	(1,683)	(2,103)
At 31 December 2019	109,322	55,219	440,881	605,422

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans as of 31 December 2019:

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	33,078,667	120,962	1,831,101	35,030,730
New assets originated or purchased	16,310,838	–	–	16,310,838
Assets repaid	(5,807,778)	(40,833)	(785,103)	(6,633,714)
Transfers to Stage 1	191,443	(25,743)	(165,700)	–
Transfers to Stage 2	(765,840)	863,698	(97,858)	–
Transfers to Stage 3	–	(565,766)	565,766	–
Recoveries	–	–	694,418	694,418
Amounts written off	–	–	(565,449)	(565,449)
Foreign exchange adjustments	(222,135)	(829)	(13,563)	(236,527)
At 31 December 2019	42,785,195	351,489	1,463,612	44,600,296

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

<i>Mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2019	74,309	10,560	672,429	757,298
New assets originated or purchased	24,369	–	–	24,369
Assets repaid	(7,812)	(4,364)	(23,452)	(35,628)
Transfers to Stage 1	31,943	(2,036)	(29,907)	–
Transfers to Stage 2	(14,236)	24,716	(10,480)	–
Transfers to Stage 3	–	(13,819)	13,819	–
Impact on period end ECL of exposures transferred between stages during the period	(31,575)	(147)	73,978	42,256
Unwinding of discount (recognised in interest revenue)	–	–	6,899	6,899
Changes to models and inputs used for ECL calculations	(45,346)	–	(227,874)	(273,220)
Recoveries	–	–	694,418	694,418
Amounts written off	–	–	(565,449)	(565,449)
Foreign exchange adjustments	(500)	(61)	(5,112)	(5,673)
At 31 December 2019	31,152	14,849	599,269	645,270

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold loans as of 1 December 2019:

<i>Gold loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	18,667,524	259,286	243,340	19,170,150
New assets originated or purchased	18,535,829	–	–	18,535,829
Assets repaid	(15,458,369)	(140,125)	(378,467)	(15,976,961)
Transfers to Stage 1	17,195	(16,888)	(307)	–
Transfers to Stage 2	(751,800)	753,299	(1,499)	–
Transfers to Stage 3	–	(566,195)	566,195	–
Recoveries	–	–	149,472	149,472
Amounts written off	–	–	(339,104)	(339,104)
Foreign exchange adjustments	(8,851)	(132)	(269)	(9,252)
At 31 December 2019	21,001,528	289,245	239,361	21,530,134

<i>Gold loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2019	33,841	28,897	145,007	207,745
New assets originated or purchased	90,397	–	–	90,397
Assets repaid	(24,929)	(19,464)	(79,387)	(123,780)
Transfers to Stage 1	2,117	(1,898)	(219)	–
Transfers to Stage 2	(71,389)	72,465	(1,076)	–
Transfers to Stage 3	–	(63,700)	63,700	–
Impact on period end ECL of exposures transferred between stages during the period	(2,104)	1,903	20,311	20,110
Unwinding of discount (recognised in interest revenue)	–	–	11,419	11,419
Changes to models and inputs used for ECL calculations	(5,318)	(250)	120,490	114,922
Recoveries	–	–	149,472	149,472
Amounts written off	–	–	(339,104)	(339,104)
Foreign exchange adjustments	(16)	39	(189)	(166)
At 31 December 2019	22,599	17,992	90,424	131,015

As at 31 December 2020, the Bank Group introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, it has revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures.

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

To mitigate COVID-19 impact for the companies and individuals the Group introduced payment holidays for periods ranging from 3 to 9 months. This measure was applied to the loans with gross exposure of AMD 49,596,250 thousand as of 31 December 2020.

The Group applied post-model adjustments for ECL estimation for these loans as at 31 December 2020. The impact of post-model adjustments are set out in the following table:

	Gross amount of COVID impacted loans	Modelled ECL	Post-model adjustments	Total ECL	Adjustments as a % of total ECL
Large business loans	12,457,396	192,963	61,850	254,813	24.27%
SME loans	13,381,602	215,314	66,802	282,116	23.68%
Mortgage loans	11,893,708	16,866	59,681	76,547	77.97%
Consumer loans	11,863,544	164,623	58,468	223,091	26.21%
Total	49,596,250	589,766	246,801	836,567	29.50%

Post-model adjustments

Post-model adjustments represent adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of Government and other support programs.

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, gold, vehicles.

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.

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario						Associated ECL
	Cash	Property	Other*	Surplus collateral	Total collateral	Net exposure		
31 December 2020								
Corporate lending SME	4,984,043	–	6,946,014	258,263	(2420,000)	4,784,277	199,766	1,349,632
Corporate lending Large	5,363,490	–	4,124,936	2,082,886	(1,179,312)	5,028,510	334,980	2,189,944
Mortgages	1,821,971	–	1,596,128	–	(531,341)	1,064,787	757,184	704,192
Gold	218,899	–	435	168,857	(44,138)	125,154	93,745	120,791
Consumer lending	2,421,813	4,181	2,136,104	41,696	(765,822)	1,416,159	1,005,654	1,094,339
	14,810,216	4,181	14,803,617	2,551,702	(4,940,613)	12,418,887	2,391,329	5,458,898
	Maximum exposure to credit risk	Fair value of collateral held under the base scenario						Associated ECL
	Cash	Property	Other*	Surplus collateral	Total collateral	Net exposure		
31 December 2019								
Corporate lending SME	1,757,081	–	2,777,035	114,544	(1,396,305)	1,495,274	261,807	556,083
Corporate lending Large	4,608,471	–	4,308,136	1,504,937	(3,196,090)	2,616,983	1,991,488	1,747,631
Mortgages	1,463,612	–	1,319,874	–	(532,358)	787,516	676,096	599,269
Gold	239,361	–	–	193,553	(16,462)	177,091	62,270	90,424
Consumer lending	1,765,126	3,838	1,849,984	136,632	(1,032,809)	957,645	807,481	440,881
	9,833,651	3,838	10,255,029	1,949,666	(6,174,024)	6,034,509	3,799,142	3,434,288

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

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Concentration of loans and advances to customers**

As at 31 December 2020 the Group had a concentration of loans totalling to AMD 54,594,490 thousand due from the ten largest groups of borrowers (22.90% 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 2,345,407 thousand (2019: AMD 1,396,186 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	31 December 2020	31 December 2019
Private companies	113,868,380	110,354,663
Individuals	112,222,612	113,067,740
Financial organizations	11,874,388	7,066,707
State companies	480,785	629,816
	238,446,165	231,118,926

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

	31 December 2020	31 December 2019
Consumer loans to individuals	59,963,171	66,711,250
Mortgage	49,726,023	44,600,296
Trade	36,206,679	37,195,285
Construction	24,818,271	24,775,667
Agriculture (including loans to individuals)	13,685,903	13,515,156
Services	10,713,969	9,276,072
Manufacturing	10,911,552	8,896,100
Energy	4,773,685	3,349,906
Transport and communication	3,851,928	2,965,134
Other	23,794,984	19,834,060
Gross loan portfolio	238,446,165	231,118,926
Less allowance for loan impairment	(8,850,544)	(4,673,935)
Total	229,595,621	226,444,991

Finance lease receivables

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

	31 December 2020	31 December 2019
Gross investment in finance lease, receivable		
Not later than 1 year	113,145	75,230
1-5 years	442,782	324,670
More than 5 years	39,960	82,865
	595,887	482,765
Unearned future finance income on finance lease	(160,819)	(144,338)
Net investment in financial lease, before impairment allowance	435,068	338,427
Impairment allowance	(108,069)	(3,398)
Net investment in finance lease	326,999	335,029

(thousands of Armenian drams)

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2020	31 December 2019
Debt securities at amortised cost		
RA government bonds	777,573	726,031
RA promissory notes	5,592	–
RA corporate bonds	1,045,691	959,738
Less – allowance for impairment	(5,803)	(5,809)
Debt securities at amortised cost	1,823,053	1,679,960
RA government bonds pledged under repo	515,781	–
Less – allowance for impairment	(106)	–
Debt securities at amortised pledged under repurchase agreements	515,675	–
Debt securities at FVOCI		
RA government bonds	28,424,030	13,102,410
RA corporate bonds	5,220,744	4,626,604
Corporate bonds of non-OECD countries	–	854,117
Debt securities at FVOCI	33,644,774	18,583,131
RA government bonds	2,666,326	–
Debt securities at FVOCI pledged under repurchase agreements	2,666,326	–
Equity securities at FVOCI		
Equity shares of OECD countries	5,333	5,333
RA equity shares	75,222	57,794
Equity securities at FVOCI	80,555	63,127
Total	38,730,383	20,326,218

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost including pledged under repurchase agreements is as follows:

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	1,379,313	1,379,313
Assets repaid	(720,445)	(720,445)
At 31 December 2020	2,344,637	2,344,637
Debt securities at amortised cost	Stage 1	Total
ECLs as at 1 January 2020	5,809	5,809
New assets originated or purchased	638	638
Assets repaid	(538)	(538)
At 31 December 2020	5,909	5,909

(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 at 31 December 2019 is as follows:

<i>Debt securities at amortised cost</i>	<i>Stage 1</i>	<i>Total</i>
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 December 2019	1,685,769	1,685,769

<i>Debt securities at amortised cost</i>	<i>Stage 1</i>	<i>Total</i>
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)
At 31 December 2019	5,809	5,809

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

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	18,583,131	18,583,131
New assets originated or purchased	28,843,088	28,843,088
Assets repaid	(1,123,847)	(1,123,847)
Assets sold	(9,332,325)	(9,332,325)
Net change in fair value	(658,947)	(658,947)
At 31 December 2020	36,311,100	36,311,100

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2020	69,408	69,408
New assets originated or purchased	68,664	68,664
Assets repaid	(4,365)	(4,365)
Assets sold	(33,882)	(33,882)
Changes to models and inputs used for ECL calculations	(4,085)	(4,085)
At 31 December 2020	95,740	95,740

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

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	22,702,608	22,702,608
New assets originated or purchased	7,705,277	7,705,277
Assets repaid	(1,553,255)	(1,553,255)
Assets sold	(11,019,463)	(11,019,463)
Net change in fair value	747,964	747,964
At 31 December 2019	18,583,131	18,583,131

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	274,838	274,838
New assets originated or purchased	22,101	22,101
Assets repaid	(11,144)	(11,144)
Assets sold	(131,588)	(131,588)
Changes to models and inputs used for ECL calculations	(84,799)	(84,799)
At 31 December 2019	69,408	69,408

(thousands of Armenian drams)

11. Property and equipment and right-of-use assets

The movements in property and equipment were as follows:

	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers and network appliances</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Right of use asset</i>	<i>Total</i>
Cost or revalued amount								
31 December 2019	5,177,297	779,101	246,408	4,059,190	935,823	1,398,031	2,375,298	14,971,148
Additions	4,878	16,997	–	193,977	55,361	17,143	37,347	325,703
Disposals and write-offs	–	(19,025)	(10,557)	(4,898)	(1,903)	–	(19,994)	(56,377)
31 December 2020	5,182,175	777,073	235,851	4,248,269	989,281	1,415,174	2,392,651	15,240,474
Accumulated depreciation								
31 December 2019	–	595,022	208,270	2,798,017	667,054	832,143	391,253	5,491,759
Depreciation charge	196,128	38,729	4,677	341,338	51,018	117,824	435,834	1,185,548
Disposals and write-offs	–	(19,025)	(10,331)	(4,898)	(1,903)	–	(5,789)	(41,946)
31 December 2020	196,128	614,726	202,616	3,134,457	716,169	949,967	821,298	6,635,361
Net book value								
31 December 2019	5,177,297	184,079	38,138	1,261,173	268,769	565,888	1,984,045	9,479,389
31 December 2020	4,986,047	162,347	33,235	1,113,812	273,112	465,207	1,571,353	8,605,113

	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers and network appliances</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Right of use asset</i>	<i>Total</i>
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	–	–	–	–	–	–	2,239,693	2,239,693
Additions	85,821	82,030	35,793	433,061	90,757	116,801	135,605	979,868
Disposals and write-offs	–	(73,113)	–	(48,844)	(72,490)	–	–	(194,447)
Effect of revaluation	91,455	–	–	–	–	–	–	91,455
31 December 2019	5,177,297	779,101	246,408	4,059,190	935,823	1,398,031	2,375,298	14,971,148
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	391,253	1,099,011
Disposals and write-offs	–	(73,422)	–	(48,799)	(13,636)	–	–	(135,857)
Effect of revaluation	(586,936)	–	–	–	–	–	–	(586,936)
31 December 2019	–	595,022	208,270	2,798,017	667,054	832,143	391,253	5,491,759
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	5,177,297	184,079	38,138	1,261,173	268,769	565,888	1,984,045	9,479,389

Revaluation of assets

The buildings and land owned by the Group were 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 783,365 thousand as of 31 December 2020 (2019: AMD 819,487 thousand).

(thousands of Armenian drams)

11. Property and equipment and right-of-use assets (continued)**Fully depreciated items**

As of 31 December 2020 property, plant and equipment included fully depreciated assets in amount of AMD 2,104,314 thousand (2019: AMD 1,952,561 thousand).

Property, plant and equipment in the phase of installation

As of 31 December 2020 property, plant and equipment included assets in the phase of installation in amount of AMD 81,786 thousand (2019: AMD 123,057 thousand).

Restrictions on title of property, plant and equipment

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

12. Intangible assets

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

	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost				
31 December 2019	838,367	145,365	217,388	1,201,120
Additions	8,373	4,096	39,457	51,926
31 December 2020	846,740	149,461	256,845	1,253,046
Accumulated amortization and impairment				
31 December 2019	715,166	55,406	93,288	863,860
Amortisation charge	35,217	2,855	20,306	58,378
31 December 2020	750,383	58,261	113,594	922,238
Net book value				
31 December 2019	123,201	89,959	124,100	337,260
31 December 2020	96,357	91,200	143,251	330,808

	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost				
31 December 2018	767,915	145,365	172,708	1,085,988
Additions	70,452	–	44,680	115,132
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
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

Fully amortized items

As of 31 December 2020, intangible assets included fully amortized assets in amount of AMD 731,219 thousand (2019: AMD 595,503 thousand).

(thousands of Armenian drams)

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 December 2020 and 31 December 2019 are shown below:

	31 December 2020	31 December 2019
Land and buildings	1,658,241	1,994,157
Other assets	34,802	29,771
Total repossessed collateral	1,693,043	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. For the period ended 31 December 2020 the Group repossessed assets in amount of AMD 295,615 thousand (2019: AMD 675,124 thousand) and sold assets with carrying amount of AMD 626,500 thousand (2019: AMD 629,629 thousand).

14. Other assets and liabilities

Other assets comprise:

	31 December 2020	31 December 2019
Other financial assets		
Accounts receivables	468,267	473,465
Receivables from unsettled transactions	316,709	167,712
Receivables from cash transfers	21,772	50,897
Total other financial assets	806,748	692,074
Less – allowance for impairment of other financial assets	(17,442)	(17,427)
Total net other financial assets	789,306	674,647
Other non-financial assets		
Precious metals	690,448	1,018,709
Materials	255,917	295,309
Prepayments to suppliers	252,222	162,013
Other prepaid taxes	67,444	76,796
Unamortized insurance premium	35,425	35,072
Settlements with employees	968	15,849
Other	1,865	1,865
Total other non-financial assets	1,304,289	1,605,613
Other assets	2,093,595	2,280,260

An analysis of changes in the ECLs for other financial assets for the period ended 31 December 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2020	8,572	75	8,780	17,427
Transfers to Stage 2	(27)	27	–	–
Transfers to Stage 3	–	(27)	27	–
ECL charge	8,418	(14)	8,991	17,395
Recoveries	–	–	10,727	10,727
Amounts written off	–	–	(28,447)	(28,447)
Foreign exchange adjustments	340	–	–	340
At 31 December 2020	17,303	61	78	17,442

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

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

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2019	15,401	66	10,259	25,726
Transfers to Stage 1	278	(2)	(276)	-
Transfers to Stage 2	(1)	1	-	-
Transfers to Stage 3	-	(1)	1	-
ECL charge	(7,239)	11	(5,601)	(12,829)
Recoveries	-	-	28,255	28,255
Amounts written off	-	-	(23,857)	(23,857)
Foreign exchange adjustments	133	-	(1)	132
At 31 December 2019	8,572	75	8,780	17,427

Other liabilities comprise:

	31 December 2020	31 December 2019
Other financial liabilities		
Due to personnel	540,943	833,744
Accounts payables	367,332	394,400
Total other financial liabilities	908,275	1,228,144
Other non-financial liabilities		
Tax payable, other than income tax	197,635	400,969
Grants related to assets	18,740	21,164
Other	8,781	9,498
Total other non-financial liabilities	225,156	431,631
Total other liabilities	1,133,431	1,659,775

15. Amounts due to banks

Amounts due to banks comprise:

	31 December 2020	31 December 2019
Repurchase agreements with banks	2,573,962	-
Loans from banks	2,258,887	5,131,658
Repurchase agreements with CBA	500,144	-
Payables from forex transactions	206,791	195,590
Correspondent accounts of other banks	190,211	145,943
Other liabilities	919,309	1,440,283
Total amounts due to banks	6,649,304	6,913,474

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

As of 31 December 2020 89.5% of correspondent accounts of other banks are concentrated within 1 counterparty (2019: 87.1% within 1 counterparty). As at 31 December 2020 amounts receivable under reverse repurchase agreements with banks were collateralized by RA government bonds with fair value of AMD 2,665,821 thousand (2019: no repurchase agreements with banks). As at 31 December 2020 amounts receivable under reverse repurchase agreements with CBA were collateralized by RA government bonds with fair value of AMD 515,401 thousand (2019: no repurchase agreements with CBA).

(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.

Foreign exchange contracts	31 December 2020			31 December 2019		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Forwards and futures	128,222	3,427	–	–	–	–
Swaps	6,598,620	224	45,315	4,650,063	–	24,488
Total derivative liabilities	6,726,842	3,651	45,315	4,650,063	–	24,488

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

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates to make payments with respect specified notional amounts.

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2020	31 December 2019
Corporate customers		
Current/settlement accounts	53,547,848	55,943,380
Time deposits	72,763,179	66,314,442
	126,311,027	122,257,822
Retail customers		
Current/settlement accounts	36,383,945	27,979,337
Time deposits	65,278,103	71,934,985
	101,662,048	99,914,322
Amounts due to customers	227,973,075	222,172,144

As of 31 December 2020 included in amounts due to customers are deposits amounting to AMD 40,345,298 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 December 2020 the aggregate balance of top ten customers of the Group amounts to AMD 89,910,330 thousand (2019: AMD 88,104,066 thousand) or 39.44% of total customer accounts (2019: 39.66%).

(thousands of Armenian drams)

18. Debt securities issued

Debt securities issued consisted of the following:

	31 December 2020	31 December 2019
Domestic bonds in USD	13,205,098	12,121,332
Domestic bonds in AMD	5,092,932	5,092,932
Domestic bonds in EUR	3,229,087	2,706,024
Debt securities issued	21,527,117	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. Coupon rate is 10% for bonds denominated in AMD, 5%-6% for bonds denominated in USD and 4% for bonds denominated in EUR. Bonds issued by the Bank are listed on Armenia Securities Exchange.

19. Taxation

The corporate income tax expense comprises:

	31 December 2020	31 December 2019
Current tax charge	421,775	1,515,072
Adjustment of current income tax of previous years	(103,356)	120,000
Deferred tax charge/(credit) – origination and reversal of temporary differences	212,478	(126,037)
Total income tax expense	530,897	1,509,035

For periods starting from 1 January 2020 the corporate income tax within the Republic of Armenia is levied at the rate of 18% (2019: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

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

	31 December 2020	31 December 2019
Profit before tax	3,310,101	6,961,172
Statutory tax rate	18%	20%
Theoretical income tax expense at the statutory rate	595,818	1,392,234
Non-deductible expenses / (tax exempt income)	38,435	(3,199)
Adjustment of current income tax of previous years	(103,356)	120,000
Income tax expense	530,897	1,509,035

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

	Balance 31 December 2018	Origination and reversal of temporary differences		Balance 31 December 2019	Origination and reversal of temporary differences		Balance 31 December 2020
		In the statement of profit or loss	In other comprehensive income		In the statement of profit or loss	In other comprehensive income	
Other liabilities	135,877	4,338	–	140,215	(50,666)	–	89,549
Repossession assets	57,999	(5,800)	–	52,199	–	–	52,199
Loans and advances to customers	(569,724)	(145,402)	–	(715,126)	(227,754)	–	(942,880)
Investment securities	(384,764)	233,643	(13,615)	(164,736)	4,758	245,370	85,392
Property, plant and equipment and right-of-use assets	(181,314)	60,293	(122,110)	(243,131)	31,721	–	(211,410)
Other impairment and provisions	8,414	(20,623)	–	(12,209)	27,151	–	14,942
Amounts due to customers	(4,721)	(412)	–	(5,133)	2,312	–	(2,821)
Net deferred tax liabilities	(938,233)	126,037	(135,725)	(947,921)	(212,478)	245,370	(915,029)

(thousands of Armenian drams)

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31 December 2020	31 December 2019
Loans from CBA	5,440,771	5,565,432
Loans from refinancing credit organizations	13,987,985	12,649,697
Loans from international financial institution	4,039,629	2,912,194
Loans from the Government of the RA	50,082	50,083
Other borrowed funds	23,518,467	21,177,406

As of 31 December 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.

Loans from international financial organizations include loans from Eurasian Development Bank and European Bank for Reconstruction and Development.

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

Covenants

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

21. Subordinated debt

Subordinated loans consisted of the following:

	31 December 2020	31 December 2019
Subordinated debt provided by related party	366,607	5,806,646
Subordinated loans	366,607	5,806,646

Subordinated 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 in January 2023 (2019: 7.12% and with contractual maturity in January 2023) (see Note 35). For the period ended 31 December 2020 the Group made premature repayment of subordinated debt in amount of AMD 5,599,452 thousand (see Note 36).

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.

(thousands of Armenian drams)

22. Commitments and contingencies (continued)**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 December 2020 and 31 December 2019 the Group's commitments and contingencies comprised the following:

	31 December 2020	31 December 2019
Credit related commitments		
Undrawn loan commitments	13,053,295	13,260,404
Financial guarantees	6,984,533	3,225,978
Letters of credit	1,393,572	1,834,846
	21,431,400	18,321,228
Commitments and contingencies	21,431,400	18,321,228
Provisions for ECL for credit related commitments	230,632	53,620

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

<i>Undrawn loan commitments</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2020	11,092	11,092
New exposures	51,704	51,704
Expired exposures	(5,226)	(5,226)
Changes to models and inputs used for ECL calculations	43,099	43,099
Foreign exchange adjustments	116	116
At 31 December 2020	100,785	100,785

<i>Letters of credit</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2020	15,610	15,610
New exposures	4,822	4,822
Expired exposures	(7,783)	(7,783)
Changes to models and inputs used for ECL calculations	8,898	8,898
Foreign exchange adjustments	269	269
At 31 December 2020	21,816	21,816

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2020	26,918	26,918
New exposures	89,153	89,153
Expired exposures	(14,249)	(14,249)
Changes to models and inputs used for ECL calculations	6,064	6,064
Foreign exchange adjustments	145	145
At 31 December 2020	108,031	108,031

(thousands of Armenian drams)

22. Commitments and contingencies (continued)**Commitments and contingencies (continued)**

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

<i>Undrawn loan commitments</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	13,783	13,783
New exposures	3,340	3,340
Expired exposures	(3,892)	(3,892)
Changes to models and inputs used for ECL calculations	(2,080)	(2,080)
Foreign exchange adjustments	(59)	(59)
At 31 December 2019	11,092	11,092

<i>Letters of credit</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	16,203	16,203
New exposures	8,232	8,232
Expired exposures	(6,606)	(6,606)
Changes to models and inputs used for ECL calculations	(2,139)	(2,139)
Foreign exchange adjustments	(80)	(80)
At 31 December 2019	15,610	15,610

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	40,070	40,070
New exposures	18,411	18,411
Expired exposures	(27,594)	(27,594)
Changes to models and inputs used for ECL calculations	(3,985)	(3,985)
Foreign exchange adjustments	16	16
At 31 December 2019	26,918	26,918

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 December 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 December 2020 the Bank's registered and paid-in share capital was AMD 19,947,633 thousand (2019: AMD 16,416,633 thousand).

In accordance with the Bank's statutes, the share capital consists of 66,492 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 December 2020 and 31 December 2019 may be specified as follows:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>
Advanced Global Investments LLC	14,539,800	72.89	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	4,410,600	22.11	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	997,200	5.00	820,800	5.00
	19,947,633	100	16,416,633	100

(thousands of Armenian drams)

23. Equity (continued)

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.

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.

According to the decision of extraordinary Meeting of Shareholders dated to 2 April 2020 the Bank's share capital increased by AMD 3,531,000 thousand through additional allocation of 11,770 ordinary shares at AMD 300,000 par value. AMD 1,117,666 thousand of this increase was attributable to the distribution of the Bank's retained earnings to the existing shareholders, didn't require use of cash and cash equivalents and was eliminated from the consolidated statement of cash flows

During 2020 no dividends were declared and paid. According to decision of Meeting of Shareholders dated on 19 June 2019 dividends declared and paid by the Bank amounted to AMD 850,374 thousand for ordinary shares and AMD 6.6 thousand to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 15,540 and dividends per preference share amounted to AMD 19.8.

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.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Republic of Armenia, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve is created in accordance with the Bank's charter, which requires creation of statutory general reserve not less than 20% of the Bank's share capital.

Revaluation surplus for land and buildings

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

Revaluation reserve for financial assets at FVOCI

Revaluation reserve for financial assets at FVOCI records fair value changes on financial assets at FVOCI.

24. Net interest income

Net interest income comprises:

	2020	2019
Financial assets measured at amortized cost		
Loans to customers	23,296,412	22,085,893
Amounts due from banks	49,569	37,230
Investment securities	26,154	81,958
Cash equivalents	4,788	22,385
Other interest income	1,600	7,542
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI	2,063,732	1,730,976
Interest revenue calculated using effective interest rate	25,442,255	23,965,984
Trading securities	107,629	112,090
Finance leases	54,076	15,307
Other interest revenue	161,705	127,397
Total interest revenue	25,603,960	24,093,381
Amounts due to customers	8,442,496	7,803,953
Other borrowed funds	1,495,390	1,240,662
Debt securities issued	1,243,286	1,091,421
Subordinated loans	144,088	409,689
Amounts due to banks	51,523	368,417
Lease liabilities	197,049	226,447
Interest expense	11,573,832	11,140,589
Net interest income	14,030,128	12,952,792

(thousands of Armenian drams)

25. Credit loss expense

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

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	6	275	–	–	275
Amounts due from banks	8	(3,816)	–	–	(3,816)
Loans and advances to customers	9	1,504,708	1,001,466	3,389,806	5,895,980
Debt securities measured at amortised cost	10	100	–	–	100
Debt securities measured at FVOCI	10	26,332	–	–	26,332
Other financial assets	14	8,418	(14)	8,991	17,395
Financial guarantees	22	80,968	–	–	80,968
Loan commitments	22	89,577	–	–	89,577
Letters of credit	22	5,937	–	–	5,937
Total credit loss expense		1,712,499	1,001,452	3,398,797	6,112,748

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

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	6	(3,342)	–	–	(3,342)
Amounts due from banks	8	(2,493)	–	–	(2,493)
Loans and advances to customers	9	34,204	168,294	1,246,121	1,448,619
Debt securities measured at amortised cost	10	(4,014)	–	–	(4,014)
Debt securities measured at FVOCI	10	(205,430)	–	–	(205,430)
Other financial assets	14	(7,239)	11	(5,601)	(12,829)
Financial guarantees	22	(13,168)	–	–	(13,168)
Loan commitments	22	(2,632)	–	–	(2,632)
Letters of credit	22	(513)	–	–	(513)
Total credit loss expense		(204,627)	168,305	1,240,520	1,204,198

26. Net fee and commission income

Net fee and commission income comprises:

	2020	2019
Plastic cards operations	1,597,673	1,358,039
Wire transfer fees	608,846	757,503
Fees and commission income from loans	215,899	337,616
Settlement operation	215,441	262,021
Guarantees and letters of credit	77,849	56,861
Other	386,575	422,034
Fee and commission income	3,102,283	3,194,074
Plastic cards operations	986,342	703,332
Wire transfer fees	150,087	183,080
Settlement operations	82,649	60,706
Guarantees and letters of credit	37,000	7,757
Other expenses	76,596	66,058
Fee and commission expense	1,332,674	1,020,933
Net fee and commission income	1,769,609	2,173,141

*(thousands of Armenian drams)***27. Net trading income**

	2020	2019
Net gains from foreign currency transactions	1,750,875	1,304,344
Net loss on derivative financial instruments	(601,591)	(277,425)
Net (loss)/gain from trading securities	(36,914)	66,531
Total net trading income	1,112,370	1,093,450

28. Other income

	2020	2019
Fines and penalties received	663,810	463,953
Net income from operations with precious metals	264,095	253,891
Income from cash collection services	34,346	41,478
Net gain from disposal of repossessed assets	30,004	208,293
Dividend income	17,887	3,149
Income from grants	2,424	2,424
Net gain from disposal of property, plant and equipment	1,046	2,072
Other income	171,747	275,472
Total other income	1,185,359	1,250,732

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	2019
Salaries	4,903,318	5,434,453
Other expenses	135,058	106,545
Personnel expenses	5,038,376	5,540,998
Advertising costs	579,740	512,842
Software maintenance expenses	470,453	440,520
Insurance of deposits	284,414	250,727
Security	241,346	215,073
Taxes, other than income tax, duties	240,177	185,244
Consulting and other services	225,804	202,399
Expenses related to ArCa	210,242	233,708
Communications	186,057	144,731
Fixed assets maintenance	143,464	156,248
Insurance expenses	108,658	112,779
Office supplies and maintenance	104,201	111,195
Utility expenses	98,881	104,302
Operating lease	40,325	47,243
Financial system mediator	32,157	28,050
Business trip expenses	10,073	40,697
Penalties paid	5,596	84,424
Other expenses	377,374	383,072
Other operating expenses	3,358,962	3,253,254

The Group recognised rent expense from leases of low-value assets of AMD 40,325 for the year ended 31 December 2020 (2019 – rent expense from leases of low-value assets of AMD 43,077 and short-term leases of AMD 4,166).

(thousands of Armenian drams)

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 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.

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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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 and financial institution.

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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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.

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 <i>Probability of Default</i> 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 <i>Exposure at Default</i> 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 <i>Loss Given Default</i> 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.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

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.

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.

(thousands of Armenian drams)

30. Risk management (continued)**Credit risk (continued)****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.

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. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2020.

Key drivers	ECL scenario	Assigned probabilities, %	2021	2022	2023
Imports of goods, volume mln AMD	Upside	10%	2,747,902	3,281,384	3,876,590
	Base case	80%	2,444,087	2,622,505	2,800,835
	Downside	10%	2,140,271	2,037,235	1,944,768
EUR/AMD exchange rate	Upside	10%	604.7	594.7	611.9
	Base case	80%	623.4	613.1	630.8
	Downside	10%	642.1	631.5	649.7
Central Bank base rate growth, %	Upside	10%	2.4%	2.7%	3.0%
	Base case	80%	3.3%	3.7%	4.2%
	Downside	10%	4.2%	4.7%	5.4%
Money transfers of individuals from abroad, volume thousand USD	Upside	10%	1,798,753	1,812,552	1,851,195
	Base case	80%	1,998,614	2,013,947	2,056,883
	Downside	10%	2,098,545	2,114,644	2,159,728

(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.

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.

31 December 2020	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	774,548	22,695,854	–	–	23,470,402
Amounts due from banks	8	Stage 1	447,170	16,506,725	–	–	16,953,895
Loans to customers at amortised cost - SME	11	Stage 1	257,472	31,757,896	–	–	32,015,368
		Stage 2	–	–	2,729,847	–	2,729,847
		Stage 3	–	–	–	4,984,043	4,984,043
- Corporate lending		Stage 1	31,832,893	49,019,561	–	–	80,852,454
		Stage 2	–	–	2,811,768	–	2,811,768
		Stage 3	–	–	–	5,363,490	5,363,490
- Consumer lending		Stage 1	1,319,711	35,215,981	–	–	36,535,692
		Stage 2	–	–	1,831,980	–	1,831,980
		Stage 3	–	–	–	2,421,813	2,421,813
- Residential mortgages		Stage 1	–	47,259,947	–	–	47,259,947
		Stage 2	–	–	644,105	–	644,105
		Stage 3	–	–	–	1,821,971	1,821,971
- Other gold		Stage 1	–	18,654,928	–	–	18,654,928
		Stage 2	–	–	299,860	–	299,860
		Stage 3	–	–	–	218,899	218,899
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	33,644,774	–	–	33,644,774
- Measured at amortised cost		Stage 1	–	1,828,856	–	–	1,828,856
Debt investment securities pledged under repurchase agreements	10						
- Measured at FVOCI		Stage 1	–	2,666,326	–	–	2,666,326
- Measured at amortised cost		Stage 1	–	515,781	–	–	515,781
Undrawn loan commitments	22	Stage 1	–	13,053,295	–	–	13,053,295
Letters of credit	22	Stage 1	–	1,393,572	–	–	1,393,572
Financial guarantees	22	Stage 1	–	6,984,533	–	–	6,984,533
Total			34,631,794	281,198,029	8,317,560	14,810,216	338,957,599
31 December 2019	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	1,590,245	30,547,624	–	–	32,137,869
Amounts due from banks	8	Stage 1	402,560	20,157,488	–	–	20,560,048
Loans and advances to customers - SME loans	9	Stage 1	225,082	38,017,562	–	–	38,242,644
		Stage 2	–	–	480,226	–	480,226
		Stage 3	–	–	–	1,757,081	1,757,081
- Large business loans		Stage 1	29,462,024	44,432,524	–	–	73,894,548
		Stage 2	–	–	824,701	–	824,701
		Stage 3	–	–	–	4,608,471	4,608,471
- Consumer loans		Stage 1	1,307,228	41,015,940	–	–	42,323,168
		Stage 2	–	–	1,092,531	–	1,092,531
		Stage 3	–	–	–	1,765,126	1,765,126
- Mortgage loans		Stage 1	–	42,785,195	–	–	42,785,195
		Stage 2	–	–	351,489	–	351,489
		Stage 3	–	–	–	1,463,612	1,463,612
- Gold loans		Stage 1	–	21,001,528	–	–	21,001,528
		Stage 2	–	–	289,245	–	289,245
		Stage 3	–	–	–	239,361	239,361
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	18,583,131	–	–	18,583,131
- 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			32,987,139	276,547,989	3,038,192	9,833,651	322,406,971

(thousands of Armenian drams)

30. Risk management (continued)**Credit risk (continued)**

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.

In 2020 the Group granted loans in total amount of AMD 2,467,988 thousand under government support programs to mitigate COVID-19 impact for exposed borrowers.

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

	31 December 2020			
	Armenia	Other non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	30,385,960	2,887,143	71,385	33,344,488
Trading securities	879,049	–	–	879,049
Amounts due from banks	16,010,086	126	934,114	16,944,326
Derivative financial assets	3,651	–	–	3,651
Loans and advances to customers	197,220,224	32,171,660	203,737	229,595,621
Investment securities	35,543,049	–	5,333	35,548,382
Investment securities pledged under repurchase agreements	3,182,001	–	–	3,182,001
Other financial assets	472,443	64	316,799	789,306
	283,696,463	35,058,993	1,531,368	320,286,824
Liabilities				
Amounts due to banks	4,129,012	51,475	2,468,817	6,649,304
Derivative financial liabilities	42,240	–	3,075	45,315
Amounts due to customers	165,341,835	51,836,601	10,794,639	227,973,075
Debt securities issued	19,319,342	1,842,325	365,450	21,527,117
Other borrowed funds	19,478,838	2,528,695	1,510,934	23,518,467
Lease liabilities	1,761,890	–	–	1,761,890
Subordinated debt	–	366,607	–	366,607
Other liabilities	814,402	–	93,873	908,275
	210,887,559	56,625,703	15,236,788	282,750,050
Net assets/(liabilities)	72,808,904	(21,566,710)	(13,705,420)	37,536,774

Other non-OECD counties as of 31 December 2020 are mostly represented by Russia, Georgia, Argentina, Uruguay, Bahamas, Panama, United Arab Emirates, Egypt, India, Lebanon and Syria.

	31 December 2019			
	Armenia	Other non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	37,573,567	5,939,464	27,706	43,540,737
Trading securities	646,487	–	–	646,487
Amounts due from banks	19,731,721	48	817,486	20,549,255
Loans and advances to customers	198,372,769	28,064,740	7,482	226,444,991
Investment securities	19,466,768	854,117	5,333	20,326,218
Other financial assets	254,970	9,656	410,021	674,647
	276,046,282	34,868,025	1,268,028	312,182,335
Liabilities				
Amounts due to banks	4,344,721	119,714	2,449,039	6,913,474
Derivative financial liabilities	–	–	24,488	24,488
Amounts due to customers	164,835,315	45,852,339	11,484,490	222,172,144
Debt securities issued	17,475,706	1,989,752	454,830	19,920,288
Other borrowed funds	18,265,212	2,912,194	–	21,177,406
Lease liabilities	2,066,563	–	–	2,066,563
Subordinated debt	–	5,806,646	–	5,806,646
Other liabilities	1,128,098	25,000	75,046	1,228,144
	208,115,615	56,705,645	14,487,893	279,309,153
Net assets/(liabilities)	67,930,667	(21,837,620)	(13,219,865)	32,873,182

(thousands of Armenian drams)

30. Risk management (continued)**Credit risk (continued)**

Other non-OECD countries as of 31 December 2019 are mostly represented by Russia, Georgia, Argentina, Uruguay, Bahamas, Panama, United Arab Emirates, Egypt, India, Lebanon and Syria.

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 10% on certain obligations of the Group denominated in foreign currency in Armenian drams and 8% 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 December 2020 and 31 December 2019, these ratios were as follows:

	Threshold	31 December 2020, %	31 December 2019, %
N21 "General Liquidity Ratio" (highly liquid assets / total assets)	Min 15%	30.35	26.22
N22 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	Min 60%	94.73	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 December 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 December 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	4,312,028	–	2,274,548	–	78,389	6,664,965
Derivative liabilities	45,316	–	–	–	–	45,316
Amounts due to customers	98,207,651	22,874,686	75,051,913	33,347,282	1,347,081	230,828,613
Other borrowed funds	222,726	682,322	4,081,823	13,714,901	10,571,027	29,272,799
Debt securities issued	–	–	12,392,363	10,263,501	–	22,655,864
Lease liabilities	46,903	93,806	399,962	1,346,469	627,881	2,515,021
Subordinated debt	–	794	24,765	392,823	–	418,382
Total undiscounted financial liabilities	102,834,624	23,651,608	94,225,374	59,064,976	12,624,378	292,400,960
Commitments and contingent liabilities	21,431,400	–	–	–	–	21,431,400

(thousands of Armenian drams)

30. Risk management (continued)**Liquidity risk and funding management (continued)**

	31 December 2019					
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Financial liabilities						
Amounts due to banks	4,589,797	631,017	1,636,123	–	71,955	6,928,892
Derivative liabilities	24,488	–	–	–	–	24,488
Amounts due to customers	91,431,227	14,575,980	77,902,024	48,904,223	1,972,894	234,786,348
Other borrowed funds	206,664	254,376	2,741,172	14,143,825	9,696,470	27,042,507
Debt securities issued	–	–	1,234,246	20,984,806	–	22,219,052
Lease liabilities	48,118	96,237	428,204	1,697,824	832,605	3,102,988
Subordinated debt	–	–	396,371	6,638,099	–	7,034,470
Total undiscounted financial liabilities	96,300,294	15,557,610	84,338,140	92,368,777	12,573,924	301,138,745
Commitments and contingent liabilities	18,321,228	–	–	–	–	18,321,228

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 "Demand and less than 1 month" 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 December. The sensitivity of equity is calculated by revaluing debt financial assets measured at FVOCI at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

<i>Currency</i>	<i>Increase in basis points 31 December 2020</i>	<i>Sensitivity of net interest income 31 December 2020</i>	<i>Sensitivity of equity 31 December 2020</i>
AMD	1.10%	(26,244)	(1,389,308)
USD	1.00%	–	(41,699)
EUR	0.20%	–	(2,099)
<i>Currency</i>	<i>Decrease in basis points 31 December 2020</i>	<i>Sensitivity of net interest income 31 December 2020</i>	<i>Sensitivity of equity 31 December 2020</i>
AMD	1.1%	26,244	1,389,308
USD	0.25%	–	10,425
EUR	0.20%	–	2,099

(thousands of Armenian drams)

30. Risk management (continued)**Market risk (continued)**

<i>Currency</i>	<i>Increase in basis points 31 December 2019</i>	<i>Sensitivity of net interest income 31 December 2019</i>	<i>Sensitivity of equity 31 December 2019</i>
AMD	1.00%	(26,123)	(697,754)
USD	0.35%	–	(26,107)
EUR	0.15%	–	(715)

<i>Currency</i>	<i>Decrease in basis points 31 December 2019</i>	<i>Sensitivity of net interest income 31 December 2019</i>	<i>Sensitivity of equity 31 December 2019</i>
AMD	1.00%	26,123	697,754
USD	0.35%	–	26,107
EUR	0.15%	–	715

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 December 2020 and 31 December 2019 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.

<i>Currency</i>	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>
USD	5.0%	(150,351)	3.0%	(52,993)
USD	(5.0%)	150,351	(3.0%)	52,993
EUR	8.5%	(30,620)	6.5%	3,426
EUR	(8.5%)	30,620	(6.5%)	(3,426)

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.

(thousands of Armenian drams)

30. Risk management (continued)

Operational risk (continued)

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.

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 FVOCI 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).

(thousands of Armenian drams)

31. Fair value measurements (continued)**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 December 2020					
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and advances to customers	–	–	208,686,430	208,686,430	229,595,621
Cash and cash equivalents	33,344,488	–	–	33,344,488	33,344,488
Amounts due from banks	–	–	16,944,326	16,944,326	16,944,326
Investment securities at amortised cost	–	1,803,810	–	1,803,810	1,823,053
Investment securities at amortised cost pledged under repurchase agreements	–	515,401	–	515,401	515,675
Other financial assets	–	–	789,306	789,306	789,306
Financial liabilities					
Amounts due to customers	–	–	227,973,075	227,973,075	227,973,075
Other borrowed funds	–	–	23,518,467	23,518,467	23,518,467
Amounts due to banks	–	–	6,649,304	6,649,304	6,649,304
Debt securities issued	–	21,596,390	–	21,596,390	21,527,117
Lease liabilities	–	–	1,761,890	1,761,890	1,761,890
Subordinated debt	–	–	366,607	366,607	366,607
Other financial liabilities	–	–	908,275	908,275	908,275
31 December 2019					
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and advances to customers	–	–	205,844,297	205,844,297	226,444,991
Cash and cash equivalents	43,540,737	–	–	43,540,737	43,540,737
Amounts due from banks	–	–	20,549,255	20,549,255	20,549,255
Investment securities at amortised cost	–	1,713,412	–	1,713,412	1,679,960
Other financial assets	–	–	674,647	674,647	674,647
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	–	–	6,913,474	6,913,474	6,913,474
Debt securities issued	–	19,960,982	–	19,960,982	19,920,288
Lease liabilities	–	–	2,066,563	2,066,563	2,066,563
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).

(thousands of Armenian drams)

31. Fair value measurements (continued)**Financial instruments that are measured at fair value (continued)**

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.

31 December 2020			
	Level 1	Level 2	Total
Financial assets			
Trading securities	–	879,049	879,049
Derivative financial assets	–	3,651	3,651
Investment securities at FVOCI	–	33,725,329	33,725,329
Investment securities at FVOCI pledged under repurchase agreements	–	2,666,326	2,666,326
Total	–	37,274,355	37,274,355
Financial liabilities			
Derivative financial liabilities	–	45,315	45,315
Total	–	45,315	45,315
Net fair value	–	37,229,040	37,229,040

31 December 2019			
	Level 1	Level 2	Total
Financial assets			
Trading securities	–	646,487	646,487
Investment securities at FVOCI	–	18,646,258	18,646,258
Total	–	19,292,745	19,292,745
Financial liabilities			
Derivative financial liabilities	–	24,488	24,488
Total	–	24,488	24,488
Net fair value	–	19,268,257	19,268,257

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

Fair value measurement of non-financial assets and liabilities

31 December 2020		
	Level 3	Total
Non-financial assets		
Land and buildings	4,986,047	4,986,047
Total	4,986,047	4,986,047
31 December 2019		
	Level 3	Total
Non-financial assets		
Land and buildings	5,177,297	5,177,297
Total	5,177,297	5,177,297

(thousands of Armenian drams)

31. Fair value measurements (continued)**Fair value measurement of non-financial assets and liabilities (continued)***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	5,177,297	5,177,297
Purchases	4,878	4,878
Disposals	–	–
Depreciation charge	(196,128)	(196,128)
Net fair value at 31 December 2020	4,986,047	4,986,047

Non-financial assets	Land and buildings	Total
Balance as at 1 January 2019	4,614,029	4,614,029
Purchases	85,821	85,821
Disposals	–	–
Revaluation	678,391	678,391
Depreciation charge	(200,944)	(200,944)
Net fair value at 31 December 2019	5,177,297	5,177,297

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.

The following table summarises the sensitivity of the fair value measurement of Group's land and buildings categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2019:

Unobservable input	Range	Description of sensitivity
Capitalisation rate	6.41%-7.12%	0.71% decrease in capitalisation rate will lead to AMD 517,730 thousand decrease in the fair value of the Group's land and buildings

(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 December 2020 the Group has securities sold under repurchase agreements amounted to AMD 3,182,001 thousand which were classified as measured at FVOCI and amortised cost (2019: didn't have).

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 December 2020 as amounts due to banks with carrying amount of AMD 3,074,106 thousand, (2019: didn't have).

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:

		<i>Gross amount of recognised financial liabilities set off in the consolidated statement of financial position</i>	<i>Net amount of financial assets recognised in the consolidated statement of financial position</i>	<i>Related amounts not offset in the consolidated statement of financial position</i>		
	<i>Gross amount of recognised financial assets</i>			<i>Financial instruments</i>	<i>Non-cash collateral received</i>	<i>Net amount</i>
31 December 2020						
Financial assets						
Amounts due from banks – reverse repo	641,242	–	641,242	–	(641,242)	–
Loans and advances to customers – reverse repo	11,874,388	–	11,874,388	–	(11,874,388)	–
Total	12,515,630	–	12,515,630	–	(12,515,630)	–
Financial liabilities						
Amounts due to banks – repo	3,074,106	–	3,074,106	(3,074,106)	–	–
Total	3,074,106	–	3,074,106	(3,074,106)	–	–
		<i>Gross amount of recognised financial liabilities set off in the consolidated statement of financial position</i>	<i>Net amount of financial assets recognised in the consolidated statement of financial position</i>	<i>Related amounts not offset in the consolidated statement of financial position</i>		
	<i>Gross amount of recognised financial assets</i>			<i>Financial instruments</i>	<i>Non-cash collateral received</i>	<i>Net amount</i>
31 December 2019						
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)	–

(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 December 2020			31 December 2019		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets						
Cash and cash equivalents	33,344,488	–	33,344,488	43,540,737	–	43,540,737
Trading securities	7,450	871,599	879,049	369,970	276,517	646,487
Derivative assets	3,651	–	3,651	–	–	–
Amounts due from banks	13,681,227	3,263,099	16,944,326	19,089,874	1,459,381	20,549,255
Loans and advances to customers	88,412,292	141,183,329	229,595,621	74,908,492	151,536,499	226,444,991
Investment securities	5,350,485	30,197,897	35,548,382	1,918,772	18,407,446	20,326,218
Investment securities pledged under repurchase agreements	552,526	2,629,475	3,182,001	–	–	–
Property, plant and equipment	–	8,605,113	8,605,113	–	9,479,389	9,479,389
Intangible assets	–	330,808	330,808	–	337,260	337,260
Repossessioned assets	1,693,043	–	1,693,043	2,023,928	–	2,023,928
Current income tax assets	216,837	–	216,837	–	–	–
Other assets	2,052,429	41,166	2,093,595	2,245,113	35,147	2,280,260
Total	145,314,428	187,122,486	332,436,914	144,096,886	181,531,639	325,628,525
Liabilities						
Amounts due to banks	6,570,915	78,389	6,649,304	6,841,519	71,955	6,913,474
Derivative liabilities	45,315	–	45,315	24,488	–	24,488
Amounts due to customers	194,120,418	33,852,657	227,973,075	177,677,805	44,494,339	222,172,144
Other borrowed funds	3,742,504	19,775,963	23,518,467	2,020,552	19,156,854	21,177,406
Debt securities issued	11,688,267	9,838,850	21,527,117	241,488	19,678,800	19,920,288
Lease liabilities	349,023	1,412,867	1,761,890	351,902	1,714,661	2,066,563
Current income tax liabilities	–	–	–	644,892	–	644,892
Deferred income tax liabilities	–	915,029	915,029	–	947,921	947,921
Other liabilities	1,114,692	18,739	1,133,431	1,638,611	21,164	1,659,775
Provisions on commitments and contingencies	230,632	–	230,632	53,620	–	53,620
Subordinated debt	794	365,813	366,607	2,276	5,804,370	5,806,646
Total	217,862,560	66,258,307	284,120,867	189,497,153	91,890,064	281,387,217
Net position	(72,548,132)	120,864,179	48,316,047	(45,400,267)	89,641,575	44,241,308

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 December 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 December 2020									
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal less over 12 months</i>	<i>No maturity</i>	<i>Total</i>
Cash and cash equivalents	33,344,488	–	–	33,344,488	–	–	–	–	33,344,488
Trading securities	580,170	–	7,450	587,620	–	291,429	291,429	–	879,049
Derivative financial assets	3,651	–	–	3,651	–	–	–	–	3,651
Amounts due from banks	1,694,574	–	5,038	1,699,612	418,041	–	418,041	14,826,673	16,944,326
Loans and advances to customers	5,038,106	31,418,638	51,955,548	88,412,292	85,575,815	55,607,514	141,183,329	–	229,595,621
Investment securities	29,121,911	40,624	1,519,297	30,681,832	4,731,720	54,275	4,785,995	80,555	35,548,382
Investment securities pledged under repurchase agreements	417,497	–	135,029	552,526	2,629,475	–	2,629,475	–	3,182,001
Property, plant and equipment	–	–	–	–	–	–	–	8,605,113	8,605,113
Intangible assets	–	–	–	–	–	–	–	330,808	330,808
Repossessioned assets	–	–	1,693,043	1,693,043	–	–	–	–	1,693,043
Current income tax assets	–	–	216,837	216,837	–	–	–	–	216,837
Other assets	1,617,428	154,692	280,309	2,052,429	31,538	7,763	39,301	1,865	2,093,595
Total assets	71,817,825	31,613,954	55,812,551	159,244,330	93,386,589	55,960,981	149,347,570	23,845,014	332,436,914
Liabilities									
Amounts due to banks	4,312,028	–	2,258,887	6,570,915	–	–	–	78,389	6,649,304
Derivative financial liabilities	45,315	–	–	45,315	–	–	–	–	45,315
Amounts due to customers	98,178,864	22,694,918	73,246,636	194,120,418	32,556,075	1,296,582	33,852,657	–	227,973,075
Other borrowed funds	198,633	552,251	2,991,620	3,742,504	10,393,230	9,382,733	19,775,963	–	23,518,467
Debt securities issued	–	–	11,688,267	11,688,267	9,838,850	0	9,838,850	–	21,527,117
Lease liabilities	29,827	61,724	257,472	349,023	844,581	568,286	1,412,867	–	1,761,890
Deferred tax liabilities	–	–	–	–	915,029	0	915,029	–	915,029
Other liabilities	203,386	70,674	840,632	1,114,692	–	18,739	18,739	–	1,133,431
Provisions on commitments and contingencies	230,632	–	–	230,632	–	–	–	–	230,632
Subordinated debt	–	794	–	794	365,813	–	365,813	–	366,607
Total liabilities	103,198,685	23,380,361	91,283,514	217,862,560	54,913,578	11,266,340	66,179,918	78,389	284,120,867
Net position	(31,380,860)	8,233,593	(35,470,963)	(58,618,230)	38,473,011	44,694,641	83,167,652	23,766,625	48,316,047
Accumulated gap	(31,380,860)	(23,147,267)	(58,618,230)		(20,145,219)	24,549,422			

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

	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 less over 12 months	No maturity	Total
Cash and cash equivalents	43,540,737	–	–	43,540,737	–	–	–	–	43,540,737
Trading securities	364,095	–	5,875	369,970	276,517	–	276,517	–	646,487
Amounts due from banks	9,202,641	1,075,235	–	10,277,876	–	–	–	10,271,379	20,549,255
Loans and advances to customers	7,408,119	14,493,081	53,007,292	74,908,492	95,194,293	56,342,206	151,536,499	–	226,444,991
Investment securities	15,160,984	55,794	1,019,201	16,235,979	4,027,112	–	4,027,112	63,127	20,326,218
Property, plant and equipment	–	–	–	–	–	–	–	9,479,389	9,479,389
Intangible assets	–	–	–	–	–	–	–	337,260	337,260
Reposessed assets	–	–	2,023,928	2,023,928	–	–	–	–	2,023,928
Other assets	1,852,042	45,596	347,475	2,245,113	7,650	25,632	33,282	1,865	2,280,260
Total assets	77,528,618	15,669,706	56,403,771	149,602,095	99,505,572	56,367,838	155,873,410	20,153,020	325,628,525
Liabilities									
Amounts due to banks	4,588,378	629,523	1,623,618	6,841,519	–	–	–	71,955	6,913,474
Derivative financial liabilities	24,488	–	–	24,488	–	–	–	–	24,488
Amounts due to customers	91,166,853	13,760,663	72,750,289	177,677,805	43,395,690	1,098,649	44,494,339	–	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	–	21,177,406
Debt securities issued	–	–	241,488	241,488	19,678,800	–	19,678,800	–	19,920,288
Lease liabilities	28,686	59,016	264,200	351,902	1,051,465	663,196	1,714,661	–	2,066,563
Income tax liabilities	–	–	644,892	644,892	–	–	–	–	644,892
Deferred tax liabilities	–	–	–	–	947,921	–	947,921	–	947,921
Other liabilities	105,139	245,031	1,288,441	1,638,611	–	21,164	21,164	–	1,659,775
Provisions on commitments and contingencies	53,620	–	–	53,620	–	–	–	–	53,620
Subordinated debt	–	–	2,276	2,276	5,804,370	–	5,804,370	–	5,806,646
Total liabilities	96,151,722	14,820,091	78,525,340	189,497,153	81,607,657	10,210,452	91,818,109	71,955	281,387,217
Net position	(18,623,104)	849,615	(22,121,569)	(39,895,058)	17,897,915	46,157,386	64,055,301	20,081,065	44,241,308
Accumulated gap	(18,623,104)	(17,773,489)	(39,895,058)		(21,997,143)	24,160,243			

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:

The outstanding balances of related party transactions are as follows:

(thousands of Armenian drams)

35. Related party disclosures (continued)

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

	31 December 2020			31 December 2019		
	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	33,701,291	535,768	7,336	21,837,300	600,766
Loans issued during reporting period	2,565	20,831,372	890,583	111,602	20,793,012	675,549
Loan repayments during reporting period	(2,461)	(16,054,140)	(961,372)	(118,914)	(8,929,021)	(740,547)
Loans outstanding at the end of the reporting period, gross	128	38,478,523	464,979	24	33,701,291	535,768
Less: allowance for loan impairment	(2)	(84,329)	(5,016)	–	(24,671)	(503)
Loans outstanding at the end of the reporting period, net	126	38,394,194	459,963	24	33,676,620	535,265
Amounts due to customers						
Deposits at 1 January	682,507	58,228,472	285,990	213,839	46,019,356	564,144
Deposits received during reporting period	515,044	147,307,774	4,008,104	1,489,880	610,641,018	3,180,100
Deposits repaid during reporting period	(923,719)	(149,188,048)	(2,991,477)	(1,021,212)	(598,431,902)	(3,458,254)
Deposits at the end of the reporting period	273,832	56,348,198	1,302,617	682,507	58,228,472	285,990
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	–	5,806,646	–	–	5,852,819	–
Redemption of subordinated loans	–	(5,599,452)	–	–	–	–
Net result from FX revaluation	–	163,093	–	–	(48,885)	–
Other movements	–	(3,680)	–	–	2,712	–
Subordinated debt at the end of the reporting period	–	366,607	–	–	5,806,646	–
Items not recognised in the consolidated statement of financial position						
Guarantees given	–	–	42,056	–	188,042	26,863
Consolidated statement of comprehensive income						
Interest income	–	2,964,535	29,661	–	2,271,369	34,727
Fee and commission income	99	18,981	648	93	34,874	852
Other income	657	85,104	2,154	1,855	85,874	748
Interest expense	(6,378)	(2,180,496)	(74,165)	(2,176)	(2,321,838)	(23,087)
Impairment charge	(2)	(59,654)	(4,516)	80	68,145	1,591
Other expenses	–	(20,814)	(33,202)	–	(45,132)	(32,661)

Compensation of key management personnel was comprised of the following:

	31 December 2020	31 December 2019
Salaries and other short-term benefits	699,366	662,492
Total key management personnel compensation	699,366	662,492

(thousands of Armenian drams)

36. 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 December 2018	18, 20, 21	16,653,444	15,684,413	5,852,819	–	38,190,676
IFRS 16 impact		–	–	–	2,239,693	2,239,693
Proceeds from issue		14,211,537	8,141,849	–	–	22,353,386
Redemption		(10,818,447)	(2,701,526)	–	(317,280)	(13,837,253)
Foreign currency translation		(157,540)	16,474	(48,885)	–	(189,951)
Other		31,294	36,196	2,712	144,150	214,352
Carrying amount at 31 December 2019	18, 20, 21	19,920,288	21,177,406	5,806,646	2,066,563	48,970,903
Proceeds from issue		–	4,985,907	–	–	4,985,907
Redemption		–	(2,887,004)	(5,599,452)	(346,644)	(8,833,100)
Foreign currency translation		1,591,500	235,172	164,207	–	1,990,879
Other		15,329	6,986	(4,794)	41,971	59,492
Carrying amount at 31 December 2020	18, 20, 21	21,527,117	23,518,467	366,607	1,761,890	47,174,081

The “Other” line includes origination of new lease liabilities and lease modifications being non-cash movements. It also includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds, subordinated loans and lease liabilities. The Group classifies interest paid as cash flows from operating activities.

37. 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, policies 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 capital to risk weighted assets, as well as a ratio of core capital to risk weighted assets (capital adequacy ratios N1.1 and N1.2) above the prescribed minimum levels. As at 31 December 2020 this minimum levels of N1.1 and N1.2 ratios were accordingly 9% and 12%, and as at 31 December 2019, the minimum level of N1.2 ratio was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2020 and 31 December 2019.

The following table shows the composition of capital position calculated in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Tier 1 capital	45,195,850	39,894,182
Tier 2 capital	3,146,829	7,759,930
Total capital	48,342,679	47,654,112
Risk-weighted assets	297,766,483	288,388,820
Capital adequacy ratio	16.24%	16.52%

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.