PROGRAM PROSPECTUS

FOR BONDS ISSUED BY
CONVERSE BANK CLOSED JOINT STOCK COMPANY

Yerevan 2021

PROGRAM PROSPECTUS

CONVERSE BANK CLOSED JOINT STOCK COMPANY

Issuer's trade name, organizational/legal form

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Republic of Armenia

Tel. (+374 10) 511-200, (+374 10) 511-211

Email post@conversebank.am

Website www.conversebank.am

CONVERSE BANK CLOSED JOINT STOCK COMPANY

Main Issuer's name, organizational/legal form

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Republic of Armenia

Tel. (+374 10) 511-200, (+374 10) 511-211

Email post@conversebank.am

Website www.conversebank.am

FILING OF THE PROSPECTUS WITH THE CENTRAL BANK OF ARMENIA SHALL BY NO MEANS CONFIRM THE SAFETY OF INVESTMENT, ACCURACY OR AUTHENTICITY OF INFORMATION.

Type of securities:	Registered, coupon bond
Form of security:	Dematerialized
Par value per security:	USD 100 (one hundred), AMD 50,000 (fifty thousand)
Total quantity of issue:	200,000 (two hundred thousand) with USD, 100,000 (one hundred thousand) with AMD
Total value of issue:	USD 20,000,000 (twenty million), AMD 5,000,000,000 (five billion)
Value per tranche:	To be determined by the Bank Board for each tranche
Quantity per tranche:	Based on total value and par value per tranche
Annual coupon yield:	To be determined by the Bank Board for each tranche
Flotation period:	To be determined by the Bank Board for each tranche
Coupon payment frequency:	To be determined by the Bank Board for each tranche
Form of issue:	Non-underwritten

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RESPONSIBLE PARTIES

We, the undersigned, assure that we have made all reasonable efforts to ascertain the accuracy and integrity of the included information. Therefore, we assure that to the best of our knowledge the information included in the Prospectus is accurate and integral and contains no omission that may misrepresent the substance of the Prospectus.

Signatories

______________________________	______________________________
Armen Ter-Tachatyan Chairman of Board, Converse Bank CJSC	(date)
______________________________	______________________________
Arsen Gamaghelyan (Ter Hovel Archpriest) Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Jose Luis Persico Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Juan Carlos Ozcoidi Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Jorge Alberto Del Aguila Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Daniel Guillermo Simonutti Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Marcelo Wende Converse Bank CJSC Board Member	(date)
______________________________	______________________________
Artur Hakobyan Converse Bank CJSC, CEO Chairman of Executive Management	(date)

_____________________________ __________________________
Grant Akopian (date)
Converse Bank CJSC Deputy CEO
Financial Director
Member of Executive Management

_____________________________ __________________________
Davit Azatyan (date)
Converse Bank CJSC
Head of Accounting Division/Chief Accountant
Member of Executive Management

_____________________________ __________________________
Gohar Harutyunyan (date)
Converse Bank CJSC
Operations and Services Director
Member of Executive Management

____________________________ __________________________
Vahe Dalyan (date)
Converse Bank CJSC Risk Management Director
Member of Executive Management

_____________________________ __________________________
Artur Nahapetyan (date)
Converse Bank CJSC
Business Development Director
Member of Executive Management

_____________________________ __________________________
Grigory Baghdasaryan (date)
Converse Bank CJSC
Retail Business Director
Member of Executive Management

_____________________________ __________________________
Aram Zakaryan (date)
Converse Bank CJSC
IT Director
Member of Executive Management

______________________________ _________________________

Sargs Khachatryan (date)
Converse Bank CJSC
Corporate Business Director
Member of Executive Management

SECTION 1. SUMMARY

The Summary is viewed as the preamble to the Prospectus, and the investor's decision on investments in the offered securities is to be based on the whole Prospectus.

The parties responsible for development of the Summary bear civil liability for incomplete or misleading information (including the translation) contained in the Summary, where the latter is incomplete and misleading for review of the remaining sections of the Prospectus.

The investor can obtain the hard copies of the Prospectus and the supporting documents at the Head Office of the Bank, or the soft copies on the Bank's website: **www.conversebank.am**.

1.1 Brief Information about the Bank and Activities of the Bank

1.1.1 Bank Details and Contacts

The full firm name of the Bank is:
in Armenian «Կոնվերս Բանկ» փակ բաժնետիրական ընկերություն
in Russian закрытое акционерное общество "Конверс Банк"
in English "Converse Bank" closed joint-stock company.
The short firm name of the Bank is:
in Armenian «Կոնվերս Բանկ» ՓԲԸ
in Russian ЗАО "Конверс Банк"
in English "Converse Bank" CJSC.
The officially registered address of the Bank is:
26/1 Vazgen Sargsyan, Yerevan, Armenia.
State Registration # 57
Location:
26/1 Vazgen Sargsyan, Yerevan, Armenia.
Contacts:
Tel. (+374 10) 511-200, (+374 10) 511-211
Fax (374 10) 511-212
Email post@conversebank.am,
Website www.conversebank.am:
Country of incorporation: Republic of Armenia
Organizational/legal form: closed joint stock company (registered on 20.12.1993).

For questions relating to investments in bonds, please contact the respective specialists of the Treasury, Dealing and Financial Markets Division of Financial Department of the Bank: (+374 10) 511-273, 511-206, 511-247.

1.1.2. Foundation and History of the Bank

The Bank has conducted actual business since 1993 and has been active in the RA banking market for 27 years.
The Bank was registered with the Central Bank of Armenian in December 1993, and is the legal successor of North-Armenian joint stock bank.

The Bank was reorganized into Converse Bank closed joint stock company in 1997. The Bank was granted the banking license #97 by the Central Bank of Armenia. Converse Bank closed joint stock company was registered at 26/1, Vazgen Sargsyan, Republic Square, Yerevan, Armenia; and the Central Bank of Armenia (the CBA) was the registering authority.

The trade name and the logotype of the Bank are protected under the RA normative acts and are registered with the RA Patent Office (Trade Name Registration Resolution at 03.06.1999, registration #107913).

The logo of the Bank is:

ConverseBank

The founder and major shareholder of the Bank is Advance Global Investments LLC.

1.1.3. Share Capital of the Bank

The Bank's share capital consists of ordinary and preference shares:

Advanced Global Investments LLC

Ownership: non-state

Type of share: 333 convertible preferred stocks at AMD 100 (one hundred) face value per share and ordinary stocks

Residency: non-resident

Equity participation: 72.89%

Haypost Trust Management B.V.

Ownership: non-state

Type of share: ordinary stocks

Residency: non-resident

Equity participation: 22.11%

Armenian Apostolic Church, represented by Mother See of Holy Etchmiadzin

Ownership: non-state

Type of share: ordinary stocks

Residency: resident

Equity participation: 5%

To date Converse Bank CJSC has issued and allocated 66,492 (sixty-six thousand four hundred and ninety-two) ordinary stocks, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preferred shares, each at AMD 100 (one hundred) par value, which form the share capital of the Bank.

1.1.4. Geographic Distribution

As of 31.12.2018, the Bank had 35 branches located in 9 regions of Armenia, Yerevan, and in Stepanakert, the capital of the Republic of Artsakh.

Geographical distribution of branches of the Bank

Regions and cities	Number of branches
Kotayk	6
Lori	1
Syunik	1
Shirak	3
Tavush	2
Armavir	3
Ararat	1
Aragatsotn	1
Gegharkunik	1
Yerevan	15
Stepanakert	1
Total	**35**

The list of branches is presented in Annex 5.

1.1.5. Position in Banking Sector (as of 31.12.2020)

All in all, 17 Armenia-based banks, Converse Bank CJSC among them, have 550 branches located in Armenia and Republic of Artsakh:

- The share of the Bank's branches in the banking system makes 6.3% (35 branches).

As of 31.12.2020, based on the financial disclosures of banks, the Bank had the following position in the Armenian banking sector by financial results:

- 8th place by total liabilities (AMD 283.5 B or 4.94% market share),
- 5th place by credit investments (AMD 229.3 B or 5.7% market share),
- 6th place by liabilities to customers (AMD 227.97 B or 6.4% market share)
- 6th place by net profit (AMD 2.55 B or 4.2% market share),
- 8th place by assets (AMD 331.9 B or 5.0% market share),
- 8th place by total capital (AMD 48.1 B or 5.4% market share).

1.1.6. Mission and Strategy of the Bank

The mission of the Bank is to meet the financial needs of both existing and new customers and support them in achieving financial success by offering high quality and accessible banking services in the branch network of the Bank and as well by using all forms of remote banking.

The vision of the Bank is to become the 1st choice retail bank in Armenia.

The Bank has adopted the below values when offering services to customers:

- Accessibility
- Affordability
- Novelty
- Awareness
- Support
- Care

The Bank applies Corporate Values:

- Teamwork
- Responsibility
- Delegation of decision making powers
- Integrity
- Training and development
- Inspiration

Based on the results and profit level of the recent years and facing the economic consequences of the pandemic and the military operations in 2020, in the perspective development context the Bank's operation in the upcoming years will be oriented to the continuous implementation and development of systemic measures and technologies that will create fundamental and strong grounds and preconditions for the new qualitative development of the Bank.

Though the banking market is highly competitive, new opportunities exist to provide for a growth in excess of the average growth in the banking system and to increase the market share, by applying diversified sales channels in line with the new realities and demand.

The Bank has positioned itself and operated in the RA banking system as a universal bank viewing as a priority the development of retail banking services and offering of quality banking services through advanced digital technologies.

In that respect, the Bank has consistently and successfully implemented new digital tools and revised business processes in the recent years, the improved efficiency of the toolkit designed for products and services have been directly reflected in the Bank's financial results, providing for leading positions in retail banking services, as well as due to the implementation of new digital tools ensuring a significant growth in the number of customers using digital platforms and the banking services offered by the Bank on digital platforms.

It is important to state that the situation due to the spread of COVID-19 and the military operations in Artsakh in 2020 have had and continue to have an adverse effect on the financial results of the Bank, and to resist the same the Bank has made a number of measures in 2021, which are outlined in this Plan.

1.1.7. Business Profile

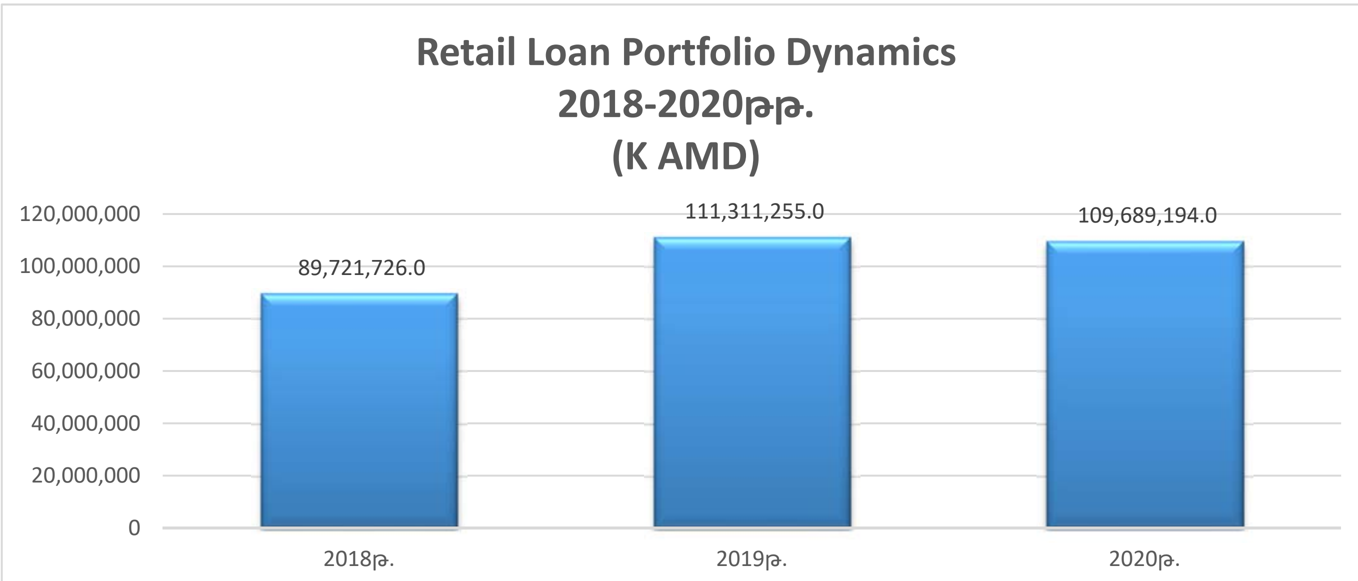
The essential business directions of the Bank for 2021 include:

1. Retail lending
2. Extension and development of digital banking services, digital transformations
3. Payment cards
4. Improvement of fund raising channels and tools
5. SME financing
6. NPL portfolio management.

The main business directions of the Bank will include:

1. ***The Bank having a retail orientation and focusing on the development of services offered to individuals, at the same time based on the actual results of past years, views the retail loans as an essential business direction.***
   Based on the 2020 results, the Bank has provided for a retail loan portfolio amounting to over AMD 110 B, which has slightly decreased, by 1.5% vs. the past year. However, it is important to note that the average growth of the retail loan portfolio made over 10% in the past 2 years.

Diagram 1. Retail loan portfolio dynamics



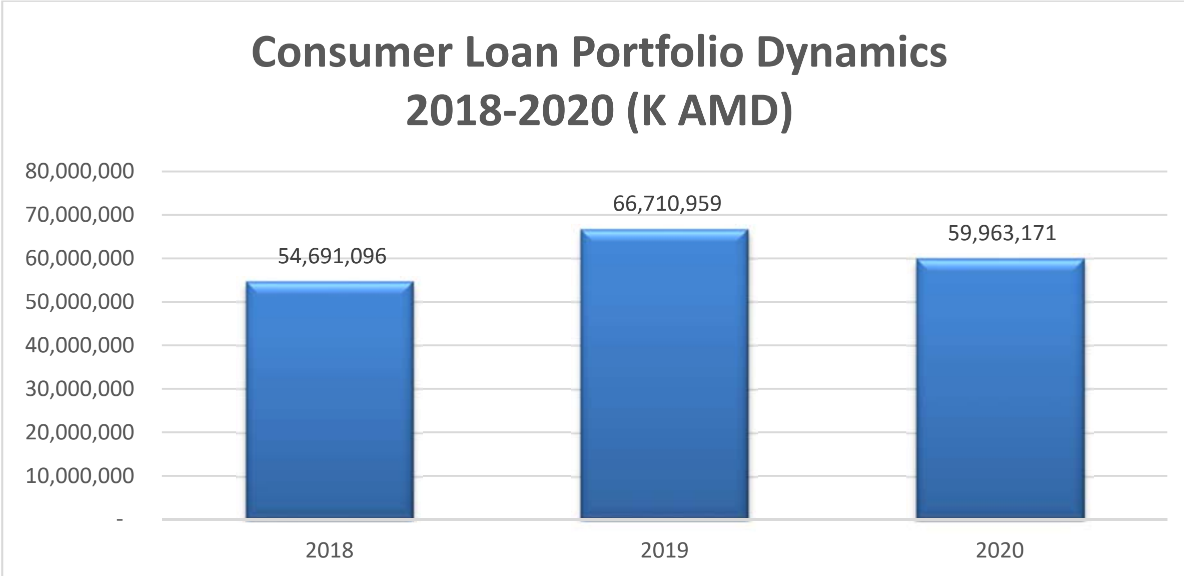
Mortgage Loans

The Bank views the mortgage lending as one of its core business areas and is among the leading banks in the RA banking system by mortgage lending volumes and takes the 3rd place.

Consumer Loans

The Bank's consumer loan portfolio grew by about 10% in the recent 3 years, due to which the Bank's share in consumer loan portfolio makes 10% in the RA banking system.

Diagram 2. Consumer loan dynamics



The Bank is represented in the consumer loan market with an extensive toolkit, which is accessible to all customer segments; in particular:

- Real estate- and car-based loans/credit cards
- Car purchase loans
- Gold-based and cash-covered loans/credit cards
- Installment and online loans
- Payment cards
- Other consumer loans.

The Bank regularly launches customer attraction campaigns for specific types of consumer loans. In 2020, the Bank strengthened the scoring for online loans. The gold-based financing has an important role in the consumer loan portfolio.

2. Development and expansion of digital banking services, digital transformations

The development and expansion of digital banking services and the digital transformations in the Bank's systems will be one of the core directions of the Bank.

The new Converse Mobile application was launched in February 2020, and the number of transactions made through the latter overpassed 127 K, totaling about AMD 10.6 B at the year-end, and the number of customers overpassed 36.2 K. The result was achieved due to the implementation of numerous campaigns and tools.

3. Payment Cards

Historically the card business is one of the core business directions of the Bank, and today the Bank is one of the market leaders both by the number of credit cards and by the transactions and the infrastructure due to the investments and efforts made year over year for the development and expansion of the card business. The Bank puts a special focus on the expansion of cashless payments, which is supported with a unique and long-standing Converse Points program, whereby points are accrued against the cashless purchases and exchanged with Gifts. In addition, the discount and CashBack campaigns for the cards of the Bank are one of the popular methods of promotion of the customer loyalty and cashless purchases. To promote cashless purchases, the Bank cooperates intensively with Visa and MasterCard international payment organizations.

The Bank intends to strengthen its positions among the leading banks of Armenia in 2021.

Table 1. Payment cards

Indicator	31.12.2019թ.	31.12.2020թ.
Number of payment cards of RA banks	2,390,376	2,491,042
Number of payment cards of Converse Bank CJSC	234,029	220,280
Share of Converse Bank CJSC	10%	9%

In 2020, the Bank successfully implemented campaigns for Visa virtual cardholders, Cash Back actions, as well as the “Sport in My Life” campaign for Visa cardholders due to which the top 50 cardholders having made the most transactions were recognized the winners.

4. Improvement of fund raising channels and tools

The Bank’s policy of the upcoming years will also aim at implementation of complex fund raising programs, due to which the Bank expects to revise the calculation methodology for fund raising interest rates among others. At the same time, taking into account the current situation and the market trends, the Bank is planning to revise the traditional product terms, including the interest rates, by placing the main accent on simplification of products, attraction of retail deposits and improvement of fund raising on digital platforms.

5. SME development as one of the priority strategic directions of the Bank

In January 2020, Converse Bank and the European Bank for Reconstruction and Development (EBRD) concluded 2 credit agreements to the total amount equivalent of USD 8 M. Converse Bank will use the amount of USD 6 M in the equivalent AMD to finance micro, small and medium businesses in Armenia, and the amount of USD 2 M in equivalent AMD to finance the women-led MSMEs within the scope of the EBRD Women In Business program. The EBRD financing is of vital importance for the private sector in Armenia, since it will allow us to increase the volume of the RA business loans in the local currency, thus supporting the development of small and medium businesses, especially the women-led businesses and their access to financial resources.

SME finance campaigns were implemented in 2020, particularly within the scope of cooperation with the EBRD, and the packaged financing and banking services on preferential terms within the scope of the EBRD Women in Business program, and at the same time SME financing with the KfW and the World Bank resources.

In 2020, the ConverseGreen energy efficiency and alternative energy SME facility were introduced for small, medium and large businesses, agribusinesses and construction businesses; the online SME Bridge loan was introduced in line with the modern requirements, and the SME Converse-Fast facility was launched for the existing accountholder customers.

Based on the 2019 business results, the Bank was again recognized the winner of the EBRD Deal of the Year - Green Trade Award, and was the only bank in Armenia having won the prestigious award, this time for encouraging best practices in industrial water efficiency in Armenia.

Green Financing is one of the priority directions in the Bank's strategy, and the EBRD award once more proves the efficiency of Converse Bank's efforts in the promotion of energy saving and green financing.

6. NPL Portfolio Management

Taking into account the financial-economic situation due to the COVID-19 pandemic and the Artsakh war, the efficient management of the NPL portfolio turns a priority.

1.1.8. Strategy of the Bank

The core strategic goals of the Bank include:

Based on the shareholder and customer trust and equilibrium between risk, equity and profit, the Bank determines the strategic priorities for 2021-2023:

1. Create an appropriate environment for digital transformations in the Bank and formation of the Bank's perception through introduction of technological innovations with the customers, for the purpose whereof digital transformation of products and processes will be provided by applying smart solutions to the existing products and processes and by improving the existing systems;
2. Extend and develop digital banking services;
3. Increase the amount of credit investments in 2021-2023, at the same time place an emphasis on streamlining of lending processes and the loan portfolio quality by viewing the increase of retail and SME financing as priority. In the lending sector the Bank intends to implement specific industry development projects under the Bank's corporate social responsibility policy, project financing and as well issuance of electromobile purchase, energy-saving and Green loans and introduction of energy efficient lending toolkit for individuals;
4. Preserve the strong positions by the amount of mortgage loans by carrying on the improvement of lending process, terms and approval stages, and as well aiming at the expansion of cooperation with refinancing organizations to increase the amount of financing under refinancing programs;
5. Further develop the card business and preserve leading positions with an intention to introduce new cards, tools, and efforts and opportunities for promotion of cashless turnover in cooperation with the international payment/settlement systems;
6. Diversify the portfolio of attracted funds to attract long-term resources and extend the cooperation with international financial organizations;
7. Target actions under the corporate social responsibility; and
8. Render exemplary customer service based on the Bank's vision, by placing an emphasis on the measures for improvement of the service quality.

1.1.9. Assets Quality

Asset adequacy: According to unaudited accounts, the Bank's net profit made AMD 2.55 B, and the ROE (net profit to average equity ratio) made 5.38% in 2020. The total capital to total assets ratio made 14.49%.

Asset quality: The Bank's gross loan portfolio made AMD 238.45 B as of December 31, 2020. Since 2016, the retail and corporate lending terms and processes have been continuously revised to make the credit facilities more competitive. Due to application of the latter and the Bank's market position and the full utilization of the lending potential, the planned growth in lending is quite realistic. At the same time a special focus is placed on the portfolio quality management. The loans are issued to the customers who meet the criteria set by the Bank.

Asset liquidity: The Bank intends to ensure sustainable and differentiated financial sources to provide for fast and cost-saving satisfaction of unexpected liquidity needs. The below table illustrates the CBA-set norms (average ratio of the final month in the reporting period).

Norms	CBA-set ratios	Actual ratio 2020	Actual ratio 2019	Actual ratio 2018
N_2^{1*}	15%	30.35%	26.22%	23.69%
N_2^{2**}	60%	94.73%	88.58%	81.83%

* Min ratio of high liquid assets to total assets

** Min ratio of high liquid assets to demand liabilities

1.2 Risk Relating to Issuer and Bonds

Risk assumption constitutes the integral part and the consequence of financial operations, and the investor has to take into account that investments in bonds involve certain risks related not only to the Issuer's financial status and business results (Issuer risk) but also to the situation in the financial market (market risk).

The adverse changes in the market can cause the Bank's default on obligations or the decline in the bond price or liquidity in the market. As the result of the aforementioned, the investor may lose the invested amount in whole or in part.

The potential investor prior to taking a decision on investments in the bonds has to be cautious and take into account the below stated risks and other information included in the Prospectus, as well as the own practice, goals, financial resources, risk appetite and expected income. Furthermore, the potential investor has to understand that the below listed risks do not cover all risks the Issuer may ever bear. The Issuer has revealed only those they consider essential. Presumably there might be additional risks, which the Issuer does not currently consider essential or which are not known at present, and any such risk can have the aforementioned effect and consequence.

Banking is exposed to a variety of financial risks. The major risks include the credit risk, the market risk, the liquidity risk, the inflation or purchasing power risk, the operational risk, the legal risk and the IT risks.

Strengthened competition due to market concentration: The banking industry is exposed to strong competition, which can have an adverse effect on the Issuer's business and financial results. At the point of development of the Prospectus, several banks were compatible with the Issuer, which further strengthened the competition in the banking sector. However, the Issuer is actively involved in all processes and secures its stable position in the industry.

Credit Risk: Banking assumes credit risk relating to the borrower's default on obligations, due whereto the Bank can incur loss. The credit risk is the major risk of the Bank, therefore the Bank keeps the same under its special control. The details of nonperforming loans and assets of the Bank are presented in the attached financial statements and in page 40 of the Prospectus.

When purchasing the bonds of the Bank the investor assumes the potential risk of financial impairment, default of payment of principal and coupons and bankruptcy of the issuer.

Operational Risk: Operational risk is the probability of loss or direct loss arising from inadequate or inaccurate internal processes, human error, systems and external environment, which can have an adverse effect on the equity and profit of the Bank.

The details of banking risks (particularly relating to Converse Bank CJSC), and the measures taken by the Bank to prevent those risks and to minimize their adverse effect are specified in paragraph 3.2 below (page 38).

The investments in bonds offered under the Prospectus involve certain risks.

Market Risk: Market risk is the probability of fluctuation of future cash flows or the real value of financial instruments due to market variables (such as interest rates and exchange rates). Market Risk includes interest rate, price, exchange and equity instrument price risks. To mitigate the adverse impact of the particular risk on the Bank's financial results, the Risk Management Department has established the risk appetite amount and has developed market risk limits, and provides continuous control over their compliance.

Exchange Risk: Exchange risk occurs when issuing bonds with foreign currency. Though the Issuer implements well-balanced and low risk policy for management of the foreign exchange gap of the assets and liabilities, nonetheless the possible essential depreciation of the AMD exchange rate may have an adverse effect on the financial ratios of the Bank.

Furthermore, upon USD depreciation, the investor having acquired bonds with USD will make certain loss. When making exchange for investment in bonds, the investor has to also take into account that their income might be less than expected due to unfavorable fluctuation of exchange rate.

Interest Rate Risk: The volatility of interest rates in the Armenian financial market may adversely affect the bond yield and the liquidity rates. Increase of interest rates in the market may also force the Issuer to revise (raise) the bond yield, which will in turn cause the decline or rise of price.

Purchasing Power Risk: The investors have to assume that the actual income receivable by them can be smaller (at the rate of inflation) than the registered coupon yield offered by the Issuer due to inflationary pressures.

Reinvestment Risk: The investors purchasing bonds to be held to maturity have to assume the reinvestment risk; i.e. the risk of inability to reinvest the proceeds from regular coupon payments or the principal payment at least at the same rate of yield.

Liquidity Risk: Liquidity risk may arise from abrupt change in the market situation or the impairment of the Bank's financial status. The Issuer has an action plan for securing the liquidity of bonds (regular coupon payments, competitive yield, listing and permission to trade on regulated market, market maker contracts), nonetheless the Issuer cannot guarantee that the bonds can be sold in the secondary market at any point or at the preferable price.

Geopolitical Risk: The unfavorable changes in geopolitical, regional and in-country political situation may arise negative factors that can affect adversely on the general macroeconomic situation, which in turn can increase the share of nonperforming loans, add the provisioning costs and decrease the Bank's profit.

Regulatory Changes: The Issuer conducts business in one of the regulated industries of the Armenian economy. The introduction of Basel 3 standards from 2018 may have positive or negative impact on the Bank's business and financial results.

Further details on risks relating to the offered bonds are specified in below paragraph 2.1 (page 25).

Bond rating downgrade risk: All other things being equal, the bond price depends directly on the Issuer's and/or bond risk rating (S&P, Moody's, and Fitch). The bond price usually drops due to the rating downgrade.

1.3 Business and Financial Development Trends of the Bank

Converse Bank CJSC is one of the leading banks in Armenia. One of the basic goals of the Bank is the continuous and reliable allocation of capital and as well the timely and quality banking services to its customers. The well-balanced policy of the Bank is the guarantee of stability and good financial-economic results.

Among the priority trends, the Bank considers application of new banking technologies, reliable allocation of resident and nonresident customers' capital and offering and rendering the latter of comprehensive banking services. As a foremost and prospective route for expansion of banking services, the Bank views the remote banking, accessibility of 24/7 service to the best extent possible through both remote banking and the Bank's self-service machines by upgrading the technological base.

The Bank places a special focus on high class and quality customer service and organizes regular trainings for the personnel to improve their performance and to streamline the servicing period.

The high professionalism of the personnel allows the Bank to promptly respond to the changes in the market infrastructure, concentrate and use the funds in more perspective areas.

The personnel has increased over the years together with the development and expansion of the business. As of 31.12.2020, the total number of employees amounted to 842 (including those in maternity leave).

Based on the Bank's mission and medium-term objectives, shareholders stance, goals, strengths and weaknesses, opportunities and threats, the Bank has set the following key objectives for 2021:

1. **The Bank intends to retain its market share as a minimum goal for 2021. Loan and deposit markets: 6-7%, card business: 10%, and mortgage lending: 10%.**
   1.1. Loan portfolio growth by about 13.2% to reach above AMD 243.6 B by the end of 2021. As the result:
   - ✓ The growth of SME lending will make more than 19.9%,
   - ✓ The growth of retail loans will amount to 14.6%.

   The core objectives of loan portfolio management for 2021 will be:
   - ✓ Development of the monitoring function
   - ✓ Adaptation of the loan decisions with pandemic/post-pandemic realities and new situation
   - ✓ Development of the loan recovery function.

   1.2. Measures designed for the development of the Bank's card business; see the details in Section 7.

2. **Expansion and development of digital banking, digital transformations to digital platforms and channels, in particular to the online payments platform, development of Converse Mobile application, online lending and banking services platform, Contact Center, digitalization of the Bank operations.**
   The core objectives for expansion of digital transformations and digital sales for 2021 will be:
   - Structuring of biometric identification system
   - Web implementation of Converse Mobile application for individual customers (Landing site)
   - Implementation of NFC payments option
   - The Bank's new site as a sales channel
   - Creation of Internet hypermarket
   - Implementation of the Bank's mortgage and card loan platform
   - Implementation of SME loan platform
   - Modification of the Bank's business processes, automation of processes, implementation of customer digital signature system, unification and streamlining of applications and agreements for the services offered by the Bank.

3. **Financial markets**
   3.1. Expand the cooperation with international financial institutions (Asian Development Bank, EBRD, etc.). Achieve over 75% growth of the portfolio of funds attracted from international programs, or by AMD 7 B to reach AMD 16.6 B by the end of 2021.
   3.2. Achieve a portfolio above AMD 24.7 B for the bonds issued by the Bank by the end of the year: the Bank plans to issue and allocate bonds denominated in AMD and USD to the amount of AMD 5 B ad USD 20 M accordingly.

   The core objectives in financial markets for 2021 will be:
   - ✓ Retain the high level of liquidity as a priority, and ensure super liquidity in stress market scenario (total liquidity no less than 30% and LCR, NSFR no less than 110%);

- ✓ FX liquidity will increase due to extra fund raising in the domestic market and from IFI, DFI;
- ✓ Improvement of fund raising channels and tools;
- ✓ The Bank's FTP (Fund transfer pricing) model will be improved to provide for precise pricing of products as far as possible.

4. **Retention of ROE at 9%.**
5. **Commencement of the Bank's rebranding.**
6. **Centralization of various structural subdivisions located in various places in one common premises, which will be furnished with the up-to-date technical and working features in 2021.**
7. **Improvement of the customer service quality, implementation of various projects and actions for the improvement of the customer service quality, specifically training of the front office personnel in customer service standards, Mystery Shopping and other measures.**

Taking into account the Bank's mission and objectives, the shareholder stance and goals, and the strengths and weaknesses, opportunities and threats:

The Bank's business in 2021 from SME finance perspective

1. **Prudential credit policy and financing of companies engaged in the industries**:
   - Having not suffered significantly from the adverse impacts of the pandemic and having a great potential for recovery,
   - Having suffered significantly from the adverse impacts of the pandemic, however the company has a great potential for recovery
2. **Up to AMD 250 M financing in the following core target areas**:
   - Not large companies engaged in and servicing construction, gas filling stations, cargo carriers,
   - Health care
   - IT
   - Sectors prioritized by the government with incentives granted, announcement of tenders, etc.

The below table provides a picture of the Bank's business results.

K AMD

NAME	31/12/20 (unaudited)	31/12/19 (audited)	31/12/18 (audited)
ASSETS	331,937,191	325,628,525	281,119,378
LIABILITIES	283,847,062	281,387,217	242,085,077
EQUITY	48,090,129	44,241,308	39,034,301
Net interest income	14,030,128	12,952,792	11,479,391
Operating income (including net commission fees)	19,064,113	18,132,836	16,152,312
Pre-tax profit/(loss)	3,031,619	6,961,172	6,205,862
After-tax profit/(loss)	2,553,286	5,452,137	4,895,271
ROA, %	0.78%	1.84%	1.86%
ROE, %	5.38%	13.19%	13.16%

1.4 Auditors of the Bank

In 2015-2020, the external auditor of the Bank was Ernst & Young CJSC: address: Office 27, 1 North Avenue; tel. (+374 10) 500-790, fax (+374 10) 500-706, website www.ey.com/am. Hakob Sargsyan is the general director of the company.
The goal of the audit is to obtain sufficient guarantees that the financial statements are free of essential inaccuracies.
No case of refusal from work, re-election or dismissal by the auditor of the Issuer has occurred within 3 years prior to the date of filing of the Prospectus.

1.5 Management Authorities of the Bank

1.5.1. Shareholders of the Bank

Advanced Global Investments LLC
Ownership: non-state
Type of share: 333 convertible preferred stocks at AMD 100 (one hundred) face value per share and ordinary stocks
Residency: non-resident
Equity participation: 72.89%

Haypost Trust Management B.V.
Ownership: non-state
Type of share: ordinary stocks
Residency: non-resident
Equity participation: 22.11%

Armenian Apostolic Church, represented by Mother See of Holy Etchmiadzin
Ownership: non-state
Type of share: ordinary stocks
Residency: resident
Equity participation: 5%

To date Converse Bank CJSC has issued and allocated 66,492 (sixty-six thousand four hundred and ninety-two) ordinary stocks, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preferred shares, each at AMD 100 (one hundred) par value, which generate the share capital of the Bank.
Due to the organizational form of the Bank, the shares of the Bank are not traded on the regulated market. The shares of the Bank are issued termless.

1.5.2. Managerial authorities of the Bank

The Charter of the Bank establishes the following management authorities:

- General Shareholder Meeting (the Meeting),
- Board,
- Executive Authority: CEO and Executive Management.

The Board consists of seven members.

#	Name	Position
1	Armen Ter-Tachatyan	Chairman of Board
2	Arsen Gamaghelyan (Ter Hovel Archpriest)	Board Member
3	Jose Luis Persico	Board Member
4	Daniel Guillermo Simonutti	Board Member
5	Jorge Alberto Del Aguila	Board Member
6	Juan Carlos Ozcoidi	Board Member
7	Marcelo Wende	Board Member

The Executive Management consists of eight members.

#	Name	Position
1	Artur Hakobyan	CEO/Chairman of Management Board
2	Grant Akopian	Deputy CEO/Financial Director, member of Executive Management
3	Davit Azatyan	Head of Accounting Division/Chief Accoutant, member of Executive Management
4	Gohar Harutyunyan	Operations and Services Director, member of Executive Management
5	Vahe Dalyan	Risk Management Director, member of Executive Management
6	Artur Nahapetyan	Business Development Director, member of Executive Management
7	Aram Zakaryan	IT Director member of Executive Management
8	Grigory Baghdasaryan	Retail Business Director, member of Executive Management
9	Sargis Khachatryan	Corporate Business Director, member of Executive Management

1.6. Basic Statistical Data of Bonds Offered by the Bank

The bonds issued by Converse Bank CJSC (the Bank) are registered, dematerialized, coupon, medium-term and are to be placed with 3 and more tranche. The placement of the final tranche of bonds will complete no later than within 1 year from approval of the Prospectus by the CBA.

The issued bonds are placed and redeemed with USD for USD bonds, and with AMD for AMD bonds. The payment against the coupons of USD and AMD bonds is made with AMD.

Par value per security:	USD 100 (one hundred) AMD 50,000 (fifty thousand)
Total quantity of issue:	200,000 (two hundred thousand) with USD, 100,000 (one hundred thousand) with AMD
Total value of issue:	USD 20,000,000 (twenty million), AMD 5,000,000,000 (five billion)
Value per tranche:	To be determined by the Bank Board for each tranche
Quantity per tranche:	Based on total value and par value per tranche
Annual coupon yield:	To be determined by the Bank Board for each tranche

Flotation period:	To be determined by the Bank Board for each tranche
Coupon payment frequency:	To be determined by the Bank Board for each tranche
Form of issue:	Non-underwritten

The final terms of issuance, placement, trading and redemption of bonds are to be determined by the Bank Board for each tranche.
The final terms and conditions for each issue of bonds are filed with the CBA and posted on the Bank's website www.conversebank.am at least 2 (two) days before issuance.
Early redemption of bonds is not planned.
The bonds issued by the Bank are unsecured.
With this issue the Bank intends to expand and to diversify the base of potential customers, to introduce the potential investors to the Bank's investment instruments on the Armenia Securities Exchange OJSC trading floor, and to disseminate the information about the Bank's credit risk to the broadest range of investors possible. The cash flows from placement of bonds will be an additional resource to expand the volumes of loans issued by the Bank.

1.7. Details of Bond Offering

1.7.1. Outline of Bond Issuance Process

The Issuer's bonds will not be offered for subscription.
The starting and end dates of each tranche are to be determined by the Board.
To acquire bonds, the investors have to complete in due form the respective buy orders (legal entities based on Annex 1, and individuals based on Annex 2) and file the latter with the Bank, make the respective payment, whereby they will confirm the acceptance of the bond issuance terms.
The bond buyer has to have a USD account (for USD bonds) and an AMD account (irrespective of the currency of the issued bond to be purchased) with any bank, and securities account with any Account Operator.
The investor in bonds can earn income from:

- Interest on bonds,
- Capital gain.

The yield on bonds issued by the Bank is taxable for profit tax (for legal entities) and income tax (for individuals) in compliance with the RA Taxation Code. See the taxation details in paragraph 2.3 (M) below, page 33.

1.7.2. Payment procedure

The buyers of the bonds have to make the payments on the day of submission to the Bank of the buy order in due form (whereby they will confirm the acceptance of terms of issue), no later than 16:30, through cash payment or transfer onto the special transit accounts opened with the Bank #1930043129906501 (for USD bonds) and #1930043123398600 (for AMD bonds). The amount payable for the bonds is calculated by the below formula (page 24), by multiplying the price per bond at the particular date of placement by the number of purchased bonds; furthermore, where the buy order was placed and the respective amount was paid by 16:30 of the particular day, the price of the bond is determined at the particular date. The amount of payment for the buy order placed and/or effected after 16:30 is determined at the price of the bond at the following business day.

1.7.3. Bond Price Calculation Formula

$$DP = \frac{C}{f}\sum_{t=1}^{N}\frac{1}{\left(1+\frac{y}{100*f}\right)^{t-1+\tau}} + \frac{100}{\left(1+\frac{y}{100*f}\right)^{N-1+\tau}}$$

where

$$\tau = \frac{DSN}{DCC}$$

DP is the price of bond (is rounded after the decimal point by 4 digit accuracy, based on the arithmetical rounding rules),
DSN is the number of days left from the day of deal through the subsequent payment of coupon, upon respective conditionality
DCC is the number of days from the coupon payment day preceding the deal through the coupon payment succeeding the deal, upon respective conditionality
f is the number of coupons paid in 1 year, frequency
N is the number of coupon payments left at the point of calculation,
C is the annual coupon against 100 unit par value,
y is the yield to maturity.

The value per tranche is determined by the Board based on the market demand.
The Bank undertakes to publish the bond price of each issue throughout the placement on its website: www.conversebank.am.

The coupon payable for the bond is calculated with the periodicity established by the Board per issue, on the respective day of each n^{th} month following the starting day of placement.
The coupon payable for the bond is calculated by the following formula.

$$AI = FV \times \frac{C}{k} \times \frac{DCS}{DCC}$$

where
AI is the accumulated coupon income,
FV is the face value per bond,
C is the annual nominal interest rate of coupon,
k is the number of coupons payable annually, frequency (upon semiannual payment of coupons k=2).
The conditionality of calculation of days for the Issuer's bonds is deemed Actual/Actual; furthermore:
DCS is the number of days between the starting date of coupon redemption/coupon accumulation preceding the day of the deal and the day of the deal, upon the respective conditionality [D2M2Y2-D1M1Y1],
DCC is the number of days in coupon cycle upon the respective conditionality [D3M3Y3-D1M1Y1],
D1M1Y1 is the date of coupon redemption/start of coupon accumulation preceding the date of the deal,

D2M2Y2 is the date of the deal,
D3M3Y3 is the date of coupon redemption/par value redemption succeeding the date of the deal. The annual coupon interest rate payable for each tranche is to be determined by the Board.

1.8. Maintenance of Bond Registry

The Bond Register will be maintained by the Central Depository of Armenia OJSC (Erebuni Plaza 5th floor, 26/1 Vazgen Sargsyan, 0010 Yerevan, Armenia), tel. (+374) 60 615555, in compliance with the rules and regulations of the Central Depository of Armenia OJSC.

1.9. Other Essential Information

Under the RA Law on GUARANTEE OF REMUNERATION OF BANK DEPOSITS OF PHYSICAL ENTITIES, Article 2.1(c), the funds attracted with registered securities issued by the Bank are deemed a bank deposit. Therefore, the investments of individuals, including the sole proprietors in the registered bonds issued by the Bank, as well as the earned interests are guaranteed to the same amount and in the same order as the deposits.
The Bank pays the coupon sum to the bondholders on the coupon calculation day. Where the coupon calculation day is a non-business day, the payment day is deemed the first business day following the particular day. The coupon payments are made with AMD. For USD bonds, the coupon is calculated at the average USD/AMD market exchange rate published by the CBA on the day preceding the coupon calculation.

1.10. Brief Financial Info

The annual and quarterly financial statements and the financial ratio calculation formulae are presented in Annexes 6 and 7.

K AMD

Indicator	31/12/20 (unaudited)	31/12/19 (audited)	31/12/18 (audited)
Net profit after profit tax deduction	2,553,286	5,452,137	4,895,271
Average equity	47,423,808	41,341,141	37,206,903
ROE, %	5.38%	13.19%	13.16%
Net profit after profit tax deduction	2,553,286	5,452,137	4,895,271
Average total assets	326,269,315	296,473,325	262,700,958
ROA, %	0.78%	1.84%	1.86%
Net profit after profit tax deduction	2,553,286	5,452,137	4,895,271
Operating income	19,064,113	18,132,836	16,152,312
Net profit margin (NPM), %	13.39%	30.07%	30.31%
Operating income	19,064,113	18,132,836	16,152,312
Average total assets	326,269,315	296,473,325	262,700,958
Assets utilization ratio (AU), %	5.84%	6.12%	6.15%
Average total assets	326,269,315	296,473,325	262,700,958
Average equity	47,423,808	41,341,141	37,206,903
Equity multiplier (EM)	6.88	7.17	7.06
Net interest income	14,030,128	12,952,792	11,479,371
Average earning assets	272,110,334	237,940,521	210,692,285
Net interest margin (NIM)	0.05	0.05	0.05
Interest income	25,603,960	24,093,381	21,114,678
Average earning assets	272,110,334	237,940,521	210,692,285

Yield on earning assets	0.09	0.10	0.10
Interest expense	11,573,832	11,140,589	9,635,307
Liabilities involving interest expense	281,631,333	278,081,009	239,394,745
Costs of liabilities involving interest expense	0.04	0.04	0.04
Net profit after profit tax deduction	2,553,286	5,452,137	4,895,271
Average weighted number of shares	63,340	54,722	54,722
Earnings per share (EPS)	40.31	99.51	89.34
Spread	0.05	0.06	0.06

NOTICE TO INVESTOR

THE SUMMARY IS TO BE VIEWED AS THE PREAMBLE TO THE PROSPECTUS. THE INVESTOR'S DECISION ON INVESTMENTS IN THE OFFERED SECURITIES IS TO BE BASED ON THE WHOLE PROSPECTUS.

THE PARTY RESPONSIBLE FOR DEVELOPMENT OF THE SUMMARY BEARS CIVIL LIABILITY FOR INCOMPLETE OR MISLEADING INFORMATION (INCLUDING THE TRANSLATION) CONTAINED IN THE SUMMARY, WHERE THE LATTER IS INCOMPLETE AND MISLEADING FOR REVIEW OF THE REMAINING SECTIONS OF THE PROSPECTUS.

SECTION 2. INFORMATION ABOUT OFFERED BONDS

2.1 Risk Factors

The investment in bonds offered under the Prospectus implies certain risks. The potential investor prior to taking a decision on investments in the bonds has to be cautious and take into account the below stated risks and other information included in the Prospectus, as well as the own practice, goals, financial resources, risk appetite and expected income.

Any or some of the below listed risks can have an adverse impact on the market situation and cause the decline in the bond price or liquidity. As the result of the aforementioned the investor can lose the invested amount in whole or in part.

Risk assumption constitutes the integral part and the consequence of financial operations, and the investor has to take into account that investments in bonds involve certain risks that are related not only to the Issuer's financial status and business results (Issuer risk) but also to the situation in the financial market (market risk).

The potential investor has to understand that the below listed risks do not cover all risks that may ever emerge. The Issuer has revealed only those they have been aware of and have considered essential when developing the Prospectus. Presumably there might be additional risks, which the Issuer does not currently consider essential or which are not known at present, and any such risk can have the aforementioned effect and consequence.

When taking an investment decision, the investor has to thoroughly review the risks disclosed in this document and other information.

Furthermore, the investors have to consult with their lawyers to find out whether the investments in bonds is legally permitted, and how and in what form the bonds can be used as a subject of collateral for various borrowings.

Market Risk: Market risk is the probability of fluctuation of future cash flows or the real value of financial instruments due to market variables (such as interest rates and exchange rates). It may arise due to changes in the economic factors affecting the bond price. The Issuer's bond price and demand can change in the secondary market due to changes in economic indicators of the internal and external markets, which can cause the investor's loss. To mitigate the adverse impact of the particular risk on the Bank's financial results, the Risk Management Department has established the risk appetite amount and has developed market risk limits, and provides continuous control over their compliance. Market Risk includes interest rate, price, exchange and equity instrument price risks.

The basic market risks involve the interest rate risk and the exchange risk.

Interest Rate Risk: The volatility of interest rates in the Armenian financial market may adversely affect the bond yield and the liquidity rates. Increase of interest rates in the market may also force the Issuer to revise (raise) the bond yield, which will in turn cause the decline or rise of price. In such situation, the investor will incur loss or will not earn the planned income upon the sale of bonds before maturity.

Exchange Risk: Exchange risk arises due to exchange fluctuations of the national currency and can adversely affect the investor's return on income, where the investor estimates the income with AMD. The particular risk may arise due to abrupt fluctuations of exchange rate and inadequate management of assets and liabilities expressed with foreign currency, thus causing loss. In particular, upon appreciation of the national currency, when converting the amounts earned from redemption of bonds with foreign currency, the income estimated in AMD can be less than the expected (negative).

Liquidity Risk: Liquidity risk may arise from abrupt change in the market situation or the impairment of the Bank's financial status. The Issuer has an action plan for securing the liquidity of bonds (regular coupon payments, competitive yield, listing and permission to trade on regulated market, market maker contracts), nonetheless the Issuer cannot guarantee that the bonds can be sold in the secondary market at any point or at the preferable price. The bondholder may not sell the desired number of bonds at any point or may be forced to sell the bonds at a lower price, thus incurring loss.

Inflation Risk is the probability of loss arising from decline in assets or income due to the impairment of the domestic currency and consequently the abrupt growth of inflation. In other words, the future inflation will cause the decline in purchasing power of cash flows.

The investors have to assume that the actual income receivable by them can be smaller (at the rate of inflation) than the registered coupon yield offered by the Issuer due to inflationary pressures.

Reinvestment Risk: The investors purchasing bonds to be held to maturity have to assume the reinvestment risk, which is attributable to the potential impossibility to make an investment with a yield at least equivalent of the coupon yield periodically received from the bonds of the issuer; i.e. they assume the risk of impossibility to reinvest the proceeds from regular coupon payments or the bond repayment at least at the same rate of yield. Most probably this risk plays no essential role in decision making for investors with current or short-term investment horizon.

Credit/Default Risk: The investors purchasing bonds assume the Issuer's credit risk, which refers to the possible impairment of the Issuer's financial situation, impossibility of coupon payment and bond repayment and the Issuer's possible insolvency in the future.

Bond rating downgrade risk: All other things being equal, the bond price depends directly on the Issuer's and/or bond risk rating (S&P, Moody's, and Fitch). The bond price usually drops due to the rating downgrade.

2.2 General Information

Purpose of Issuance: The Bank intends to expand and to diversify the base of potential depositors, to introduce the potential investors to the Bank's investment instruments on Armenia Securities Exchange OJSC trading floors, and to disseminate the information about the Bank's credit risk to the broadest range of investors possible. With issuance of bonds the Bank also aims to attract funds to be used for medium-term lending and to facilitate the efficient management of Liabilities on the balance sheet, and as well to attract more cost-saving funds, other things being equal. Issuance and placement of bonds also pursues the goal to reduce the financier's or a financial group's risk.

2.3 Details of Bonds

A. **Type and class of securities:** The bonds issued by Converse Bank CJSC are registered, dematerialized, coupon, medium-term. The issued bonds are non-convertible.
B. **Country:** The bonds will be issued on the territory of the Republic of Armenia based on the RA laws and bylaws. Any disputes and judicial processes will be regulated in compliance with the RA laws.
C. **Form of securities:** The issued bonds are dematerialized, and the Bond Register will be maintained by the Central Depository of Armenia OJSC (Erebuni Plaza 5th floor, 26/1 Vazgen Sargsyan, 0010 Yerevan, Armenia), tel. (+374) 60 5555, in compliance with the rules and regulations of the Central Depository of Armenia OJSC.
D. **Par value and quantity of securities:** The par value per issued and allocated bond is USD 100 (one hundred) and AMD 50,000 (fifty thousand). The total par value of bonds amounts to USD 20,000,000 (twenty million) and AMD 5,000,000,000 (five billion). The total quantity of

issued and allocated bonds is 200,000 (two hundred thousand) with USDand 100,000 (one hundred thousand) with AMD. The value per tranche is to be determined by the Board. The quantity of bonds per tranche is to be determined based on the total value and par value per tranche.

E. **Currency of issue:** The bonds will be issued with USD and AMD.

F. **Details of bond classification:** Under the RA Law on Insolvency of Banks, Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies, upon liquidation of the Issuer, the claims of creditors shall be satisfied in the following sequence.

Firstly, the well-grounded administration costs of bankruptcy commissioner required for exercising the powers reserved thereto under the law, including the payroll based on the proforma invoice approved by the CBA Board.

Secondly, the claims of creditors, who have extended a loan or an advance to the Bank or have opened a deposit or have credited cash to the account with the Bank after appointment as the bankruptcy commissioner, except in cases specified in the contracts effected between the creditor and the CBA.

Thirdly, the AMD bank deposits and balances on bank accounts of the RA and foreign citizens and stateless persons to the amount of up to AMD 16 M, and for FX deposits (accounts) – to the amount equivalent of AMD 7 M; furthermore, upon the claim over AMD 16 M (and for FX claim, the equivalent amount over AMD 7M), the claim of the particular person to the amount of AMD 16 M (and for FX claim, the equivalent of AMD 7 M) is satisfied in the third place, and the claim for the excess amount – in the fourth place.

Fourthly, other liabilities of the Bank, including the costs relating to compensations paid by the Deposit Guarantee Fund, except for the bank deposits and account balances to be settled in the second place.

Fifthly, the liabilities of the Bank to the state budget and community budgets, and other mandatory contributions under the RA laws.

Sixthly, the claims arising from subordinated debts.

Seventhly, the claims of the Bank shareholders.

The creditors/holders on the same line have equal rights for claim settlement.

The claims of creditors/holders of the Issuer’s bonds on the same line are satisfied after the full settlement of claims of the preceding line. For the purpose of the RA Law on Guarantee of Remuneration of Bank Deposits of Physical Entities and the related bylaws, the funds attracted from individuals (including sole proprietors) with registered securities issued by the Bank are deemed a bank deposit, the compensation whereof is guaranteed under the same law, to the following amounts.

If the investor has only AMD bonds at the insolvent bank, the guaranteed fund is AMD 16 M.

If the investor has only FX bonds at the insolvent bank, the guaranteed fund is AMD 7 M.

If the investor has AMD and FX bonds at the insolvent bank, and the amount of AMD bonds is over AMD 7 M, then only the AMD bond amount is guaranteed at up to AMD 16 M.

If the investor has AMD and FX bonds at the insolvent bank, and the amount of AMD bonds is below AMD 7 M, then the AMD bond amount is guaranteed fully and the FX bond amount is guaranteed to the amount of difference between AMD 7 M and the redeemed AMD bonds.

All AMD deposits of the investor, including investments in bonds, are deemed a single deposit, except the unsecured deposits, and all FX deposits of the depositor/investor are deemed a single deposit, except the unsecured deposits.

When calculating the amount subject to guaranteed deposit, the AMD deposits are calculated in the first place, and the FX deposits – in the second place. An event of indemnity of guaranteed deposits shall be deemed the recognition of the bank insolvent under the RA Law on Insolvency of Banks, Credit Organizations, Investment Companies, Investment Fund

Managers and Insurance Companies, and the confirmation by the CBA Board of the bank's inability to return the deposits in due time based on the law and contracts, or the recognition of the bank bankrupt under the RA Law on Insolvency of Banks, Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies (hereinafter for all cases, the insolvent bank).

The bonds can be reclassified upon new issuance of securities, where the latter will be deemed priority, and only for the part not referring to the deposit guarantee fund.

G. Basic rights, responsibilities and limitations arising from securities

By virtue of acquisition of bonds, the bondholders obtain the following rights:

- Receive the bond coupon and the redemption sum in compliance with this Prospectus;
- Upon liquidation of the Bank judicially on the ground of delay of the bond coupons and/or the redemption sum (due to adjudication of bankruptcy), exercise the creditor rights legally reserved thereto. Under the RA Law on Insolvency of Banks, Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies, Article 31.2 (c), the claims of bondholders of the Bank are to be satisfied in the third place;
- Dispose of the bonds at own discretion at stock exchange in a legally defined order (if listed and permitted to trade); the investors have to take into account that the RA laws prohibit the OTC trade of corporate securities permitted to trade on regulated market, except in the following cases:
  - Deals concluded by the CBA implying the possible deals between the CBA and the professional financial market participants
  - Buyback or acquisition by Issuer of securities issued thereby
- Pledge the bonds in a legally defined order; and
- Exercise other rights under the law.

By virtue of acquisition of bonds, the bondholders undertake the following obligations:

– Open securities account with the Account Operator;
– Transfer the sums required for acquisition of bonds to the respective bank account on established terms and conditions, and perform any cash and noncash liability arising from acquisition and sale of bonds and other actions.

Under the RA Law on GUARANTEE OF REMUNERATION OF BANK DEPOSITS OF PHYSICAL ENTITIES, the investments of individuals (including sole proprietors) in the bonds issued by the Bank are guaranteed to the following amount:

a) If the depositor has only AMD bank deposit at the insolvent bank, the guaranteed fund is AMD 16 M;
b) If the depositor has only FX bank deposit at the insolvent bank, the guaranteed fund is AMD 7 M;
c) If the depositor has AMD and FX bank deposits at the insolvent bank, and the amount of AMD bank deposit is over AMD 75 M, then only the AMD deposit is guaranteed at up to AMD 16 M;
d) If the depositor has AMD and FX bank deposits at the insolvent bank, and the amount of AMD bank deposit is below AMD 7 M, then the AMD bank deposit is guaranteed fully and the FX bank deposit is guaranteed to the amount of difference between AMD 7 M and the redeemed AMD bank deposit.

No limitations for the bond issuance or the investors in bonds are established under the Bank Charter or the resolution on bond issuance, other than the minimum number of bonds to be purchased during the placement.

The minimum number of bonds to be acquired is determined by the Board, and the maximum number is restrained with the total quantity of issue.

H. Coupon interest rate and payment terms: The annual interest rate of coupon payable per tranche is to be determined by the Board of the Bank.

The persons (owners or nominees) registered on the bondholder/nominee registry at closing of the bondholder/nominee registry on the day preceding the day of calculation of bond coupons, are entitled to receive the coupons (interest amounts).

The bondholder/nominee registry will be closed at 18:00 of the day preceding the day of subsequent calculation of bond coupons; i.e. the bondholders/nominees registered after the stated hour will not be entitled to receive the coupon payable for the preceding coupon period.

The Issuer takes from the Registrar an excerpt from the bondholder/nominee registry as of 18:00 of the day preceding calculation of coupons, based whereon pays the respective sums through noncash transfer onto the bank accounts of bondholders.

Based on the bondholder/nominee registry, on the day of coupon calculation (payment), the Issuer prepares a statement on parties (bondholders or nominees) entitled to receive coupon sums, including the details from transfer of coupon sums.

The sums for payment of USD bond coupons are calculated by rounding after the decimal point by 4 digit accuracy, based on the arithmetical rounding rules, and are paid with AMD. The coupon sums are paid to the nominees and/or bondholders by up to AMD 10 accuracy (the rounding is performed based on the arithmetical rounding rules, up to the closest whole decimal number). The arithmetical rounding rules assume the rounding method, whereby the whole number of a unit is not changed if the to-be rounded decimal unit is equal to 0-4, and is rounded up by 1 unit if the to-be rounded decimal unit is equal to 5-9.

In the absence or upon inaccuracy of bank account numbers in the bondholder/nominee registry, the Bank will transfer/block the sum on the account opened with the Bank for that purpose, and thereafter the Bank will put forth all reasonable efforts to identify the investor and transfer the sum thereto. Upon impossibility of transfer the sum is paid to the investor in cash at the Bank Head Office.

The Bank pays the coupon sum to the bondholders at the date of calculation (redemption) of coupon. Where the coupon calculation day is a non-business day, the payment day is deemed the first business day following the particular day. Irrespective of the currency of issue, the coupon payments are made with AMD. The USD bond coupons are calculated based on the average market exchange rate of USD published by the CBA on the day preceding the coupon calculation.

No specifics are established for payments to nonresident persons.

The coupon payable for the bond is calculated with the periodicity established by the Board per issue, on the respective day of each n^{th} month following the starting day of placement.

The coupon payable for the bond is calculated by the following formula.

$$AI = FV \times \frac{C}{k} \times \frac{DCS}{DCC}$$

where

AI is the accumulated coupon income,

FV is the face value per bond,

C is the annual nominal interest rate of coupon,

k is the number of coupons payable annually, frequency (upon semiannual payment of coupons k=2),

DCS is the number of days between the starting date of coupon redemption/coupon accumulation preceding the day of the deal and the day of the deal, upon the respective conditionality [D2M2Y2-D1M1Y1],

DCC is the number of days in coupon cycle upon the respective conditionality [D3M3Y3-D1M1Y1],

D1M1Y1 is the date of coupon redemption/start of coupon accumulation preceding the date of the deal,

D2M2Y2 is the date of the deal,

D3M3Y3 is the date of coupon redemption/par value redemption succeeding the date of the deal.

The conditionality of calculation of days for the Issuer's bonds is deemed Actual/Actual.

I. **Maturity of securities:** The maturity of bonds is to be determined by the Board of the Bank for each tranche.

The bondholder/nominee registry is closed at 18:00 of the day preceding the redemption day; i.e. the bondholders/nominees registered at the point of closing of the registry will be entitled to receive the bond redemption sum.

The bond redemption sums are paid to the bondholders/nominees at the date of redemption; i.e. during the first business day following the closing of the bondholder/ nominee registry. Where the redemption day is non business, the payment is effected on the first subsequent business day.

The Bank takes from the Registrar an excerpt from the bondholder registry as of 18:00 of the day preceding the redemption day, based whereon pays the respective sums (the par value of bonds) through transfer onto the bank accounts of bondholders. At the same time, the Bank issues an instruction to the Registrar to redeem the bonds in the quantity stated in the excerpt from the bondholder registry.

The Issuer pays the respective sums through noncash transfer onto the bank accounts stated in the bondholder/nominee registry. In the absence or upon inaccuracy of bank account numbers in the bondholder/nominee registry, the Bank will transfer/block the sum on the account opened with the Bank for that purpose, and thereafter the Bank will put forth all reasonable efforts to identify the investor and transfer the sum thereto. Upon impossibility of transfer the sum is paid to the investor in cash at the Bank Head Office.

The redemption is made with USD for USD bonds and with AMD for AMD bonds.

Given the currency of par value of bonds and the necessity for possible intra-bank transfers relating to bond redemption (unless the investor's USD or EUR account is opened with the Issuer), the investors have to take into account the commissions to be paid thereby for intra-bank transfers of the redemption sums, therefore the investors will receive the redemption sums with deductions, based on the tariffs applied by the Bank or other intermediary banks (if any).

Early redemption of bonds is not planned.

J. **Annual yield of securities**: The annual yield of bonds is calculated by the formula under paragraph 2.4.3 below (page 37). In the formula, "y" stands for the annual yield. During flotation, the annual yield rate will be equal to the announced coupon yield. After the completion of primary distribution, the annual yield will be determined on the secondary market, based on the interest rates existing in the market at that point.

K. The Program Prospectus for Medium-term Coupon Bonds Issued by Converse Bank CJSC was approved under Converse Bank CJSC Board Resolution #51 at 11.03.2021. The decision on issuance and placement of bonds was taken based on Converse Bank CJSC Board Resolution #51 at 11.03.2021, whereby the below terms were established for issuance and placement of medium-term coupon bonds:

- Total value of issue: USD 20,000,000 and AMD 5000,000,000;
- Par value per bond: USD 100 and AMD 50,000;
- Total quantity of issue: 200,000 with USD and 100,000 with AMD;
- Issuance: with 3 or more tranches;
- Issuer: Converse Bank CJSC;
- Form of issue: Non-underwritten.

The Board resolution established that for each tranche the terms and conditions of coupon bond issuance, the starting and final dates of flotation of coupon bonds, the annual coupon yield, the value of each issue, the bond circulation period, and the minimum amount of bonds to be acquired by one investor would be determined by the Board of Converse Bank CJSC.

L. The bond issuance decision sets no limitations for free circulation of bonds other than the minimum number of bonds to be purchased by a single investor during the placement, if such decision is taken by the Board. Subject to permission of bonds for trading on regulated market, the OTC market deals are prohibited, except in cases specified in the CBA Board Resolution #331N at 27.11.2012.

M. Taxation of income from bonds: The investor in bonds can earn income from:

- Interest on bonds,
- Capital gain.

The yield on bonds issued by the Bank is taxable for profit tax (for legal entities) and income tax (for individuals). The Armenia based organizations and nonresidents (companies incorporated in foreign countries, international organizations and the organizations founded thereby outside Armenia) pay profit tax in Armenia. The taxable object for the latter is the taxable profit earned from the Armenian sources. The taxable profit is the positive difference between the taxpayer’s gross income and the deductions made under the RA Tax Code. The profit tax amount at the date of publication of this Program Prospectus is calculated against the taxable profit at the rate of 18%.

The non-resident taxpayers are exempt from profit tax for:

1) The dividends received for the shares listed on the RA-based stock exchange, as well as the income from the sale of the aforementioned shares, the exchange with other securities and other similar deals;
2) The interest of bonds listed on the RA-based stock exchange or discount on bonds payable, as well as the income from the sale of the aforementioned bonds, the exchange with other securities and other similar deals.

The RA resident and nonresident individuals pay income tax in Armenia. Resident is deemed the individual, who in any 12-month period starting or ending in tax year has dwelled in Armenia for 183 days in total or longer, or whose center of vital interests is in Armenia. The taxable income is the positive difference between the taxpayer’s gross income and the deductions under the RA Tax Code.

For the purpose of determination of the taxation base with regard to the income tax under the RA Tax Code, Article 149(1), the deductible income is deemed the income form shares, bonds and other investment securities listed on the RA-based stock exchange, except the bonds issued by the banks with less than 2-year period between placement and maturity. For individuals holding such securities, **the interest income is not taxable**.

The aforementioned provisions refer to the securities (shares and bonds) having undergone primary and secondary listing on the RA stock exchange and cover the securities (their classes) that are listed (permitted for trade) at the RA-based stock exchange (regulated market) no later than December 31, 2024.

The capital gain from bonds **is not taxable**.

The taxation rules for the income from bonds are the same for nonresident individuals and are established under the RA laws.

The Bank acts as a tax agent for resident and nonresident individuals and nonresident legal entities.

Taking into account that the period to the maturity of the bonds to be issued by the Bank will be longer than 2 years, and the Bank will initiate the listing process for the issued bonds in the timing set in the Prospectus, the interest income from the issued bonds **will not be taxed** in the presence of a positive conclusion of the Stock Exchange.

NOTE: *Though the Issuer, using their best efforts and knowledge, has presented the taxation practices applied in Armenia to the income received from securities, the Issuer herewith announces that the investors should not accept the information as a tax advice or take an investment decision based only on the information stated in this section. The Issuer does not guarantee that the tax regulations will be in line with the presented information or will be applied by the RA tax authorities adequately at the point of receipt and review of the Prospectus by the investor, and the Issuer recommends the investor use the services of a professional tax advisor in any case. The Issuer further announces that they disclaim all responsibility for any possible investor claims relating to application of tax laws and taxation schemes and/or for any financial claims due to the amendments thereto.*

N. Security of performance of obligations under the bonds is not planned, since the bonds are unsecured.

2.4 Terms and Conditions of Offer

2.4.1 Terms of Offer, Statistics of Offer

A. **Total value of issue:** The total par value of bonds issued by the Bank comprises USD 20,000,000 and AMD 5,000,000,000. The total number of issued and allocated bonds is 200,000 with USD and 100,000 with AMD.

B. **Start and End of Offer:** The starting date of issuance of each tranche is to be determined by the Board of the Bank.

The final terms and conditions for each issue of bonds are filed with the CBA and posted on the Bank's website www.conversebank.am at least 2 (two) days before publication of the IPO announcement.

The end date of issuance of each tranche is to be determined by the Board of the Bank.

The placement of the final tranche of bonds shall complete no later than within 1 year from approval of the Prospectus by the CBA.

The Bank does not intend any changes in the set dates.

The bond offer and placement can be postponed or cancelled on the grounds established under the RA Law on Securities Market, Article 21. Particularly:

1. Where during the placement the Bank files a supplement to the Prospectus relating to the essential change of information included in the Prospectus, or the occurrence of a new essential circumstance or fact, then at the Investor's request the Bank undertakes to revoke the acceptance given by the Investor and to return the funds received from the Investor based on the latter's order and the interest amount accrued for the days between the acquisition and the suspension dates, based on the coupon calculation formula (page 31). The request for buyback can be made within 5 business days from publication of the supplement to the Prospectus; and the buyback request is to be made to the Issuer in writing;
2. The Central Bank of Armenia can suspend the placement, where:

- the requirements of the RA Law on Securities Market and other public offering regulations are violated,
- the public offering terms established under the Prospectus are breached during the placement,
- the Prospectus contains essential errors and misleading information, or an essential fact is omitted or misrepresented in the Prospectus

In such case the placement can be resumed with the permission of the Central Bank of Armenia after the correction of the discovered violations and omissions;

3. Unless the placement is continued within 1 business day from expiry of the suspension period, the Issuer has to stop the placement and return the Investors the funds received during the placement, within 10 business days from the expiry of the suspension period.
   Upon cancellation of placement, the amounts are returned to the Investors within 3 business days from cancellation of the placement, in noncash manner by transferring the sums to the bank accounts stated by the Investors in the bond buy orders. In the absence or inaccuracy of the bank account number, the sum is returned to the investor in cash at the Head Office of the Bank.
   The Bank undertakes to publish the information about the suspension and resumption of placement, cancellation of placement and return of funds on its website www.conversebank.am.

C. Applying for Offered Bonds:

To acquire bonds, the investors have to complete in due form the respective buy orders (legal entities based on Annex 1, and individuals based on Annex 2) and file the latter with the Bank, make the respective payment, whereby they will confirm the acceptance of the bond issuance terms.

The payment for bonds is made on the day of submission to the Bank of the buy order in due form, no later than at 16:30, through cash payment or transfer onto the special transit accounts opened with the Bank #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds). The amount payable for the bonds is calculated by the formula stated in paragraph 2.4.3 below (page 37), by multiplying the price per bond by the number of purchased bonds. The total sum payable for the purchased bonds is calculated by rounding to 2 digit accuracy after the decimal point based on the rounding rules. The total buying price for the AMD bonds is calculated by rounding to 10 luma accuracy (furthermore the rounding is made based on rounding rules to the closest decimal number).

Where the buy order was placed and the respective amount was paid by 16:30 of the particular day, the price of the bond is determined at the particular date. The amount of payment for the buy order placed and/or effected after 16:30 is determined at the price of the bond at the following business day.

The Bank shall publish the bond price of each issue throughout the placement on its website: www.conversebank.am.

The bond buy order is deemed duly submitted, if forwarded to the Bank by one of the below electronic communication vs. the addressee's confirmation receipt, or by hand delivery. The Bank employee has to make a copy of the buy order, make an "Accepted by the Bank" statement, state the day/month/year/hour, put his/her signature on the copy and hand it over to the customer.

Issuer's contacts:

Address: 26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Armenia
Tel. (+374 10) 511-273, 511-206, (+374 10) 511-211
Treasury, Dealing and Financial Markets Division
Investment Services Unit

Email: investment@conversebank.am,
dealingcentre@conversebank.am

Or the bond buy order can be submitted by visiting any branch of the Bank. The list of branches is presented in Annex 5.

Any individual and/or legal entity wishing to acquire bonds can submit more than one buy orders.

The amounts credited to the special transit accounts opened with the Bank #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds) after the expiration of the flotation period are to be returned, and the respective buy orders cannot be performed irrespective of the dates of their delivery to and/or receipt by the Bank.

D. **No option for reduction of the total value of issue** is planned.

Based on the issuance procedure, certain buy orders can be performed partially, where the value stated in the order surpasses the outstanding issue at the date of submission of the buy order. In such case the buy order is satisfied to the amount of the outstanding value.

Upon partial satisfaction of the buy order, the Issuer transfers the refundable amount in noncash manner onto the investor's respective bank account within 3 (three) business days from the end of placement. In the absence or upon inaccuracy of the bank account number, the amount is returned to the investor in cash at the Head Office of the Bank.

E. **Callback of order:** The buy order submitted by the buyer and bearing the "Accepted by the Bank" statement cannot be called back.

The Bank returns the sums of the unsatisfied, called back orders (the payments against which have been effected before the "Accepted by the Bank" statement) to the buyers in 3 business days, by transferring the sums onto the buyer's respective accounts. In the absence or upon inaccuracy of the bank account number, the amount is returned to the investor in cash at the Head Office of the Bank.

The buy orders of investor having failed to effect the respective payment in the set period after submission of the buy order, are deemed invalid and cannot participate in the placement.

Apart from the aforementioned event, the investors cannot call back the buy orders after their delivery in due order, the receipt of the Bank's confirmation/notice on delivery and effecting of the respective payment.

F. **Maximum and Minimum Order:** The maximum number of acquired bonds is restrained with the total quantity of issue, and the minimum number of bonds is to be determined by the Board for each tranche.

G. **Payment vs. Securities:** The legal entities and/or individuals make payments for the bonds of the Issuer onto the special transit accounts opened with the Bank #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds). Directly after the receipt of funds on the aforementioned account and the decision on full or partial satisfaction of the buy order, the Bank gives an instruction to its Registrar to transfer the respective number of bonds from the Issuer's issuance account and to credit to the securities account of the investor or their nominee.

Following the notification by the Issuer about full or partial satisfaction of buy orders, the investors can obtain a statement on securities held thereby from the Custodian or the Account Operator servicing their securities account.

Directly after the receipt of confirmation from the Registrar on transfer of bonds onto the DEPO account of the investor or their nominee, the Bank unblocks on the special transit accounts opened for issuance #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds) the funds stated in the buy order.

H. Publication of Placement Results: The Issuer publishes the placement results based on the in legally defined order and timing. The Bank publishes the placement results on its website www.conversebank.am.

I. Preemption right: The placement of bonds will be performed in the sequence of submission of buy orders and payments vs. bonds. Priority will be given to the buy orders, the payments against which have been effected earlier onto the special transit accounts opened with the Bank #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds).
No parties enjoy preemption right for the issued bonds.

2.4.2 Placement Plan

A. The offer will be directed to the RA resident and nonresident individuals and legal entities, including the qualified and institutional investors, and sole proprietors. The bond offer will be carried out on open sale principle, through the Head Office and branches of the Bank.

B. Notification on satisfaction of buy orders: The Issuer informs the Investors about the full or partial satisfaction or rejection of buy orders by the end of business day following the day of submission of the buy order. The Investor is notified about the decision on the buy order in the manner the Investor has submitted the buy order to the Bank. The Investor has to visit the particular branch of the Bank to get the information about the full or partial satisfaction or rejection of the buy order filed in a paper form.

2.4.3 Offer Price

A. The placement price of bond: The placement price per bond is determined by the below formula.

$$DP = \frac{C}{f}\sum_{t=1}^{N}\frac{1}{\left(1+\frac{y}{100*f}\right)^{t-1+\tau}} + \frac{100}{\left(1+\frac{y}{100*f}\right)^{N-1+\tau}}$$

where

$$\tau = \frac{DSN}{DCC}$$

DP is the price of bond (is rounded after the decimal point by 4 digit accuracy, based on the arithmetical rounding rules),
DSN is the number of days left from the day of deal through the subsequent payment of coupon, upon respective conditionality
DCC is the number of days from the coupon payment day preceding the deal through the coupon payment succeeding the deal, upon respective conditionality
f is the number of coupons paid in 1 year, frequency
N is the number of coupon payments left at the point of calculation,
C is the annual coupon against 100 unit par value,
y is the yield to maturity.

The Bank shall publish the bond price of each issue throughout the placement on its website: www.conversebank.am.

Given the currency of the issued bonds, upon transfer from other bank(s) the funds needed for acquisition of bonds and generated from redemption of bonds and/or coupons, the investors have to incur the costs relating to the possible banking commissions.

The investors have also to open a USD (for acquisition of USD bonds) and an AMD account (irrespective of the currency of the issued bond to be purchased) and a securities account with any licensed Account Operator, and incur the related costs.

2.4.4 Placement

A. Underwritten Issue: No underwriters exist, and no underwriting agreement has been effected.

B. Non-underwritten issue: Converse Bank CJSC will allocate registered, coupon, dematerialized bonds issued thereby at a total value of USD 20,000,000 and AMD 5,000,000,000.

C. Terms of placement: The Issuer and the Allocator is the same legal entity – Converse Bank CJSC. The Issuer/Allocator has not effected any joint placement agreement with other allocators.

D. Banks and custodians accepting payments: The payments for the bonds are to be made onto the special transit account #**1930043129906501** (for USD bonds) and #**1930043123398600** (for AMD bonds) opened with the Converse Bank CJSC (26/1 Vazgen Sargysan, Republic Square, 0010 Yerevan, Armenia: tel. (+374 10) 511-206, (+374 10) 511-273 and (+374 10) 511-247 ext. 2163). Where the investor acquires the bonds through a brokerage company, the payment details should be clarified with the particular brokerage company.

2.5 Admission to Trading and Organization of Trade

A. Subject to registration of the Prospectus with the CBA, the Bank has to apply to Armenia Securities Exchange OJSC to have the issued bonds listed and admitted to trading on the regulated market. The request for admission to trading can be denied. Unless the bonds are admitted to trading, the issuance of FX bonds will be deemed invalid in compliance with paragraph 2.4.1 above.

B. Markets: At this point the bonds submitted for registration by the Issuer under this Program Prospectus are not admitted to public trading on any market.

C. Details of Market Maker: The Issuer has not yet concluded a market maker agreement with any professional market participant.

Subject to listing and admission to trade of issued bonds on Armenia Securities Exchange OJSC regulated market, the Issuer shall effect a market maker agreement with any professional market participant.

The Issuer undertakes to inform the bondholders and nominee holders in reasonable timing after the effective date of the market maker agreement about the enforcement of the same.

D. Organizations Registering Bonds: The bondholders can register their rights and responsibilities with a duly licensed Account Operators through opening of the respective securities account. The ownership of bonds can be transferred in compliance with the RA laws and the internal rules of the custodian.

The Bondholder/Nominee Holder Register will be maintained by the Central Depository of Armenia OJSC (Erebuni Plaza 5th floor, 26/1 Vazgen Sargsyan, 0010 Yerevan, Armenia), tel. (+374) 60 615555, in compliance with the rules and regulations of the Central Depository of Armenia OJSC.

2.6 Additional Information

1. **Consultants:** The Issuer has not used any third-party consulting services when developing this Prospectus.
2. **Expert opinion and third-party information:** The Issuer has not applied for any third-party expertise or consulting services, nor has used the latter's expert opinion in this Prospectus.
3. **Auditor's opinion:** Apart from the historical financial statements verified by independent auditors and presented herein, no data presented in this Program Prospectus has been verified by an independent auditor. The statements and the supporting auditor's opinions are presented in Annex 7 hereto.
4. **Underwriters:** The bonds are not underwritten, since the bonds are unsecured.
5. **Issuer rating:** Based on the updated rating of Converse Bank CJSC by Moody's Investor Service, Inc. (November 1, 2017), the Issuer's rating is as follows at 17.12.2018.

Category	Ratings
Outlook	Stable
Counterparty risk rating	Ba3 (long term) NP (short term)
Bank deposits	B1 (long term) NP (short term)
Baseline credit assessment	b1
Adjusted baseline credit assessment	b1
Counterparty risk assessment	Ba3(cr) (long term) NP(cr) (short term)

The issued bonds have not been rated.

SECTION 3. INFORMATION ABOUT THE BANK

3.1. External Auditors

In 2015-2020, the external auditor of the Bank was Ernst & Young CJSC: address: Office 27, 1 North Avenue, 0001 Yerevan, Armenia; tel. (+374 10) 500-790, fax (+374 10) 500-706, website www.ey.com/am. Erik Hayrapetyan is the general director of the company.

The goal of the audit is to obtain sufficient guarantees that the financial statements are free of essential inaccuracies.

No case of refusal from work, re-election or dismissal by the auditor of the Issuer has occurred within 3 years prior to the date of filing of the Prospectus.

3.2. Risk Factors

Issuer risk: The investment in bonds offered under this Prospectus implies certain risks. The potential investor prior to taking a decision on investments in the bonds has to be cautious and take into account the below stated risks and other information included in the Prospectus, as well as the own practice, goals, financial resources, risk appetite and expected income. Any or several risks can have an adverse effect on the Bank's status and cause the Bank's default on obligations or the decline in the bond price or liquidity in the market. As the result of the aforementioned, the investor may lose the invested amount in whole or in part.

The potential investor has to understand that the below listed risks do not cover all risks the Issuer may ever bear. The Issuer has revealed only those they consider essential. Presumably there might be additional risks, which the Issuer does not currently consider essential or which are not known at present, and any such risk can have the aforementioned effect and consequence.

The risks the Issuer is or can be exposed to include internal and external circumstances that may have an adverse effect on the capital or profit of the Bank.

Risk assumption constitutes the integral part and the consequence of financial operations, and the Bank is consistent in analysis, evaluation, acceptance and management of the level and the combination of risks. The Bank intends to achieve an adequate balance between the risks and benefits and to minimize the adverse impacts on the financial status of the Bank.

Converse Bank CJSC risk management process aims to support the management of the Bank to make decisions providing for efficient management of risks relating to the assets and liabilities of the Bank and the Bank's customers within the scope of complex risk reduction measures, risk limits and internal regulations; as well as provide for acceptable levels of profit, liquidity and solvency through prevention or minimization of loss due to potential risks. The risk management is based on the regulations, procedures, norms and limits approved by the managerial authority of the Bank. Risk identification, appraisal, control and monitoring at the Bank are provided on a regular and ongoing basis. Risk analysis is one of the components of strategic planning and evaluation of investment projects of the Bank.

The risk management culture and as well the establishment of the risk appetite and risk evaluation covers all business areas and subdivisions of a company and involves all major financial and non- financial (e.g. reputational risk) risks. The business strategy, as the cornerstone of profitability, has been developed and continuously aligned with the Bank's risk appetite. The risk appetite (the opposite of which is risk avoidance) is the willingness to assume a certain level of risk to ensure the particular level of the income.

The Bank cannot remain intact of the possible loss from the realized risks given the expected economic developments in 2021. The major risks hindering the development of the Bank and the growth of financial indicators include credit, market (exchange, interest rate and price), liquidity and operational risks.

In 2021, the Bank plans to further develop the risk management system established in the previous year taking into account the growth rate and low risk policy selected by the Bank.

The Bank positions itself as a **mild-risk entailing** organization and expects to be the same in the future. The Bank considers the risks to be formed upon the specific growth planned under the budget acceptable and is prepared to resist the potential losses arising from the same.

In 2020, the amount of the Bank's risk appetite was conditioned by an absolutely unforeseeable external factors. The economic crisis due to the COVID-19 pandemic and the Artsakh war and the resulting impairment of the economic environment and the loan portfolio quality caused additional losses for the Bank. Having several anti-crisis scenarios, the Bank accepted the shock equivalent to the strict scenario, due to which the risk appetite comprised AMD 8.95 B.

At the start of the year, the Bank made the segregated accounting and monitoring of the loans restructured due to COVID-19 and made regular reports on their sectoral structure and dynamics to the Executive Management and the Board. The restructured loans were later classified by risk and a special provisioning mode was applied to the latter.

In 2021, the RA banking system will turn up in a recovery situation though at limited rates, which among other factors will condition the Bank's growth potential and risk specifics. Based on the preliminary data published by the Statistical Committee of Armenia, the economic activity demonstrated no improvement trends in December 2020 and is still declining, and the GDP growth is greatly facilitated by the private consumption.

The Bank's risk management principles include:

1. Application of nonstandard risk management methods in crisis situations;
2. Periodic stress tests for improvement of financial stability;
3. Prevention of undesirable concentration of types of business transactions and assets in loan portfolio;
4. Diversification of assets and liabilities of the Bank;
5. Appropriate periodic monitoring of risks assumed by the Bank;
6. Centralized monitoring of banking risks; and
7. Uninterrupted communication between the Risk Management Department and other subdivisions.

Risk Management Structure: The CEO organizes and coordinates risk management at the Bank in compliance with the internal legal acts approved by the Board. The risk management is provided through clearly outlined and documented business processes, the respective internal regulations, and the appropriate limits established for all processes and transactions.

The Board: The Board is responsible for approval of general supervision of risk management, the risk management strategy and the risk management policy, and as well approval of other risk management related policies, based whereon the CEO arranges the risk management process taking into account the risk management limits and requirements of the internal legal acts of the Bank.

The Executive Management: The Executive Management provides for:

- Approval of complex measures for management of income, operational, strategic, credit rating and legal risks in crisis situations, based on the conclusion of the Board;
- Establishment of bans for certain deals;
- Establishment of limits for unsecured transactions in intra-bank market; and
- Establishment of internal norms for banking risk regulation and control.

The Executive Management is responsible for the assets and liabilities management and the overall financial system of the Bank. The Executive Management is also responsible for the liquidity risks of the Bank. The functions of the Assets and Liabilities Management Committee are reserved to the Executive Management.

Risk Management Department: The Risk Management Department performs the following functions:

- Development and introduction of effective risk management mechanisms and processes, and control over their introduction;
- Risk analysis of loans issued by the Bank and control over issuance of program loans;
- Monitoring of loans issued by the Bank, problem identification and reporting;
- Control over collateral evaluation and regular revaluation of collateral;
- Arrangement of insurance of assets owned by the Bank; and
- Management of nonperforming loan portfolio.

Risk Management Committee has been created and operates at the Bank and holds regular meetings (monthly) to consider the existing and potential risks arising from the activities of the Bank and the mitigation mechanisms for the same.

Internal Audit: The risk management process of the Bank undergoes annual audits by the Internal Audit, which verifies both the integrity and efficiency of regulations, and as well the compliance of the Bank's operations with the regulations. The Internal Audit discusses the audit findings with the management and submits its conclusions and recommendations to the Board.

Banking risks: Banking is exposed to a variety of financial risks. The major risks include the credit risk, the market risk, the liquidity risk, the inflation or purchasing power risk and the operational risk.

Strengthened competition due to market concentration: The banking industry is exposed to strong competition, which can have an adverse effect on the Issuer's business and financial results. At the point of development of the Prospectus, several banks were compatible with the Issuer, which further strengthened the competition in the banking sector. However, the Issuer is actively involved in all processes and secures its leading and competitive position in the industry.

Geopolitical Risk: The unfavorable changes in geopolitical, regional and in-country political situation may arise negative factors that can affect adversely on the general macroeconomic situation, which in turn can increase the share of nonperforming loans, add the provisioning costs and decrease the Bank's profit.

Regulatory Changes: The Issuer conducts business in one of the most regulated industries of the Armenian economy. The introduction of Basel 3 standards in the upcoming years may bring forth the application of new risk assessment principles in order to strengthen the risk management system of the Issuer.

Further details on the Issuer's measures to mitigate the banking risks are specified below.

Credit Risk: Banking assumes credit risk relating to the borrower's default on obligations, due whereto the Bank can incur loss. The credit risk is the major risk of the Bank, therefore the Bank keeps the same under its special control. The credit risk mainly arises from lending and investment activities attributable to the debt securities and other debt instruments in the assets portfolio of the Bank. Credit risk is also present in several off-balance items, such as debt commitments. Credit risk is managed in compliance with the Credit Policy and other internal regulations of the Bank.

The Bank has developed and implements credit risk management policies and procedures, which allows to manage the risk relating to both recognized financial assets and unrecognized contractual commitments, and to restrain the portfolio concentration. Credit committees are in place, and each of them has a scope and limits of authorization set in the internal regulations, which allows to control the credit risk. An explicit scheme of decision making limits and minimum customer credit rating standards are applied for the management of the loan portfolio quality.

The Risk Management Department conducts weekly monitoring of loan portfolio quality, estimates the loan portfolio dynamics based on historical series and makes portfolio quality analysis by facilities and branches, based whereon the qualitative indicators of the loan portfolio are projected. The Risk Management Department also conducts monitoring of various facilities based on approved procedures, and if required, monitoring of specific loans given the impairment of the borrower's creditworthiness. To reduce the credit risk, the Risk Management Department also reviews the loan requests and approves the loans in compliance with the internal regulations. Due to the established risk management system, the NPL share does not exceed 3.89% of the Bank's loan portfolio.

Based on the stress tests, in the worst scenario the credit risk impact on the capital adequacy ratio will not surpass 0.58 percentage point.

As of December 31, 2020, the carrying amount of the Bank's financial assets to the best extent represents their maximum exposure to credit risk, without the collateral and other measures for improvement of the credit quality.

Risk concentrations: With regard to distribution of credit investments by facilities, the Herfindahl-Hirschman Index made 0.1475 in December 2020, which proves the moderate concentration of credit investments of the Bank.

Control over risk limits and policy of containment: The Bank manages credit risk concentrations by a single borrower or borrowers, and lending segment of the Bank. The Bank regulates the credit risk levels by establishing acceptable limits for a single borrower or borrowers, and lending segment of the Bank. Those risks are monitored monthly.

The credit risk amount for a single borrower, including the banks and financial organizations, is restricted with additional limits for balance sheet and off-balance sheet risks.

The credit risk is also managed by regularly analyzing the present and potential borrowers' paying capacity of principal and interests, and by revising the credit limits as needed.

Several measures of special control and containment applied by the Bank are outlined below.

Collateral: The Bank applies several measures to prevent credit risk. The most traditional approach is the pledge against the provided funds, which is also a generally accepted practice. The Bank adopts rules for acceptable types of pledge or reduction of risk. The basic types of security for loans and borrowings include:

- Real estate pledged under mortgage agreements,
- Operating assets of companies – buildings, inventory and machinery,
- Gold and cash.

The long-term financing and lending of legal entities are generally secured. The revolving credit lines of individuals are usually unsecured. In addition, to minimize the credit losses, upon appearance of impairment features for specific loans and borrowings, the Bank requires additional collateral from the borrower. The type of security for financial assets other than loans and borrowings is determined based on the essence of the instrument. Collateral is generally not required for loans and borrowings issued to banks. Exceptions make the pledge that has been acquired from repurchase agreements and securities lending. The bonds and other debt securities are normally unsecured.

Contingent liabilities relating to loans: The basic purpose of these instruments is provision of funds to customers if needed. The guarantees and letters of credit are exposed to the same credit risk as the loans. Commodity and documentary letters of credit are the Bank's written confirmation on behalf of the customers that do not allow a fourth party to receive sums from the Bank to meet special conditions, they are secured with the delivery of the related goods and, accordingly are more secure than the directly issued loans.

The contingent liabilities for loans imply the unused amounts of credit lines. In such case, the

potential losses the Bank may incur are equal to the unused amount of credit lines.
However the actual amount of potential loss is smaller than the total amount of unused credit lines, since the credit liabilities are provided by borrowers against meeting certain standards of lending. The Bank follows the terms of repayment of liabilities, as far as the long-term liabilities involve a higher credit risk as opposed to the short-term liabilities.

Impairment and provisioning policies:

Since January 1, 2018, the Group calculates the expected credit loss (ECL) by 3 probability-weighted scenarios to estimate the expected cash deficit by approximate discounting of the effective interest rate. The cash deficit is the difference between the cash flows due to the company based on the agreement and the expected cash flows of the company. The ECL calculation schemes are presented below.

PD Probability of Default is the likelihood of a default over a particular time horizon. Default can happen only at a certain point in the estimated period unless the facility has been derecognized formerly and is still in the portfolio.

EAD Exposure at Default is the expected value of facility at the date of the future default, given the impact of the expected changes in the post-reporting period, including the principal and interest installments, the interests accrued based on the agreement or otherwise overdue payments, etc.

LGD Loss Given Default is the expected cash loss at the time of default. It is the difference between the cash flows based on the agreement and the borrower's expected cash flows including from the sale of collateral. It is usually reflected as a percentage of the Exposure at Default (EAD).

The ECL reserve is grounded on the lifetime expected credit loss (LECL) unless a significant growth of credit risk exists after the initial recognition, in which case the provision is based on the 12-month expected credit loss (12-month ECL). The 12-month ECL is the part of the LECL representing the ECR due to default on obligation for a financial instrument that are probable in 12 months following the reporting month. Both the LECL and the 12-month ECL are calculated on individual and group basis, taking into account the essence of the portfolio of respective the financial instrument.

The Group has adopted the policy to assess at the end of each reporting period whether the credit risk of the financial instrument has grown essentially after the initial recognition, taking into account the change of default risk in the remaining period of the financial instrument. Based on the aforementioned period, the Group clusters its loans by stages, as outlined below.

Stage 1: In the initial recognition, the group recognizes the provision based on the 12-month ECL. The 1st stage loans involve the facilities for which the credit risk has improved and the loan has been reclassified from the 2nd stage.

Stage 2: When the credit risk of the facility has grown after the initial recognition, the Group recognizes the provision for the lifetime expected credit loss (LECL). The 2nd stage loans involve the facilities for which the credit risk has improved and the loan has been classified from Stage 3.

Stage 3: The asset is deemed impaired. The Group generates LECL provision.

POCI: Purchased or Originated Credit Impaired (POCI) Assets are the financial assets having been impaired at the initial recognition. These assets are recorded at their fair value at the initial recognition, and the interest income is later recognized based on the credit risk-adjusted effective interest rate. The ECL is only recognized or derecognized to the extent the estimated lifetime expected credit loss changes.

Definition of Default and Recovery

The Group recognizes the existence of default for a facility, and therefore classifies it as a financial instrument belonging to Stage 3, (i.e. impaired from the credit perspective) for the ECL calculation in all cases when the borrower delays the contractual payments for 91 days.

The financial instrument is also deemed impaired taking into account the quantitative and qualitative factors, such as the quality of related parties' loans and the restructuring status approved by the management.

The below table illustrates the credit quality for asset classes, based on the Bank's credit rating system.

December 31, 2020	*Note*		*High class*	*Standard class*	*Substandard class*	*Impaired*	*Total*
Money and equivalent (without cash)	6	Stage 1	848,294	22,622,108	–	–	**23,470,402**
Claims to banks	8	Stage 1	449,416	16,297,688	–	–	**16,747,104**
Loans and borrowings to customers	9						
-SME loans		Stage 1	257,472	31,745,396	-	-	**32,002,868**
		Stage 2	-	-	2,746,628	-	**2,746,628**
		Stage 3	-	-	-	4,979,763	**4,979,763**
- Large business loans		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 loans		Stage 1	1,319,711	34,824,573	-	-	**36,144,285**
		Stage 2	-	-	1,897,404	-	**1,897,404**
		Stage 3	-	-	-	2,747,795	**2,747,795**
- Mortgage loans		Stage 1	–	47,030,476	-	-	**47,030,476**
		Stage 2	–	-	886,264	-	**886,264**
		Stage 3	–	-	-	1,809,282	**1,809,282**
- Gold-based loans		Stage 1	–	18,636,695	-	-	**18,636,695**
		Stage 2	–	-	309,970	-	**309,970**
		Stage 3	–	-	-	227,022	**227,022**
Debt securities	10						
- Measured at fair value through other comprehensive income		Stage 1	–	36,391,654	–	–	**36,391,654**
- Measured at depreciation value		Stage 1	–	2,344,643	–	–	**2,344,643**
Unused credit lines	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			**34,707,786**	**280,344,195**	**8,652,033**	**15,127,353**	**338,831,367**

December 31, 2019	*Note*		*High class*	*Standard class*	*Substandard class*	*Impaired*	*Total*
Money and equivalent (without cash)	6	Stage 1	1,590,245	30,547,624	–	–	**32,137,869**
Claims to banks	8	Stage 1	402,560	20,157,488	–	–	**20,560,048**
Loans and borrowings to customers	9						
		Stage 1	225,082	38,017,562	–	–	**38,242,644**
-SME loans		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	–	–	–	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-based loans		Stage 1	–	21,001,528	–	–	**21,001,528**
- Measured at fair value through other comprehensive income		Stage 2	–	–	289,245	–	**289,245**
- Measured at depreciation value		Stage 3	–	–	–	239,361	**239,361**
Debt securities	10						

- Measured at fair value through other comprehensive income		Stage 1		18,583,131	–	–	**18,583,131**
- Measured at depreciation value		Stage 1	–	1,685,769	–	–	**1,685,769**
Unused credit lines	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**
			32,987,139	**276,547,989**	**3,038,192**	**9,833,651**	**322,406,971**

The below table illustrates the high rated loans issued to the customers that entail minimum credit risk and are usually secured with prime collateral (cash or government guarantees). The borrowers with favorable financial status and credit history are included in the standard credit rating. The loans below the standard rating imply the individually unimpaired, lower than standard rated loans.

At the same time, the ratios characterizing the total credit risk of the bank are as follows:

Loan loss provision/total loans = 3.83%

NPL/total loans = 6.34%

Profit coverage ratio (net operating income+provisioning costs)/net loan loss = 138.82%

The Credit Monitoring Unit will carry on the large-scale monitoring of standard and non-performing loans based on the new grading system. In 2021, scores will be assigned to all monitored loans, which will allow to measure the portfolio quality at that point, taking into consideration the financial status of each borrower at the particular date.

Following the macroeconomic developments and their direct effect of the RA banking sector and in particular on the Bank, regular analyses are planned by specific industries to measure and project the amount of impact on the Bank and to direct the lending to the less exposed sectors.

From the perspective of general risk management policy, the Bank will operate based on the restrictions set in its internal regulations, the Strategic Plan, the Annual Budget and the Annual Action Plan. The risk management policy implies the preservation of the credit risk on a low level (the Loan Provision/Loan ratio no more than 5%) and the restriction of exchange risk due to the non-speculative policy.

Market risk is the risk of fluctuation of future cash flows or the real value of financial instruments due to market variables such as interest rates and exchange rates. Market risk is the probability of loss due to fluctuations of interest rates, securities prices and/or exchange rates. The Bank differentiates the market risks into corporate and non corporate portfolios. The market risk of corporate portfolio is managed and controlled by VaR method, which reflects the dependence between risk variables. The non corporate portfolio is managed and controlled through sensitivity analysis.

Interest rate risk arises from the probability that the volatility of interest rates may directly affect the cash flows relating to the Bank's financial instruments and their real value.

The Bank has selected the Interest-Sensitive Gap and Duration models for management of interest rate risk. The Board has established the risk appetite for interest rate risk, which is estimated and monitored on a monthly basis.

Exchange risk is the risk of fluctuation of the value of financial instruments due to changes in the exchange rates.

The Bank assesses the exchange risk by applying VaR (Value At Risk) and nonparametric VaR models. The exchange rates are monitored daily, based whereon at the end of the month projections of exchange rates are made for the upcoming month. The Bank manages its FX position daily, in compliance with the internal regulations of the Bank. In addition, daily stress tests are applied to assess the loss from adverse fluctuations of exchange rate in open positions and the level of flexibility of assets and liabilities.
The risk management policy implies the restriction of exchange risks due to the non-speculative policy.
Inflation or Purchasing Power Risk: Though the Bank applies a flexible and efficient pricing system for services offered, it has to be taken into consideration that depending on the features of the Issuer's service price elasticity and income elasticity, the Bank's earnings can decline in the condition of the expected inflation in Armenia. Nonetheless, due to the Bank's flexible policies for interest rate revision and management of gap of rate sensitive assets and liabilities, we can state that the aforementioned risks arising from the abrupt change in the macroeconomic situation cannot make an essential impact on the general profitability and liquidity of the Bank.
Liquidity risk is related to the capacity of the Bank for timely repayment of financial liabilities in normal and stress situations.
The Bank minimizes the particular risk through management of assets and liabilities; i.e. daily monitoring of future cash flows and liquidity and ensuring of various financial sources in addition to the existing main deposit base.
The Bank holds a portfolio of high liquid and decentralized assets, which can be easily encashed upon unforeseen interruption of cash flows. Furthermore, the Bank holds reserves with the CBA at the rate of 2% of its AMD liabilities, at the rate of 10% of the FX liabilities expressed in AMD, and at the rate of 8% of its FX liabilities[1]. The liquidity position is assessed and managed in various scenarios taking into account the stress factors relating to the market in general and to the Bank in particular.
The liquidity management requires to take into account such level of liquid assets that is necessary to repay the respective liabilities, to ensure the availability of various financial sources and the existence of an emergency financing plan, and to control the quick ratio norms in compliance with the internal regulations. The Bank estimates the liquidity ratios based on the requirements of the CBA.
The 2019 and 2020 liquidity ratios were:

Liquidity Ratios as of December 31	**31/12/2020, %**	**31/12/2019, %**
N21 – Total liquidity (quick assets/total assets)	30.35	26.22
N22 – Current liquidity (quick assets/demand liabilities)	94.73	88.58

Operational risk is the probability of loss or direct loss arising from inadequate or inaccurate internal processes, human error, systems and external environment, which can have an adverse effect on the equity and profit of the Bank.
The supreme operational risk management authority is the Executive Management of the Bank, which is in charge of control over operational risks.
The purpose of operational risk management is to prevent financial loss and impairment of reputation of the Bank, by balancing against cost efficiency.
The operational risk management is provided through clearly outlined and documented business processes, the respective internal regulations, the appropriate limits established for all processes

[1] The particular changes refer to the actual provisioning periods starting from September 16, 2020 and the reporting periods deemed the ground for the same.

and transactions, and on the double check principle for any deal concluded by the Bank.
The more actual types of operational risk management are presented below.
The focus on the operational risk will persist in 2021. The violations recorded in 2020 were assessed quantitatively and cumulatively. The respective risk weights were given to all processes of the Bank based on monitoring, due to which it was possible to determine the amount of operational risk by specific operations by preserving a permanent contact with subdivisions mostly exposed to operational risk. These processes are continuous and the increase of violations will facilitate the generation of risk weights more accurately.48 The management and containment of risks identified in the processes of subdivisions due to mapping will be one of the major objectives in 2021.
Legal risk: All standard agreement templates are drafted by the Legal Division jointly with the respective subdivision and approved by the Executive Management.
The nonstandard agreements regulating the relationship between the Bank and the fourth parties can be applied only in the presence of the respective conclusion of the Legal Department.
IT related risks are managed in compliance with the internal regulations of the Bank.
The risk prevention mechanisms include:

- Regulation of all business processes through internal legal acts,
- Physical protection of assets and essential documents (including legal agreements) of the Bank,
- Establishment and maintenance of limits,
- Joint protection of assets and records,
- Application and archiving of logs,
- Application of 4-eye principle in processes.

Internal Audit regularly assesses the efficiency of the internal control system and its compliance with the risks, and provides control over the Bank's operations and risks.
The Bank's compliance with standards is accompanied with periodic internal audits. The internal audit findings are discussed with the concerned managers, and the results are presented to the Board.

Risk probability by specific risks
Credit risk probability

a) Based on the Bank's policy the credit risk is adapted to the reasonable and internationally accepted level and is in line with the growth and financial result potential of the Bank. Under the credit policy, the risk tolerance is limited to 5% nonperforming loans, which is actually several times smaller than the pre-determined level.
b) Based on the external factors the credit risk depends on the Armenian and to a certain extent global economic developments. However, the limitations set under the Bank's credit policy and other internal regulations (such as customer's credit capacity, loan-to-value ratios and compulsory insurance) allow to conclude about the Bank's high potential to resist the credit risk. The probability of impairment beyond the 5% ratio of nonperforming loans is estimated low for the upcoming 2-3 years.

Investment activity and investment risk probability
The investment portfolio of the Bank mainly consists of the RA government bonds. The investments in securities held for commercial purposes and available for sale are limited and in the recent 3 years have not made an essential weight in the balance sheet of the Bank (up to 6.44% of assets).

The risks arising from global markets have not had a significant impact on the general financial result of the Bank. The investments in securities have been made mostly for the sufficient level of liquidity reserve, at the same time providing for an efficient management of quick assets. Neither revisions of the particular policy nor impairments in the RA government securities market are expected in the close future, therefore the risk expectations in this area are close to zero.
In the short-term perspective, the adverse market developments resulting from the further AMD depreciation can be underlined among the external risks of the Bank, which may bring forth growth trends in NPL loans, and entail exchange and liquidity risks. Uncertainties persist due to the political risk, which can directly impact the loan portfolio. Risks exist relating to application of new US sanctions against the neighboring country, which can affect the commodity turnover and consequently the servicing of specific commercial loans in the corporate portfolio.

3.3. Information about the Bank

The full firm name of the Bank is:

in Armenian «Կոնվերս Բանկ» փակ բաժնետիրական ընկերություն

in Russian закрытое акционерное общество "Конверс Банк"

in English "Converse Bank" closed joint-stock company.

The short firm name of the Bank is:

in Armenian «Կոնվերս Բանկ» ՓԲԸ

in Russian ЗАО "Конверс Банк"

in English "Converse Bank" CJSC.

Organizational/legal form of the Bank: closed joint stock company (registered on 20.12.1993).

The Bank has conducted business in the RA banking market for over 20 years.
The Bank was registered with the Central Bank of Armenian in December 1993, and is the legal successor of North-Armenian joint stock bank.
The Bank was reorganized into Converse Bank closed joint stock company in 1997.
Converse Bank closed joint stock company was registered at 26/1, Vazgen Sargsyan, Republic Square, Yerevan, Armenia; and the Central Bank of Armenia (the CBA) was the registering authority.
The founder and the major shareholder of the Bank is Advanced Global Investments LLC.
The trade name of the Bank is protected under the RA normative acts and are registered with the RA Patent Office (Trade Name Registration Resolution at 03.06.1999, registration #107913).
The logo of the Bank is:

The Bank obtained Banking License #57 on 20.12.1993, and amendments were made to the license on 21.02.1995, 20.05.1996, 31.12.1996, 23.05.1997 and 13.11.2001.

Registered business address of the Bank is:

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Armenia.

State Registration number is 57.

The Head Office is located at:

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Armenia.

Contacts:

Tel. (+374 10) 511-200, (+374 10) 511-211

Fax: (+374 10) 511-212

Email: post@conversebank.am
Website: www.conversebank.am
Country of incorporation: Republic of Armenia
Branches: The list and locations of branches are presented in Annex 5.
Information about Financial and Other Groups
The Bank has no membership to any financial and other groups and unions.
Share capital
To date Converse Bank CJSC has issued and allocated 66,492 (sixty-six thousand four hundred and ninety-two) ordinary shares, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preference shares, each at AMD 100 (one hundred) par value, which generate the share capital of the Bank.
The Bank's share capital consists of ordinary and preference shares: shareholders of the Bank are: Advanced Global Investments LLC – ordinary shares 72.89% and 333 preference shares, Haypost Trust Management B.V. – ordinary shares 22.11%, and Armenian Apostolic Church, represented by Mother See of Holy Etchmiadzin – ordinary shares 5%.
For questions relating to investments in bonds, please contact the respective specialists of the Treasury, Dealing and Financial Markets Division of Financial Department of the Bank: (+374 10) 551-211 (ext. 2163), 511-206, 511-247.

3.4. Business Profile

The essential business directions of the Bank for 2021 include:

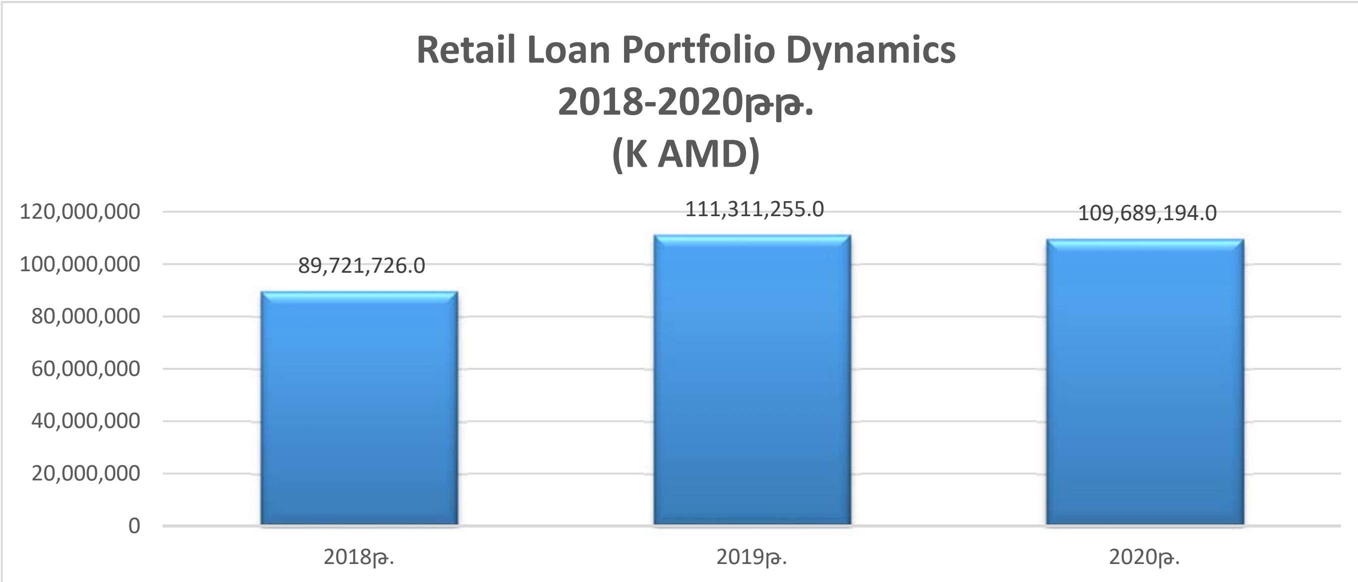
1. Retail lending
2. Extension and development of digital banking services, digital transformations
3. Payment cards
4. Improvement of fund raising channels and tools
5. SME financing
6. NPL portfolio management.

Grounds for consideration of business directions essential for the Bank

1. The Bank having a retail orientation and focusing on the development of services offered to individuals, at the same time based on the actual results of past years, views the retail loans as an essential business direction.

Based on the 2020 results, the Bank has provided for a retail loan portfolio amounting to over AMD 110 B, which has slightly decreased, by 1.5% vs. the past year. However, it is important to note that the average growth of the retail loan portfolio made over 10% in the past 2 years.

Diagram 1. Retail loan portfolio dynamics



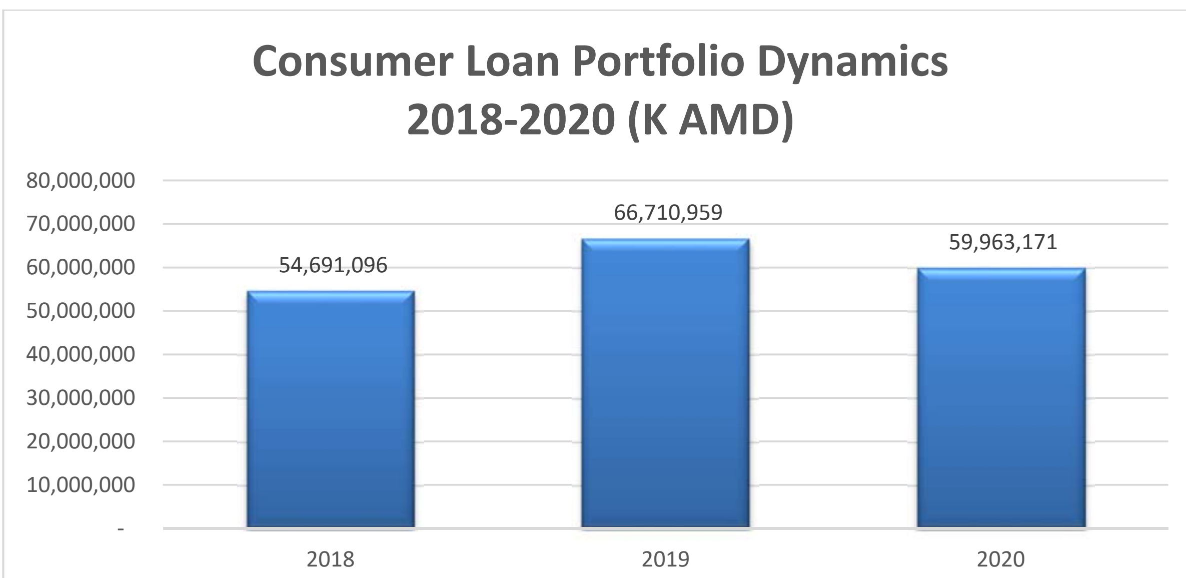
Mortgage Loans

The Bank views the mortgage lending as one of its core business areas and is among the leading banks in the RA banking system by mortgage lending volumes and takes the 3rd place.

Consumer Loans

The Bank's consumer loan portfolio grew by about 10% in the recent 3 years, due to which the Bank's share in consumer loan portfolio makes 10% in the RA banking system.

Diagram 2. Consumer loan dynamics



The Bank is represented in the consumer loan market with an extensive toolkit, which is accessible to all customer segments; in particular:

- Real estate- and car-based loans/credit cards
- Car purchase loans
- Gold-based and cash-covered loans/credit cards

- Installment and online loans
- Payment cards
- Other consumer loans.

The Bank regularly launches customer attraction campaigns for specific types of consumer loans. In 2020, the Bank strengthened the scoring for online loans. The gold-based financing has an important role in the consumer loan portfolio.

2. *Development and expansion of digital banking services, digital transformations*

The development and expansion of digital banking services and the digital transformations in the Bank's systems will be one of the core directions of the Bank.

The new Converse Mobile application was launched in February 2020, and the number of transactions made through the latter overpassed 127 K, totaling about AMD 10.6 B at the year-end, and the number of customers overpassed 36.2 K. The result was achieved due to the implementation of numerous campaigns and tools.

3. *Payment Cards*

Historically the card business is one of the core business directions of the Bank, and today the Bank is one of the market leaders both by the number of credit cards and by the transactions and the infrastructure due to the investments and efforts made year over year for the development and expansion of the card business. The Bank puts a special focus on the expansion of cashless payments, which is supported with a unique and long-standing Converse Points program, whereby points are accrued against the cashless purchases and exchanged with Gifts. In addition, the discount and CashBack campaigns for the cards of the Bank are one of the popular methods of promotion of the customer loyalty and cashless purchases. To promote cashless purchases, the Bank cooperates intensively with Visa and MasterCard international payment organizations.

The Bank intends to strengthen its positions among the leading banks of Armenia in 2021.

Table 2. Payment cards

Indicator	31.12.2019թ.	31.12.2020թ.
Number of payment cards of RA banks	2,390,376	2,491,042
Number of payment cards of Converse Bank CJSC	234,029	220,280
Share of Converse Bank CJSC	10%	9%

In 2020, the Bank successfully implemented campaigns for Visa virtual cardholders, Cash Back actions, as well as the “Sport in My Life” campaign for Visa cardholders due to which the top 50 cardholders having made the most transactions were recognized the winners.

4. *Improvement of fund raising channels and tools*

The Bank's policy of the upcoming years will also aim at implementation of complex fund raising programs, due to which the Bank expects to revise the calculation methodology for fund raising interest rates among others. At the same time, taking into account the current situation and the market trends, the Bank is planning to revise the traditional product terms, including the interest rates, by placing the main accent on simplification of products, attraction of retail deposits and improvement of fund raising on digital platforms.

5. SME development as one of the priority strategic directions of the Bank

In January 2020, Converse Bank and the European Bank for Reconstruction and Development (EBRD) concluded 2 credit agreements to the total amount equivalent of USD 8 M. Converse Bank will use the amount of USD 6 M in the equivalent AMD to finance micro, small and medium businesses in Armenia, and the amount of USD 2 M in equivalent AMD to finance the women-led MSMEs within the scope of the EBRD Women In Business program. The EBRD financing is of vital importance for the private sector in Armenia, since it will allow us to increase the volume of the RA business loans in the local currency, thus supporting the development of small and medium businesses, especially the women-led businesses and their access to financial resources.

SME finance campaigns were implemented in 2020, particularly within the scope of cooperation with the EBRD, and the packaged financing and banking services on preferential terms within the scope of the EBRD Women in Business program, and at the same time SME financing with the KfW and the World Bank resources.

In 2020, the ConverseGreen energy efficiency and alternative energy SME facility were introduced for small, medium and large businesses, agribusinesses and construction businesses; the online SME Bridge loan was introduced in line with the modern requirements, and the SME Converse-Fast facility was launched for the existing accountholder customers.

Based on the 2019 business results, the Bank was again recognized the winner of the EBRD Deal of the Year - Green Trade Award, and was the only bank in Armenia having won the prestigious award, this time for encouraging best practices in industrial water efficiency in Armenia.

Green Financing is one of the priority directions in the Bank's strategy, and the EBRD award once more proves the efficiency of Converse Bank's efforts in the promotion of energy saving and green financing.

6. NPL Portfolio Management

Taking into account the financial-economic situation due to the COVID-19 pandemic and the Artsakh war, the efficient management of the NPL portfolio turns a priority.

Characteristics of funds allocated by the Bank in the recent years

Allocation trends	31/12/20 (Unaudited)		31/12/19 (Audited)		31/12/18 (Audited)		31/12/17 (Audited)	
	Amount (K AMD)	average %	Amount (K AMD)	average %	Amount (K AMD)	average %	Amount (K AMD)	average %
Loan, including	238,446,164	9.64%	231,118,926	9.15%	200,681,727	10.09%	170,030,851	10.86%
- business loans	128,756,971	8.02%	119,807,671	8.29%	110,959,901	8.66%	97,844,810	9.13%
- consumer loans (including gold-based)	59,963,171	13.44%	66,710,959	10.15%	54,691,096	12.98%	43,573,230	15.09%
- mortgage loans	49,726,022	9.23%	44,600,296	9.96%	35,030,730	10.10%	28,612,812	10.36%
With banks and other financial organizations	16,747,104	0.27%	20,560,048	1.69%	5,225,142	0.93%	10,546,355	4.6%
In RA government securities	32,976,927	7.88%	14,198,411	10.21%	19,931,615	8.35%	22,707,948	8.96%

Characteristics of funds attracted by the Bank in the recent years

Attraction trends	31/12/20 (Unaudited)		31/12/19 (Audited)		31/12/18 (Audited)		31/12/17 (Audited)	
	Amount (K AMD)	average %	Amount (K AMD)	average %	Amount (K AMD)	average %	Amount (K AMD)	average %
Deposits, including	227,973,075	3.67%	222,172,144	3.98%	187,214,116	4.05%	173,914,157	4.21%
- time deposits	138,041,282	5.63%	138,249,427	5.96%	116,545,879	5.93%	106,572,818	6.30%
- demand deposits	89,931,793	0.68%	83,922,717	0.73%	70,668,237	0.95%	67,341,339	0.91%
From banks and other financial organizations	29,960,980	5.45%	28,090,880	5.76%	29,647,783	6.20%	27,832,817	5.50%

The Bank offers clearing/settlement services and any other banking service to the customers, the turnover whereof is illustrated below.

	As of 31/12/20	As of 31/12/19	As of 31/12/18	As of 31/12/17
Number of corporate accountholders	7,823	7,831	7,091	6,380
Number of individual cardholders	135,250	140,215	129,971	127,560
Number of current accounts	192,557	189,620	174,875	176,002
Number of time accounts	8,164	8,564	6,962	6,058
Outgoing transfers by legal entities (M AMD	135,431	189,731	152,499	176,565
Incoming transfers for legal entities (M AMD)	118,890	183,105	146,087	151,579
Outgoing transfers by individuals (SWIFT, Western Union, Migom, etc.) (M AMD)	34,992	32,170	30,122	39,823
Incoming transfers for individual (SWIFT, Western Union, Migom, etc.) (M AMD)	59,802	75,163	59,226	76,618

It is important to note that the complex changes in the Bank back in IVQ 2016 created solid grounds for the Bank's further business to ensure essential growth in all business segments notwithstanding the strengthening competition among the banks, which was also demonstrated in the enhancement of the Bank's leading positions in the Armenian banking market by basic indicators.

Given the main financial ratios based on the financial disclosures of the banks, we have to note that as opposed to 2019, the Bank recorded 2% growth in assets, about 1.3% growth in credit investments and 2.6% growth in deposits. The net provisions grew by more than 430.75% vs. the past year. The Bank's net profit made above AMD 2,553 B vs. AMD 5,452 B in the past-year.

Converse Bank CJSC is active in the Armenian banking industry. The majority of assets of the Armenian financial market are concentrated in the banking sector. The growth of banking assets made 15.5% (AMD 891 B) in 2020. The banking assets made AMD 6,643 B as of 31.12 2020, and AMD 5,752 B as of 31.12.2019.

In the recent 3 years Converse Bank's position among the RA-based banks is illustrated below, by specific directions.

Position by directions	31/12/2020 (unaudited)	2019 (audited)	2018 (audited)	2017 (audited)
Assets	8th place	6th place	7th place	6th place
Equity	8th place	7th place	9th place	10th place
Loans	5th place	6th place	6th place	6th place
Liabilities	8th place	6th place	5th place	6th place

Profitability ratios	2020	2019	2018
ROE	5.38%	13.19%	1.86
ROA	0.78%	1.84%	0.94%

The share of Converse Bank CJSC in the RA banking industry is illustrated below.

K AMD

		Assets	Credit investments	Liabilities	Total capital
As of 31/12/2020 (unaudited)	Industry	6,642,927,197	4,053,254,994	5,747,725,810	895,201,387
	BANK	331,937,191	229,317,136	283,847,062	48,090,129
	%	5%	5.7%	4.94%	5.4%
As of 31/12/2019 (audited)	Industry	5,751,563,606	3,550,327,260	4,917,428,146	834,135,460
	BANK	325,628,525	226,444,991	281,387,217	44,241,308
	%	5.66%	6.38%	5.72%	5.30%
As of 31/12/2017 (audited)	Industry	4,909,439,649	3,049,547,729	4,164,286,402	745,153,247
	BANK	281,119,378	196,282,332	242,085,077	39,034,301
	%	5.73%	6.44%	5.81%	5.24%
	Industry	4,328,516,405	2,658,003,424	3,634,437,994	694,078,411
	BANK	252,735,853	165,167,500	216,759,687	35,976,166
	%	5,84%	6,21%	5.96%	5,18%

Main competitors of the Bank

#	Competitor	Lending	Fund raising	Customer service quality	Payment cards	Digital banking services	E-purse	HR
1	Ameriabank CJSC	☒	☒	☒	☒	☒	☐	☒
2	HSBC Bank Armenia CJSC	☐	☒	☒	☐	☐	☐	☐
3	Inecobank CJSC	☒	☒	☒	☒	☒	☐	☐
4	ACBA Bank OJSC	☐	☒	☒	☒	☒	☐	☐
5	ID Bank CJSC	☒	☐	☒	☒	☒	☐	☒
6	Evocabank CJSC	☐	☐	☐	☐	☒	☐	☒
7	Ararat Bank OJSC	☒	☐	☐	☐	☐	☐	☐
	Armbusinessbank CJSC	☒	☒	☐	☐	☐	☐	☒
8	VTB-Armenia Bank CJSC	☐	☒	☐	☐	☐	☐	☐
9	Ardshinbank CJSC	☒	☒	☐	☐	☐	☐	☐
10	Easy Pay LLC	☐	☐	☐	☐	☐	☒	☐
11	I-dram LLC	☐	☐	☐	☐	☐	☒	☐

UNISTREAM transfer system is the main competitor in fast transfers.

3.5 Structure of the Bank

The shareholders of the Bank are:

1. Advanced Global Investments LLC
2. Haypost Trust Management B.V.
3. Armenian Apostolic Church represented by Mother See of Holy Etchmiadzin.

Advanced Global Investments LLC is also 100% shareholder of Post Finance International B.V., and the latter is 100% shareholder of Haypost Trust Management B.V.

Converse Bank CJSC holds a significant equity interest in Converse Collection LLC (49 Komitas, Yerevan) and is 100% shareholder of the latter.

Converse Collection LLC, in the capacity of the subsidiary of Converse Bank CJSC, holds no significant equity interest in any other company.

3.6 Recent Development Trends

The mission of the Bank is to meet the financial needs of both existing and new customers and support them in achieving financial success by offering high quality and accessible banking services in the branch network of the Bank and as well by using all forms of remote banking.

The vision of the Bank is to become the 1st choice retail bank in Armenia.

The Bank has adopted the below values when offering services to customers:

- Accessibility
- Affordability
- Novelty
- Awareness
- Support
- Care

The Bank applies Corporate Values:

- Teamwork
- Responsibility
- Delegation of decision making powers
- Integrity
- Training and development
- Inspiration

The core strategic goals of the Bank include:

Based on the shareholder and customer trust and equilibrium between risk, equity and profit, the Bank determines the strategic priorities for 2021-2023:

1. Create an appropriate environment for digital transformations in the Bank and formation of the Bank's perception through introduction of technological innovations with the customers, for the purpose whereof digital transformation of products and processes will be provided by applying smart solutions to the existing products and processes and by improving the existing systems.;
2. Extend and develop digital banking services;
3. Increase the amount of credit investments in 2021-2023, at the same time place an emphasis on streamlining of lending processes and the loan portfolio quality by viewing the increase of retail and SME financing as priority. In the lending sector the Bank intends to implement specific industry development projects under the Bank's corporate social responsibility policy, project financing and as well issuance of electromobile purchase, energy-saving and Green loans and introduction of energy efficient lending toolkit for individuals;
4. Preserve the strong positions by the amount of mortgage loans by carrying on the improvement of lending process, terms and approval stages, and as well aiming at the expansion of cooperation with refinancing organizations to increase the amount of financing under refinancing programs;
5. Further develop the card business and preserve leading positions with an intention to introduce new cards, tools, and efforts and opportunities for promotion of cashless turnover in cooperation with the international payment/settlement systems;

6. Diversify the portfolio of attracted funds to attract long-term resources and extend the cooperation with international financial organizations;
7. Target actions under the corporate social responsibility;
8. Render exemplary customer service based on the Bank's vision, by placing an emphasis on the measures for improvement of the service quality.

3.7 Profit Projection and Estimation

Based on the projections under the 20210-2023 Strategic Plan of Converse Bank CJSC, the net profit will make over AMD 4 B in 2021. The retained earnings will make over AMD 18.9 B in 2021 growing by 16.7% vs. 2020, over AMD 23.6 B in 2022 and about AMD 29.1 B in 2023.
The expected earning rates are as follows:

- ROA: 1.12% for 2021, 1.63% for 2022 and 1.73% for 2023,
- ROE: 8.68% for 2021, 12.59% for 2022 and 13.21% for 2023.

Basic principles for profit projections
The Bank's profit forecasts were made based on general business projections of the Bank. The business projections were grounded on 2021-2023 forecasts and based on mathematical statistics and appraisal, whereby essential non regular, regular (seasonal, measure based) factors, tendencies and links were revealed in the dynamic series reviewed in prehistory, and were applied in the projections; the latter were used in the forecasts. The Strategic Plan projections and expectations were designed based on a normal scenario (midpoint between best and worst scenarios).

Impact of managerial authorities of the Bank on factors
The managerial authorities of the Bank are capable to exert influence on the business and the profit of the Bank through management of:

- Attracted and allocated funds by revising the amounts, structure of profit/loss,
- Payroll and training cost management,
- Expenses needed for current operation of the Bank,
- Expenses for introduction of new and maintenance of existing IT systems,
- Tariffs for banking services,
- Income and loss relating to introduction of new products.

The managerial authorities of the Bank are incapable to exert influence on the following factors affecting the business and the profit of the Bank:

- Change of market interest rates for banking services subject to market factors,
- AMD exchange rate fluctuations,
- Change in inflation, economic activity or macroeconomic environment,
- Force majeure (emergency, war, natural disasters, state actions that make the regular business of the Bank impossible).

3.8 Managerial Authorities and Members of Managerial Authorities of the Bank

3.8.1 Organizational Structure and Rights and Responsibilities of Managerial Authorities
The organizational chart of the Bank is illustrated in Annex 3.
The following managerial authorities are established under the Charter of the Bank:

- General Shareholder Meeting (the Meeting),
- Board,

- Executive Authority: CEO and Executive Management.

The Meeting

The General Meeting (the Meeting) is the highest managing authority of the Bank. The Bank has to convene annual meetings each year within six months after the end of the financial year.

Besides the Annual Meetings, for discussion of urgent issues are convened Extraordinary Meetings.

The authorizations of the Bank's Meeting are:

a) approval of the Bank Charter as well as any amendments and addenda thereto,
b) reorganization of the Bank,
c) liquidation of the Bank,
d) approval of consolidated, interim and liquidation balance sheet, appointment of the liquidation committee,
e) approval of quantitative composition of the Bank Board, election of the Board members and establishment of their term of office /which cannot be less than one year/, as well as early termination of their authorities,
f) determination of the maximum amount of the authorized shares,
g) reduction of the amount of the Bank's Authorized Capital,
h) approval of the Bank's external auditor upon recommendation of the Board,
i) approval of the Bank's annual financial statement, distribution of profit and loss. Adoption of a resolution on payment of annual dividends and the amount of annual dividends,
j) approval of procedure for conducting the Meeting,
k) constitution of Counting Committee,
l) consolidation and splitting of the share,
m) establishment of remuneration of the Board members,
n) resolution on waiver of preemption right in cases provided by the Law,
o) other issues, stipulated by the Law.

The voting right is exercised at the Meeting by:

a) owners of ordinary shares of the Bank,
b) owners of preference shares of the Bank in compliance with the RA laws and the Charter (hereinafter referred to as the Voting Shares).

Resolutions at the Meeting are adopted by simple majority of votes of holders of the Voting Shares unless otherwise prescribed by the RA Laws and the Charter.

The following parties shall have a right to participate in the Meeting:

a) holders of the Bank ordinary shares with the number of votes proportional to the number of shares owned by them,
b) the holders of the preference shares of the Bank with the number of votes proportional to the number of shares and par value owned by them,
c) non-shareholder members of the Board and executive body with the advisory vote,
d) the members of the Bank Internal Audit as observers,
e) external audit of the Bank as an observer; (if the agenda of the convened Meeting includes review of the external audit report),
f) representatives of the Central Bank as observers.

The List of the Bank Shareholders entitled to participate in the Meeting shall be established in compliance with the RA Law on Banks and Banking.

The Bank notifies the Central Bank about the convocation of the Meeting of Shareholders at least 15 days prior to it.

The Shareholders are notified about the convocation of the Annual Meeting at least 10 days prior to the fixed date by registered mail or e-mail, registered letter or personally.

The Agenda of the Meeting is approved by the Board upon recommendation of separate shareholders.
The Meeting resolutions are adopted as a result of voting, and voting results on each issue included in the agenda are recorded in the Meeting minutes. The voting in the Meeting is performed in compliance with "one share – one vote" principle, except for election of Board members and in the cases, stipulated by the Republic of Armenia Legislation.
The Meeting is arranged by the Board Secretary (Secretariat) or another authorized Bank division or employee (hereinafter referred to as the Board Secretary).
The Meeting is valid, if by the end of registration of the Meeting participants have been registered Shareholders owning more than 50% of outstanding voting shares of the Bank (their representatives). In the absence of quorum a new Meeting is convened exactly 15 days later. No new list of the Meeting participants is made. The agenda is not amended.
The Meeting is presided by the Chairman of Board and in the latter's absence by one of the Board members elected by the members of the Board (or voted by the participants of the Meeting).
The Meeting Minutes are drawn up by the Board Secretary. Minutes of the Meeting are drawn up within 5 working days from the end of the Meeting in at least 2 copies, which are signed by the Chairman and the Secretary of the Meeting.
The Meeting Chairman bears responsibility for the authenticity of information contained in the Meeting Minutes.
Copy of the Minutes or an Extract from it is provided to the Shareholders upon their request.
Apart from Annual Meetings, are also convened Extraordinary Meetings for discussion of urgent issues.
The Extraordinary Meeting is convened by the Board resolution on its own initiative or upon the request of the executive body, Bank audit or the Shareholder (Shareholders) owning at least 10% of the Bank shares on the date of the request. Besides the cases, when the Extraordinary Meeting is convened on the Board's own initiative, in other cases it is convened within 45 days from the date such a request is made by an authorized person. The issues relating to the Extraordinary Meeting are resolved by the Board in compliance with the RA legal requirements.
The Extraordinary Meeting is convened by joint attendance of the Shareholders or by an absentee voting, unless otherwise is prescribed by the Law.
The absentee voting is taken by ballots.
During absentee voting the ballots are sent to the Shareholders electronically or by mail - by a registered letter, or are handed in person at least 10 days prior to the Meeting.
The ballots have to contain the following information:

a. the Bank name,
b. date, time and place of the Meeting,
c. formulation of each issue put to the vote,
d. voting options regarding each issue put to the vote: "aye", "nay", "abstain",
e. date, time and place the filled out ballots were received by the Bank,
f. instructions that the ballots have to be signed by the Shareholder (authorized representative),
g. clarification of the procedure on filling the ballot.

The ballots filled and signed by the Shareholders are sent to the Board Secretary electronically or by mail within 3 days after the Meeting has been convened– by registered letter or in person.
The Board Secretary summarizes the ballot results and draws up the Meeting Minutes. The ballots are attached to the Minutes, sealed by the Board Secretary and handed over to records.
The Meeting resolutions can be drawn up based on the Meeting Minutes in the form of separate resolutions, which are numbered mentioning the date the Meeting was convened. The Meeting resolutions are signed by the Meeting Chairman.

The Meeting resolutions are adopted by simple majority of owners of voting shares participating in the Meeting, except for cases, stipulated by the Law.
The Meeting Secretary keeps the originals of resolutions until their handing over to records in compliance with the procedure.
The Secretary or another authorized employee is responsible for control over observance of terms established under the Meeting resolution, their dissemination and informing process
Meeting Resolutions can be taken on such session when the Meeting participants can communicate via conference call or video call, or otherwise in real time regime.
The order of convocation and holding of the Meeting in such order has to be established by the resolution of the Bank Board.

The Board

The Bank Board shall carry out the general management of the Bank within the scope of authorities, entrusted hereto in compliance with the Law and the Charter. The Board of the Bank consists of 7 (seven) members. The members of the Board shall be elected at the Annual Meeting of the Bank, and in the case of early termination of a Board member's authorities – at an Extraordinary Meeting by the present members. Moreover, an Extraordinary Meeting has to make a decision on election of a new Board member simultaneously with resolving on premature termination of the Board member's authorities.
Candidates for Board members can be nominated by the Bank Shareholders as well as the Board (except for creation of the bank for the first time).
The Board Members are elected in compliance with the RA Law on Banks and Banking.
The Board is authorized to:

a) determine core activities of the Bank, including approval of the Bank Strategic Development Plan;
b) convene Annual and Extraordinary Meetings of the Bank, approve the agenda and also ensure arrangement and agenda of the meetings;
c) appoint the CEO and members of Executive Management including the Chief Accountant and deputies to CEO, and prematurely terminate their authorities and approve the terms of their remuneration;
d) establish the Bank's internal control standards, establish the Internal Audit Unit, approve its annual business plan, early terminate authorities of the internal audit and approve terms of their remuneration;
e) approve the annual expenditure budget and performance of the Bank;
f) approve the organizational structure of the Bank;
g) increase the Bank's authorized fund;
h) submit recommendations to the Meeting on payment of dividends which shall include making the list of the shareholders entitled to receive dividends at each dividend payment, which shall enroll the members included in the register of the Bank's shareholders at the date of drawing up the member list entitled to take part in the Annual Meeting;
i) preliminarily approve and submit to the Meeting the annual financial statements of the Bank;
j) introduce the external auditor for the approval of the Meeting;
k) determine the remuneration size of the external auditor of the Bank;
l) recommend and control implementation of measures on remedy of defects detected as a result of auditing and other examinations carried out in the Bank;
m) approve internal legal acts, establishing the order of financial operations of the bank in compliance with the Law;
n) approve the Charters of the Bank's territorial and structural divisions, distribute the functional responsibilities among the Bank's structural divisions;

o) submit issues stipulated by sub-points “b” and “m” of point 9.2.3. of the Charter to the discussion of the Meeting;
p) adopt resolutions on allocation of bonds and other securities of the Bank;
q) dispose the reserve and other funds of the Bank;
r) establish branches, representative offices and institutions of the Bank;
s) adopt the accounting policy of the Bank, including principles, grounds, modes, rules, forms and procedures of bookkeeping and financial reporting;
t) establish subsidiary and affiliated companies;
u) participate in subsidiary and affiliated companies;
v) establish unions of commercial organizations;
w) participate in unions of commercial organizations;
x) determine the market value of the property;
y) adopt other resolutions stipulated by the Law;
z) adopt resolution on the acting CEO in the absence of the CEO.

Based on the minimum requirements of the internal control, the Board, besides the abovementioned powers, also performs the powers in compliance the minimum requirements of internal supervision approved by the Central Bank of Armenia.

The Board Meeting shall be convened at least once in two months.

Chairman of the Board shall convene the Board meetings by his/her initiative, and upon the request of a member of the Board, the CEO, the Management Board, the Head of the Internal Audit Unit, the External Audit of the Bank, the Central Bank Board, as well as upon the written request of the shareholder (Shareholders) owning 5 or more percent of voting shares (stock) of the Bank.

The quorum of Board Meetings is deemed provided if at least 2/3 of the Board members are present at the Meeting. Each Board member may have one vote during the voting. The Board resolutions are adopted by simple majority of votes.

Discussion of all the board issues can be held only with the mandatory presence of the Bank CEO, except for issues on early termination of authorities of the CEO, as well as the terms of his remuneration. The CEO of the Bank participates in the Board meeting with the right of advisory vote.

The Chairman of Board presides at the Board meeting, and in case of his absence – one of the members, by the election of the Board members.

The Chairman of Board represents the issues of the agenda one after another and invites an appropriate speaker in the line of each issue

After hearing the report regarding each issue, if necessary, the speaker provides explanations to the Board members’ questions.

After discussions of the issue the Chairman of Board shall put the proposal(s), presented as a result of discussions to the vote so that the Board can make a decision regarding the issues under consideration.

The voting results of the Board are calculated and summarized by the Board Secretary. The voting results are declared at the particular Board meeting.

The Board meetings shall be recorded by the Board Secretary. The Board Minutes are drawn within 10 working days after it is over, which has to be signed by the Chairman, members and the Secretary of the Board. The Board Minutes are submitted to the Internal Audit Unit within at least 10 days after their signing.

The Board meetings can be convened in absentee order in compliance with the respective procedure, established by the Charter.

The Board meetings can be convened in absentee order in compliance with the respective procedure, established by the Charter.

The Board can make resolutions, when the Board members have the possibility of communication by the means of phone, telecommunication or otherwise in real time regime.
The order of convocation and holding of Board meetings in such order shall be established by resolution of the Board.
The Board of the Bank may establish committees in order to enhance activities of the Board. Committees shall consist of Board members and other officials and employees of the Bank. Decisions of Board Committees are of advisory character.
The Board is responsible for the regular and efficient activity of the Bank, safekeeping of the Bank's assets, presentation of true and accurate information to the Bank shareholders, the RA Central Bank and the society as well as for oversight of the Bank's executive body.
Both the Board and the Executive body are responsible for formation and introduction of code of ethics as well as code of conduct in the Bank.
Powers of the Chairman of the Bank's Board are established by the RA Law on Banks and Banking and the Board Statute.

The Executive Management

Current management of the Bank shall be carried out unilaterally by the Bank Executive Body- the CEO and the Executive Management of the Bank. The CEO shall also perform the powers of the Chairman of the Executive Management.
All the issues of management of the Bank's current activity are within the power of the CEO and the Executive Management, except for matters that, in compliance with the Charter, are within the exceptional power of the Meeting and the Board.
Appointment of the CEO and the members of the Executive Management, as well as early termination of their authorities, are carried out by the Board's resolution. The members of Executive Management are appointed and their authorities are early terminated based on the recommendation of the CEO.
The Executive Management operates in compliance with the RA Laws and the Charter, as well as the internal legal acts of the Bank, approved by the Board, which shall detail the terms and procedure of convocation and holding of Executive Management meetings, as well as the procedure of adoption of their resolutions.
The Executive Management meetings are convened as required on the initiative of the Chief Executive Officer or at least 2 (two) members of the Executive Management.
The sitting of the Executive Management is valid if at least 1/2 of the members of the Executive Management are present at the meeting. The resolutions are adopted by simple majority of votes. The Executive Management Chairman has a casting vote in case the voices are equal in number.
The rights and responsibilities of the Chief Executive Officer and the Executive Management members are established in compliance with the RA normative legal acts, and/or the contracts concluded between the Bank and each of the members. The Board Chairman or another person authorized by the Board signs contracts with the members of the Executive Management members on behalf of the Bank.
The Chief Executive Officer and members of the Executive Management can assume remunerative offices only with the approval of the Board.
The Executive Management is entitled to:

a) Determine tariffs and rates, applied by the Bank;
b) Approve the Bank's procedures and regulations drafted based on the policies and other legal acts as approved by the Board;
c) Determine the commission fees for services provided by the Bank;
d) Approve terms of services and banking instruments;

e) Management of the Bank's Assets and Liabilities;
f) Allocation of the Bank's bonds and other securities;
g) Approval of internal discipline rules;
h) Approval of job descriptions (official decrees);
i) Approval of Bank's sample forms of contracts for public use;
j) Solution of other issues relating the Bank's current activity not pertained to the office of the CEO.

The Chief Executive Officer of the Bank convenes and holds the meetings of the Executive Management, and is the Chairman of the Executive Management by virtue of his position. In the latter's absence, one of the members of the Executive Management, who substitutes the CEO, convenes and holds the meetings of the Executive Management.

The Executive Management Chairman presents the issues included in the agenda one after another and invites the relevant speaker in the line of each of the issues. After hearing the report regarding each issue, as required, the speaker provides explanations to the questions asked by the members of the Executive Management. After consideration of the issue, the Executive Management Chairman puts to the vote the proposals presented, so that the Executive Management can make a decision regarding hereto.

The voting results of the Executive Management are calculated and summarized by the Secretary. Results of the voting are declared at the particular meeting of the Executive Management.

The meetings of the Executive Management shall be recorded by the Secretary. The Executive Management Minutes are drawn within 5 working days after it is over end at least in 1 copy, which has to be signed by the Chairman, members and the secretary of the Executive Management.

The Minutes of the Meeting of the Executive Management are submitted to the Board, or the entity that conducts external audit of the Bank upon request of the latter as well as the Internal Audit Unit within at least 10 days after their signing.

The Chief Executive Officer is responsible for the authenticity of the information contained in the Minutes.

The Chief Executive Officer:

a) manages the Bank's property, including financial assets, and concludes deals on behalf of the Bank, including issuance of bank guarantees;
b) represents the Bank in the Republic of Armenia and abroad;
c) issues powers-of-attorney;
d) acts on behalf of the Bank without a power-of-attorney;
e) concludes contracts in compliance with the determined order;
f) submits to the Board's approval the charters of separate divisions of the Bank, and the candidates for deputies to Chief Executive Officer, the Bank directors and the Chief Accountant, the organizational chart of the Bank; as well as the internal legal acts approved by the Executive Management, except for those subject to the Management Board's approval;
g) approves the workplaces of the Bank;
h) issues orders, determines responsibilities of the employees, issues instructions subject to compulsory execution and controls over their execution within the limits of his powers;
i) recruits and dismisses the Bank employees, concludes labor agreement in compliance with the established order, except for persons appointed by the Meeting and the Board;
j) applies incentives and disciplinary actions towards the employees of the Bank;
j.a.) establishes permanent and (or) current working committees,
j.b.) draws up, signs and submits to the authorized state authority the reports, determined by the RA normative legal acts, including financial statements,
j.c.) signs the minutes and resolutions of the Executive Management meetings;

j.d.) opens bank accounts on behalf of the Bank;
j.e.) shall compensate the damage, inflicted by him to the Bank upon the request of the Founders (Shareholders) of the Bank, unless otherwise prescribed by the Law and the labor contract, concluded with him;
j.f.) shall act on the basis of the RA legal acts and the Charter;
j.g.) is entitled to conclude transactions not exceeding 25% of the balance asset value on behalf of the Bank without the prior consent of the Meeting and/or the Board;
j.h.) holds fulfillment of resolutions, adopted by the Meeting, Board and the Executive Management and is accountable to the Bank's Meeting, Board and the Executive Management, and has no right to adopt resolutions mandatory for the Meeting and the Board members;
j.i.) exercises other powers not stipulated for the Board, the Meeting, the Internal Audit Unit under the Law or the Charter.
k) may have deputies, advisors, whose authorities shall be established by the internal acts of the Bank;
k.a.) issues an order on his replacement by one of his deputies/members of Executive Management appointed by the Board in case of his absence or impossibility to execute his job responsibilities;
k.b.) shall make a decision on application of the special terms based on the Bank contracts;
k.c.) executes the authorities of the Liquidation Committee prior to its establishment;
k.d.) approves other internal legal acts not reserved to the powers of other managerial authorities of the Bank;
k.c) performs other authorities as stipulated by the RA Legislation.

In addition to the aforementioned powers and based on the minimum requirements of the internal control, the Chief Executive Officer also performs the powers stipulated under minimum requirements of internal control approved by the RA Central Bank.

The Bank's CEO, the latter's deputies, the Chief Accountant and the Directors are included in the Executive Management of the Bank.

Artur Hakobyan
CEO, Chairman of Management Board

Arthur Hakobyan was born on June 24th, 1969 in Dilijan town of Tavush region of Armenia. In 1987-1989 he served in the armed forces of the USSR.
In 1990-1995 he studied at Yerevan State University at the Department of Economics where he received the qualification of Economist-Mathematician.
From June 1996 to January 2000 he worked at the Ministry of Finance of the RA, as well as at Restructured Ministries of Finance and Economy of the RA. He began his career in the Monetary Policy Department of the Ministry, holding the position of the leading specialist, and then became Deputy Head of the same Department, later Head of the Department. In 1998 he worked as Head of the State Participation Management Department, later Head of the General Department of Financial Programs.
From 2000 to 2014 he developed his career in the RA banking system.
From January 2000 to May 2002 he held the position of the Deputy Chief Executive Officer of Armsavingsbank and later - till August 2006 - the position of the Deputy Chief Executive Officer of Armeconombank.
From October 2006 he worked as Chief Executive Officer - Deputy Chairman of the Management Board of AraratBank, from 2009 to 2012 - as Chief Executive Officer - First Deputy Chairman of the Management Board of the same bank.

From 2012 to April 2014 he worked as First Deputy of Chief Executive Officer/Chairman of the Management Board of Converse Bank.
In 2014-2016 he worked as Chief Executive Officer at "Dilijan International School Properties" and "Dilijan Development" Foundations and was also Head of Dilijan Development Project of "Armenia Development Initiatives" Foundation.
In 2014-2016 he studied at Moscow "Skolkovo" Management School and obtained the Master's degree in Business Administration (Executive MBA).
From August 1, 2016 to present holds the office of CEO/Chairman of Executive Management of Converse Bank CJSC.
Married, has two sons and one daughter.

Grant Akopian
Deputy CEO/Financial Director,
Member of Executive Management
Was born on April 15, 1980 in Yerevan, Armenia.
Bachelor in Economics at University of Buenos Aires; and MBA at Columbia University (USA).
Is fluent in Spanish, English, Russian and English.
Prior to moving into Armenia, occupied various offices at Corporación América, and was involved in financial business development, merger and acquisition projects.
Hrant Hakobyan started working in Armenia in 2008. 2008-2011, worked at Haypost Trust Management B.V. and performed Corporate Development functions at Haypost CJSC, and to date has been the Board member of Haypost CJSC. 2011-2017, Adviser to CEO at Converse Bank CJSC.
From February 2017 to present holds the office of Financial Director at Converse Bank CJSC.
On August 1, 2019, was appointed the Deputy CEO/Financial Director of Converse Bank CJSC, by preserving the latter's powers of the member of Executive Management of Converse Bank CJSC.

Davit Azatyan
Head of Accounting Division/Chief Accountant
Member of Executive Management
Born on January 1, 1981. In 1997-2001 studied at the State Polytechnic University of Armenia.
Started his career in 2003 as Specialist at Credit Operations Division of Credit and Investment Policy Department of Ardshinbank OJSC. Then, in 2003-2005, he worked as Specialist, then Chief Specialist at Internal Audit Department of Armsavingsbank CJSC.
In 2005-2011 he worked at Armeconombank OJSC, holding different positions: Leading Surveyor at Branch Supervision Division of Supervision Department, then as Leading Auditor and staring from 10.10.2006 - as Chief Auditor at Video Surveillance Division of Internal Audit Department. On 17.01.2011 he was appointed to the position of Head of Internal Audit Department at Armeconombank OJSC, and on 19.07.2011 - as Head of Accounting Department - Chief Accountant and member of the Management Board at Armeconombank OJSC.
In 2008-2013 he was a member of the Board of Sil Insurance CJSC.
Starting from August 21, 2017, he is the Head of Accounting Division - Chief Accountant at Converse Bank CJSC and member of the Bank's Executive Management.
Fluent in English, Russian and Armenian.
Married, has 2 children.

Gohar Harutyunyan
Operations and Services Director
Member of Executive Management

Born on February 9, 1971. Graduate of Financial Accounting Department of Yerevan Communal Economics Institute. From 2006, attendee of ACCA Establishment (Association of Confirmed Certified Accountants).

From 1992-1999, she worked in the Accounting Board of "Ardshinbank" OJSC; in 1999, she was appointed Chief Accountant of the same bank's "Mashtots" branch. From 2003-2004, she served as the Accounting and Operations Department Supervisor of the Customer Service Board of "Ardshininvestbank" CJSC. From 2004-2005, she worked as the Customer Service Department Supervisor of "VTB Armenia" CJSC; consequently, she was appointed Deputy Board Supervisor of Risk Analysis and Planning as well as Department Supervisor of Budget Planning in the same bank. From December 1, 2005 to August 1, 2007, she worked as Chief Accountant in "Cascade Credit" CJSC; and from August 1, 2007, she was transferred to a member of the same group – "Cascade Bank" CJSC as Chief Accountant. From June, 2010, in accord with the contract of merger of "Cascade Bank" CJSC and "Ameriabank" CJSC, was transferred to "Ameriabank" CJSC, where on October 8, 2010, she was appointed Deputy Chief Accountant of the Financial Department.

From July 1to November 2011, she worked at Converse Bank as the Head of Report and Analysis Unit. From December 1 to July 2016 held the office of the Chief Accountant of Converse Bank CJSC. On December 1, 2016, she took the position of Chief Accountant of Converse Bank.

On September 26, 2017, holds the office of Operations and Services Director.

Gohar Harutyunyan is a member of Executive Management.

Vahe Dalyan
Risk Management Director
Member of Executive Management

Born on December 21, 1969. In 1992, he graduated from the Department of Radio-Technology of the Yerevan Polytechnic Institute, majoring in Engineering. Consequently, in 1994, he graduated from the Business School at Haykazyan University, earning an MBA degree; and in 2002, he graduated from London Business School earning a Master's degree in Finance (MIF). He began his professional career in 1995, undertaking the position of Director of Loan Program at Jinish Memorial Foundation (1995-1998). From 1999-2001, he worked at USAID/EMG/Shorebank Consulting Services Program as Representative of Loan Program for micro, small, and medium enterprises. From 2003-2006, he was the Micro-Finance Organizations Development Expert for the Initiative of Small Enterprise Development at USAID/EMG. From 2006-2008, he worked in the Financial Sector Development Program at USAID/EMG initially as micro-finance expert, then as group leader.

From 2009 to the present, Vahe Dalyan works at Converse Bank. He held the offices of the Head of Investments Development and Financial Instruments Unit, the Head of Risk Management Unit and the Head of the Risk Management Department. From 2013-2017, held the office of the Deputy CEO/Head of Corporate Finance Department.

From February 2017 to present, holds the position of the Risk Management Director of Converse Bank CJSC.

Vahe Dalyan is a member of Executive Management.

Artur Nahapetyan
Business Development Director
Member of Executive Management
Born on September 25, 1981. In 1998-2003 studied at Yerevan State Institute of Economics. He started his career in 2003 as Specialist at Strategy and Methodology Department of Armeconombank OJSC. Then, he was appointed as Chief Specialist, later - Leading Specialist of the same department.
In 2005 he worked at Ardshininvestbank CJSC as Chief Specialist of the Information-Analytical Department. On 17.08.2006 he was employed at Armeconombank OJSC as Deputy Head of Branch Management Department. On August 20, 2007 he was appointed to the position of Surveyor at Division of Audit of Assets and Liabilities Operations Audit Department of Internal Audit of Unibank CJSC, then as Head of the Division. On 23.01.2008 he was appointed as Director of Department of Methodology and Standardization, on 02.06.2008 - as Head of the Division of Methodology and Standardization of the bank's Legal Department.
On 26.01.2009 he was employed as Head of Trainers' Group at Armenian Postbank CJSC, then appointed as Deputy Executive Director.
On 17.10.2009 he was employed as Trainer at Human Resources Management Division of Converse Bank CJSC, and then as the Responsible for career development at the same division. On 01.06.2010 he was appointed as Head of Postbank Services, and on 22.10.2012 - as Head of Methodology Division.
On 01.02.2017 he was appointed as Deputy Director for Business Development - Head of Strategy, Planning, and Analysis Department.
Since 01.09.2017 he has been holding the position of Business Development Director.
Is a member of the Management Board.
Fluent in English, Russian and Armenian.
Married, has 2 daughters.

Grigory Baghdasaryan
Retail Business Director
Member of Executive Management
Was born on November 26, 1976. 1992-1997, student at Yerevan Institute of National Economy, Degree in Engineering/Economics.
1999-2001, worked at Sevan Social Services Center as 2nd grade Inspector.
2004-2007, worked at Sevan Branch of ASHIB CJSC as a loan specialist.
October 2007 – May 2009, worked at Sevan Branch of Converse Bank CJSC as a loan specialist.
2009-2011, Sevan Branch Manager of VTB-Armenia Bank CJSC.
2011-2012, Regional Business Development Director, Retail Department, VTB-Armenia Bank CJSC.
2012-2016, Regional Manager at Converse Bank CJSC.
In February 2017, was appointed Retail Business Director.
Married, has 2 children.

Aram Zakaryan
IT Director
Member of Executive Management
Was born on 08.11.1978
1995-2000 Yerevan State University of Economics
2000-2002 served in the Armed Forces in the Republic of Armenia

06.2002-11.2008 Methodologist, Statistician, Analyst, Auditor at Central Bank of Armenia
11.2008-02.2012 Deputy Chief Executive Officer at ACRA Credit Reporting CJSC
02.2012-07.2018 Chief Executive Officer at ACRA Credit Reporting CJSC
09.2018-12.2018 Advisor to Chief Executive Officer of Converse Bank CJSC
01.2019-02.2020 Information Technology Director at Converse Bank CJSC
03.2020 - up to now Information Technology Director -Executive Management Member at Converse Bank CJSC
Married, has 1 child.
Language skills- Armenian (fluent), Russian (fluent), English (fluent).

Sargis Khachatryan
Corporate Business Director
Member of Executive Management
Born on June 30, 1978 in Yerevan.
During 1995-1999 studied at the Faculty of Economics of Yerevan State University and received a Bachelor's degree.
Afterwards he continued his studies in the Master's program of the same faculty, receiving a Master's degree in International Economics.
During 2001-2004 studied at the postgraduate course of the Faculty of Economics of Yerevan State University, and in 2004 defended his dissertation thesis and was awarded the degree of Candidate of Economic Sciences. From 2004 to 2016 taught at YSU.
He started his career in Armimpexbank CJSC as a specialist in the lending department. From 2002 to 2003 worked at Armeconombank OJSC as a Chief Specialist of the Strategy and Analysis Department. From 2003 he continued his work at the Armenian Development Bank OJSC, starting as a chief specialist of the lending department, then as the deputy head of the department, after which, as the Head of the Department. From 2007 to 2016 he was the Head of Lending and Investment Department.
In 2017, he joined the team of Converse Bank CJSC as Corporate Business Deputy Director -Head of Large Enterprise Finance Division. From august 2020, he holds the position of Corporate Business Director. Member of the Executive Management since September 2020.

Internal Audit

Head and members of the Internal Audit subdivision (the Internal Audit) are appointed by the Board. The members of the managerial bodies of the Bank, other officials and employees, as well as persons, affiliated to the executive body, cannot be the internal audit members.
The head and members of the internal audit have to follow the work discipline, stipulated for the Bank employees.
According to the regulations approved by the Board of the Bank, the Internal audit:
a) controls current activity and operational risks of the Bank,
b) controls compliance with the Law, other legal acts and internal acts of the Bank by the CEO, the Executive Management, territorial and structural divisions of the Bank, assigned to the CEO and the Management Board,
c) provides conclusions and recommendations on the issues, submitted to the Board, as well as on its own initiative.

Issues under the power of the internal audit subdivision cannot be delegated to the solution of the Bank’s managerial bodies or other persons.
Head of the Internal audit shall submit to the Board, the CEO and the Executive Management the following reports:

a) regular – on the outcome of audit, conducted under the annual program,
b) extraordinary – if the Internal Audit has detected well grounded significant violations, furthermore, in case these violations are resulted by activity or inaction of the CEO, Executive Management or the Board, the reports shall directly be submitted to the Chairman of the Board.

In cases defined herein, the statements shall be submitted at most within two working days after detection of violations.

In case of detection of breaches in laws and other legal acts, the internal audit shall report about it to the Board of the Bank at the same time recommending on their remedy and prevention in the future.

3.8.2. Information on Parties Involved in Management of Issuer

Name	Position	Place of residence (address)	Specialty	Office held in recent 3 years, including combined jobs
Armen Ter-Tachatyan	Chairman of Board	120 -10 Chekhov street, Yerevan	Lawyer	TER-TACHATYAN Legal and Business Consulting CJSC, Shareholder/Director Converse Bank CJSC, Chairman of Board
Arsen Gamaghelyan (Ter Hovel Archpriest)	Board Member	28-15 Zvartnots	Clergyman	Mother See of Holy Etchmiadzin, Priest, Accountant of Financial Unit Converse Bank CJSC, Board member
Jose Luis Persico	Board Member	4b-257 Ruy Díaz de Guzmán Buenos Aires	Economist	Converse Bank CJSC, Board member Corporacion America SA as a CFO of Bodegas del Fin del Mundo SA
Daniel Guillermo Simonutti	Board Member	5663-GA1 Honduras Buenos Aires	Accountant	CFO of American International Airports (AIA), the controlling corporation of the concessionaire companies of Zvartnots International Airport, Yerevan, Republic of Armenia and Carrasco International Airport, Montevideo, Republic of Uruguay Converse Bank CJSC, Board member
Jorge Alberto Del Aguila	Board Member	Las Campanillas 602 Del Viso, Buenos Aires, Argentina	Economist / Political Scientist	In charge of the Company's finance related portfolio worldwide; Serves on the Boards of many of the group's companies internationally; Converse Bank CJSC Board member

Juan Carlos Ozcoidi	Board Member	San Carlos 1750 (B1676) – Santos Lugares, Buenos Aires, Argentina	Manager / Economist	Director of Afluenta S.A Head of Commercial and Other Policy Development and Control Committee of Converse Bank CJSC; Converse Bank CJSC Board member
Marcelo Wende	Board member	48 apt. 10 V. Sargsyan, Yerevan		Armenia International Airports CJSC, General Manager until October 2019; Armenia International Airports CJSC, Director; PROJECT I LLC director Zvartnots Handling CJSC Director until March 2018 Converse Bank CJSC Board member
Artur Hakobyan	CEO, Chairman of Executive Management	10-2 Totovents, 2nd Block Nor-Nork, Yerevan	Economist/ Mathematician	CEO/Chairman of Executive Management Converse Bank CJSC
Davit Azatyan	Head of Accounting Division/Chief Accountant, Member of Executive Management	11, 3 Ujan, Ashtarak	Engineer	Head of Accounting Department/Chief Accountant Converse Bank CJSC
Grant Akopian	Deputy CEO/Financial Director, Member of Executive Management	45-9 Aygestan, Yerevan	Economist	Financial Director; Deputy CEO/Financial Director since 01.08.2019 Converse Bank CJSC ; 2008-2019 Member of Board Haypost CJSC
Gohar Harutyunyan	Operations and Services Director Member of Executive Management	16-46 Hanrapetutyan 7-1 Pushkin	Economist	Operations and Services Director Converse Bank CJSC
Vahe Dalyan	Risk Management Director, Member of Executive Management	8/12, 2nd Lane Sose, Yerevan	Radio-engineer, Financier	Risk Management Director Converse Bank CJSC
Artur Nahapetyan	Business Development Director Member of Executive Management	31-91, 9th Block, Nor Nork, Yerevan	Economist	Business Development Director Converse Bank CJSC
Grigory Baghdasaryan	Retail Business Director Member of Executive Management	7-7 5th Microblock, Sevan, Gegharkunik marz	Engineer/ Economist	Retail Business Director Converse Bank CJSC
Aram Zakaryan	IT Director Member of Executive Management	21-20 Saryan, Yerevan	Economist	Head of IT and Automation Division; IT Director Converse Bank CJSC

Sargis Khachatryan	Corporate Business Director Member of Executive Management	69-105 Sherami, Yerevan	Economist	Deputy Corporate Business Director/Head of Large Business Finance Division Corporate Business Director Converse Bank CJSC
Karen Ghahramanyan	Head of Internal Audit	103-2 Guy, Yerevan	Economist	Internal Audit Director Armbusinessbank CJSC

3.8.3 Conflict of Interests

No conflict of interest is in place between the Bank and the persons involved in the management of the Bank.

3.9 Controlling Persons

a. The Bank does not have any individuals holding significant interest in the Bank.
b. The legal entities **holding significant interest** of the Bank are:
1. Advanced Global Investments LLC: ordinary shares 72.894% and 333 preference shares
2. Haypost Trust Management B.V. – ordinary shares 22.11%.

c. The **indirect significant participants** of Converse Bank CJSC are:
1. Advanced Global Investments LTD, since it holds 100% share in Advanced Global Investments LLC, the significant shareholder of the Bank;
2. Post Finance International B.V, since it holds 100% share in Haypost Trust Management B.V, the significant shareholder of the Bank. Advanced Global Investments LLC holds 100% share in Post Finance International B.V;
3. Eduardo Eurnekian, since he is 100% shareholder of Advanced Global Investments LTD, and the latter holds 100% share in Advanced Global Investments LLC, the significant shareholder of the Bank.

3.9.1 . Information about Securities Issued by the Bank

To date Converse Bank CJSC has issued and allocated 66,492 (sixty-six thousand four hundred and ninety-two) ordinary shares, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preference shares, each at AMD 100 (one hundred) par value, which generate the share capital of the Bank.

1) All securities issued by the Bank are dematerialized.
2) The securities issued by the Bank are not admitted to trading on the regulated market.
3) 66,492 ordinary shares and 333 preference shares issued by the Bank have been placed in full.
4) No maturity is set for issued securities.
5) The holder of the ordinary shares of the Bank is entitled to:
   a) Participate in the Meeting with a voting right on all issues reserved to the powers of the Meeting;
   b) Participate in the management of the Bank, and in cases under the RA legal acts – in the presence of a positive conclusion of the Central Bank of Armenia on the professional qualification of the participating party;
   c) Receive dividends from the profit generated from the business of the Bank;
   d) Exercise preemption right for the shares issued by the Bank, unless otherwise established under the RA laws and the Charter;
   e) Receive any information about the business of the Bank, other than the information deemed confidential: among others, in compliance with the Charter review balance

sheets, statements, financial activities of the Bank, obtain the copies of the recent annual statement of the Bank and the external audit report, and the records of the Counting Committee. The shareholders owning 2% and more allocated voting shares have the right to obtain the documents and information under the RA Law on Banks and Banking, Article 43.4;

f) Authorize third parties to represent them at the Meeting;
g) Make proposals at the Meeting;
h) Vote at the Meeting to the amount of voting shares held thereby;
i) Appeal to the court the resolutions adopted by the Meeting in contravention of the RA legal acts;
j) Acquire ordinary shares of the respective quantity at the price established by the Board but no less than the par value, upon replenishment of the share capital from the own funds of the Bank;
k) Get their share of the Bank's assets upon liquidation of the Bank;
l) When acquiring the sold shares exercise preemption right but at the selling price required by the shareholders and on equal terms, in compliance with the Charter;
m) Sell or otherwise cede their equity interest in the Bank in whole or in part to one or several shareholders of the Bank and to third parties, in compliance with the RA laws and the Charter; and
n) Exercise other rights reserved thereto under the Charter.

The shareholders of the convertible preference shares are entitled to:

a) Participate in the Meeting with a voting right on issues of reorganization or liquidation of the Bank, and such amendments to the Charter that may restrain their rights;
b) Within 1 year from acquisition of convertible preference shares demand their conversion into ordinary shares, exercise preemption right when acquiring authorized shares placed by the Bank, by converting the preference shares into ordinary shares in equal quantity and paying the difference between the market value of the additional issue and the par value of convertible preference shares and the dividends due for the latter, in the timing established under the Charter;
c) In the presence of a decision of the managerial authority to pay dividends, receive the annual fixed dividend at 20% of par value of convertible preference shares held thereby;
d) In cases established under the laws and by-laws, participate in the management of the Bank's affairs in the presence of a positive conclusion of the Central Bank of Armenia on the professional qualification of the participating party;
e) Make proposals at the Meetings;
f) In cases established under the Charter, vote at the Meeting within the limit of the voting shares held thereby;
g) Acquire ordinary shares of the respective quantity at the price established by the Board but no less than the par value, upon replenishment of the share capital from the retained earnings of the Bank.

The shareholder of the Bank has to:

a) Fully pay the value of their shares in the timing established under the Charter;
b) Refrain from disclosing information deemed bank secrecy, the list whereof is approved by the Board;
c) Provide the Board and the external auditor of the Bank with the legally defined information about their interest in the transactions of the Bank and their affiliation with parties executing transactions with the Bank; and
d) Meet other requirements of the Charter.

6) Converse Bank CJSC paid dividends of AMD 564,467 K in 2017, AMD 570,350 K in 2018, and AMD 850,381 K in 2019.
7) There is no information about the market value of the Bank shares, since they are not freely circulated in the market.
8) No case of conversion, split, consolidation or buyback of the Bank shares has occurred.

3.10 Assets and Liabilities, Financial Status, Profit and Loss of the Bank

Financial Statements of Converse Bank CJSC for all years were developed based on the International Financial Reporting Standards.
The annual financial statements verified by the Internal Audit and the external audit reports are presented in Annex 7 hereto.
The below table illustrates the financial results and the annual ROA of Converse Bank CJSC.

K AMD

NAME	31/12/20 (unaudited)	31/12/19 (audited)	31/12/18 (audited)
ASSETS	331,937,191	325,628,525	281,119,378
LIABILITIES	283,847,062	281,387,217	242,085,077
EQUITY	48,090,129	44,241,308	39,034,301
Net interest income	14,030,128	12,952,792	11,479,371
Operating income (including net commission fees)	19,064,113	18,132,836	16,152,312
Pre-tax profit/(loss)	3,031,619	6,961,172	6,205,862
After-tax profit/(loss)	2,553,286	5,452,137	4,895,271
ROA (%)	0.78%	1.84%	1.86%
ROE (%)	5.38%	13.19%	13.16%

Financial Activity of the Bank

A. Structure of liabilities (resources) of the Bank are described below.

The equity and attracted funds serve a major source of resources needed for the regular business of financial mediators, including the banks. The Bank has strengthened its resource base in recent years for the purpose of lending and other allocation of funds.

	31/12/20 (unaudited)	**Share %**	**31/12/19 (audited)**	**Share %**	**31/12/18 (audited)**	**Share %**
Resources, total Including:	331,937,191	100	325,628,525	100	281,119,378	100
Equity	48,090,129	14.49	44,241,308	13.59	39,034,301	13.89
Liabilities, of which:	283,847,062	85.51	281,387,217	86.41	242,085,077	86.11
Funds attracted from customers	227,973,075	68.68	222,172,144	78.96	187,214,116	66.60
Liabilities to banks and other financial organizations	29,960,980	9.03	28,090,880	9.98	29,647,783	10.55
Other liabilities	1,133,431	0.34	1,659,775	0.59	1,482,613	0.53

The below table illustrates the level of performance of the Bank liabilities in 2017-2020. The actual level of normative indicators set by the Central Bank of Armenia prove that the Bank's capability to perform the liabilities have remained on a high level.

Norms	Actual ratio estimated for the Bank 31/12/20	Actual ratio estimated for the Bank 31/12/19	Actual ratio estimated for the Bank 31/12/18	Actual ratio estimated for the Bank 31/12/17	Allowed ratio set by the CBA
N12 Min ratio of total capital to risk-weighted assets	14.27%	14.60%	14.34%	16.96%	12.00%
Ն11 Min ratio of Tier 1 capital to risk-weighted assets	13.07%	X	X	X	9.00%
N21 Min ratio of liquid assets in all currencies to total assets in all currencies	30.35%	26.22%	23.69%	35.26%	15.00%
N22 Min ratio of liquid assets in all currencies to total demand deposits in all currencies	94.73%	88.58%	81.83%	102.49%	60.00%

B. Structure of Bank's equity in 2017-2020

Capital	31/12/20 (unaudited)	31/12/19 (audited)	31/12/18 (audited)
Share capital	**19,947,633**	**16,416,633**	**16,416,633**
Share prmoim	**63,233**	**63,233**	**63,233**
Reserves:	**6,660,112**	**7,076,109**	**6,607,610**
Main reserve	**3,627,805**	**2,798,799**	**1,898,319**
Revaluation reserve	**3,032,307**	**4,277,310**	**4,709,291**
Accumulated profit/loss	**21,419,151**	**20,685,333**	**15,946,825**
Total capital	**48,090,129**	**44,241,308**	**39,034,301**

The Bank's equity had generally a growing tendency over the years, which was mainly due to the growth in accumulated (retained) earnings and as well due to replenishment of share capital by shareholders. Those tendencies will continue.

C. Tax privileges

The Bank enjoys no tax privileges.

D. Judicial and legal procedures

No decision/judicial act has been adopted and enforced against the Bank by the court and government authorities for the recent 12 months.

Bankruptcy or liquidation proceeding has not been initiated against the Bank for the recent 12 month.

3.11 Significant Agreements

No significant agreements concluded beyond the regular business scopes of the Bank and valid, the price whereof surpasses 5% of the equity stated in the Bank's financial statements for the recent reporting period have been effected in 2019.

3.12 Expert's, Evaluator's, Adviser's or Accountant's Professional Opinion and Information Obtained from Third Parties

1. The Issuer has not used any third-party consulting services when developing this Prospectus.
2. The Issuer has not applied any third-party expertise or consulting services, nor has used the latter's expert opinion in this Prospectus.

3. Apart from the Issuer's historical financial statements verified by independent auditors and presented herein, no data presented in this Program Prospectus has been verified by an independent auditor. The statements and the supporting auditor's opinions are presented in Annex 7 hereto.

3.13 Other Information

The Charter, interim and annual financial statements of the Bank and the audit reports are made accessible electronically on the Bank's website www.conversebank.am.
This Program Prospectus will be posted on the Bank's website throughout its period of use: www.conversebank.am.
The investors can obtain the hard copies of the Program Prospectus and the supporting documents free of charge at the Head Office of the Bank: 26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan.

THE INVESTOR, BY REVIEWING THIS PROGRAM PROSPECTUS, HAS TO INDEPENDENTLY ASSESS THE RISK OF THEIR INVESTMENT IN PARTICULAR SECURITIES, PRIOR TO DECISION ON ACQUISITION.

ANNEX 1 Sample Buy Order for Coupon Bonds Issued by CONVERSE BANK CJSC (legal entity)

Buy Order for Acquisition of Coupon Bonds
Issued by CONVERSE BANK CJSC
(Legal Entity)

To be filled in by Investor

Date and hour of filing Order with the Bank (day, month, year, hour)	
Name of legal entity (firm name, legal form)	
State registration details (registration certificate number, date)	
Place of registration and location (registered and business addresses)	
TIN	
Residency (resident/nonresident)	

By virtue of filing this buy order, we accept the offer of CONVERSE BANK CJSC (the Bank), whereby we express willingness to acquire the issued coupon bonds on below terms.

Number of acquired bonds (in figures/letters)	
Currency of issuance of acquired bonds	
Acquisition price per bond (in figures/letters)	
Total sum payable for acquisition of bonds (in figures/letters)	
USD bank account # Name of bank	
AMD bank account # Name of bank	
Name of person recording securities account	
Securities account #	

Herewith we confirm that prior to filing of the buy order we have reviewed the Program Prospectus for the initial public offering of the Bank's bonds, constituting the integral part hereof, and we accept and agree with the terms stated herein, and we assume the obligations and potential risks relating to investments in the particular bonds.
We assure that the funds transferred to the Bank have been obtained legally and by no means relate to financing of terrorism, sale of drugs, human trafficking, tax evasion or other criminal actions.
We ascertain that this buy order shall constitute an agreement concluded and effected between Parties from the date of acceptance thereof by the Bank.

Investor's signature ________________________________ Seal

To be filled in by the Bank

Date and hour of acceptance of buy order (day, month, year, hour)	
Signature and stamp of employee accepting buy order	

Total number of sold bonds (in figures/letters)	
Total sum charged against sold bonds (in figures/letters)	
Date of transfer/entry of cash* (day, month, year)	
Signature (Position and name of authorized representative of the Bank) Seal	

* **Note:** Where the investor transfers to the special transit account opened with the Bank #1930043129906501 (for USD bonds) and #1930043123398600 (for AMD bonds) the cash for acquisition of bonds before 16:30 of the particular business day, the funds will be deemed received on that day; and where the respective funds are paid after 16:30 of the particular business day, they will be deemed received on the business day following the payment day.

Annex 2 Sample Buy Order for Coupon Bonds Issued by CONVERSE BANK CJSC (individual or sole proprietor)

Buy Order for Acquisition of Coupon Bonds
Issued by CONVERSE BANK CJSC
(Individuals or Sole Proprietors)

To be filled in by Investor

Date and hour of filing Order with the Bank (day, month, year, hour)	
Name of individual filing buy order (full name)	
ID details (passport number)	
Date of issue of ID (passport issue date)	
Place of registration (registered address)	
Residency (resident/nonresident)	

By virtue of filing this buy order, I accept the offer of CONVERSE BANK CJSC (the Bank), whereby I express willingness to acquire the issued coupon bonds on below terms.

Number of acquired bonds (in figures/letters)	
Currency of issuance of acquired bonds	
Acquisition price per bond (in figures/letters)	
Total sum payable for acquisition of bonds (in figures/letters)	
FX bank account # Name of bank	
AMD bank account # Name of bank	
Name of person recording securities account	
Securities account #	

Herewith I confirm that prior to filing of the buy order I have reviewed in essence the Program Prospectus for the initial public offering of the Bank's bonds, constituting the integral part hereof, and I accept and agree with the terms stated herein, and I assume the obligations and potential risks relating to investments in the particular bonds.
I am aware that the investments in securities are guaranteed by the Deposit Guarantee Fund in compliance with the RA laws, I have been duly notified and I have received and I agree with the Deposit Guarantee Terms and Conditions.
I assure that the funds transferred to the Bank have been obtained legally and by no means relate to financing of terrorism, sale of drugs, human trafficking, tax evasion or other criminal actions.

I agree that any dispute and discrepancy between the Parties shall be settled through negotiations as a matter of priority, and unless accommodated, shall be regulated in compliance with the RA laws.
I am aware that the disputes and discrepancies arising from the property claim of up to AMD 10 M or equivalent FX amount can be settled by the Financial System Mediator*.
Under the agreement effected between the Bank and the Financial System Mediator, the Bank waives its right of appeal against the resolutions of the Financial System Mediator only referring to the property claims of up to AMD 250,000 (two hundred and fifty thousand) or equivalent FX amount, and where the value of transaction is up to AMD 500,000 (five hundred thousand) or equivalent FX amount.
This buy order shall constitute an agreement concluded and effected between Parties from the date of acceptance thereof by the Bank.

Investor's signature ________________________________

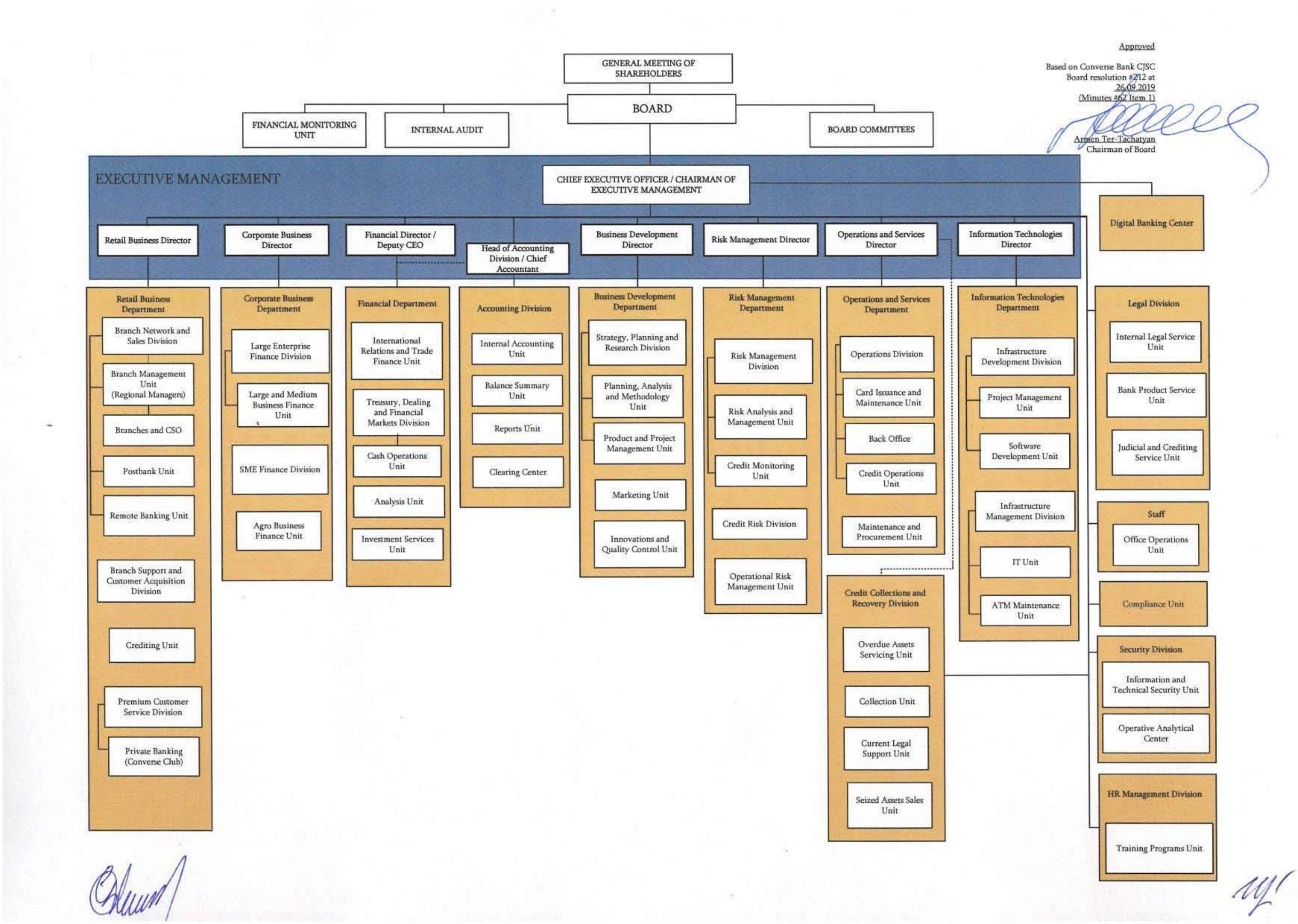
To be filled in by the Bank

Date and hour of acceptance of buy order (day, month, year, hour)	
Signature and stamp of employee accepting buy order	
Total number of sold bonds (in figures/letters)	
Total sum charged against sold bonds (in figures/letters)	
Date of transfer/entry of cash (day, month, year)	
Signature (Position and name of authorized representative of the Bank) **Seal**	

Note: Where the investor transfers to the special transit account opened with the Bank #1930043129906501 (for USD bonds) and #1930043123398600 (for AMD bonds) the cash for acquisition of bonds before 16:30 of the particular business day, the funds will be deemed received on that day; and where the respective funds are paid after 16:30 of the particular business day, they will be deemed received on the business day following the payment day.

* Under the RA laws, the sole proprietor cannot exercise the right to file their claims with the Financial System Mediator.

ANNEX 3 Organizational Chart of the Bank



Converse Bank CJSC
(Issuer's name)

Registered, coupon, dematerialized, non-convertible bond
(type of security)

The full information about the Issuer and the issued securities can be obtained by reviewing the Program Prospectus (registered on ------------------- 2018), amendments thereto and the Final Issuance Terms. The Program Prospectus and the amendments thereto are available at Converse Bank CJSC: 26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Armenia.

General Information (The data not applicable are marked "Inapplicable"). Where securities with different basic terms (currency of issue, price of offer, par value, etc.) are issued under the same series, the different terms are stated separately for each group of securities meeting a specific term)		
1.	Issuer (Issuer's name)	Converse Bank CJSC
2.	Underwriter	Not planned
3.	Series (number and date of consequential issue based on the program prospectus; e.g. 2016-1 for the 1st issue in 2016)	2021-1
4.	Total value of particular series of issue	
5.	Details of securities classification from the perspective of sequence of redemption (subordination), including total value per issue of particular series by subordination	Claims of same priority creditors/holders of bonds offered by the Issuer are settled after full satisfaction of claims of senior priority. Under Article 31.2 (c) of the RA Law on Insolvency of Banks, Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies, the claims of the Bank's bondholder shall be satisfied in the third place. For more details, see paragraph 2.3 (f) in Program Prospectus (page 29).
6.	Currency of issue	USD, EUR, AMD
7.	Price of offer	The placement price per bond is determined by the below formula from the first date of placement. $DP = \frac{C}{f}\sum_{t=1}^{N}\frac{1}{\left(1+\frac{y}{100*f}\right)^{t-1+\tau}} + \frac{100}{\left(1+\frac{y}{100*f}\right)^{N-1+\tau}}$ where $\tau = \frac{DSN}{DCC}$ **DP** is the price of bond (is rounded after the decimal point by 4 digit accuracy, based on the arithmetical rounding rules),

		DSN is the number of days left from the day of deal through the payment of the particular coupon, **DCC** is the number of days from the coupon payment day preceding the deal through the coupon payment succeeding the deal, **f** is the coupon payment frequency (2 for semiannual payments), **N** is the number of coupon payments left at the date of calculation, **C** is the annual coupon against 100 unit par value, **y** is the yield to maturity.: The Bank shall publish the bond price of each issue throughout the placement on its website: www.conversebank.am.
8.	Par value	USD 100 (one hundred) AMD 100,000 (one hundred thousand)
9.	Quantity	200,000 (two hundred) with USD 100,000 (one hundred thousand) with AMD
10.	Starting date of offer (including any potential change)	To be determined by the Board
11.	End date of offer (including any potential change)	To be determined by the Board
12.	International Securities Identification Number (ISIN) or other identification code	
13.	Bond issuance and placement decision-making authority and date of decision (to be stated only if a separate decision is made for the particular IPO, otherwise is marked “Inapplicable”)	Converse Bank CJSC Board Resolution #51 at 11.03.2020
Coupon details		
14.	First day of coupon calculation	To be determined by the Board and coincides with starting day of placement
15.	Coupon interest rate and payment frequency; upon floating interest rate, state on what indicator (change of indicator) the interest rate depends on, and where the information about the	Coupon interest rate is to be determined by the Board; frequency of coupon payments is to be determined by the Board

	indictor/change can be obtained	
16.	Dates of coupon payment (day, month, year)	To be determined by the Board
17.	Calculation of coupon days (e.g. 30/360, Act/Act, Act/360, etc.)	Actual days in coupon phase / Actual days in year (Actual/Actual)
18.	Calculator of floating coupon	Inapplicable
19.	Other essential terms for coupon calculation	
20.	Provision on securities with 0% coupon (discount coupon) ("Applicable" or "Inapplicable")	Inapplicable
Details of principal		
21.	Redemption (partial redemption) date	To be determined by the Board
22.	Redemption (partial redemption) value; unless possible, calculation method is stated	USD 100 (one hundred) per bond; AMD 50,000 (fifty thousand) per bond
23.	Change in redemption value (cases when redemption value can be changed)	Not planned
24.	Early redemption on Issuer's initiative / Call Option ("Applicable" or "Inapplicable")	Inapplicable
	1) Date(s)	
	2) Option price, method of calculation (if any)	
	3) Upon partial redemption, min and max redemption values	
	4) Other details	
25.	Early redemption on investor's initiative / Put Option ("Applicable" or "Inapplicable")	Inapplicable
	1) Date(s)	
	2) Option price, method of calculation (if any)	
	3) Other information (notification period)	
Placement details		
26.	Issuer's name, location	Converse Bank CJSC: 26/1 Vazgen Sargsyan, Republic

		Square, 0010 Yerevan, Armenia
27.	Other terms of placement (not included in the prospectus)	
Other information		
28.	Admission to trading on regulated market for particular class of securities (respective regulated markets, date of admission)	So far the securities have not been admitted to trading on regulated market
29.	If admission to trading of offered securities on regulated market is to be requested in future, information about the market (name, also a provision that the admission to trading may be declined, expected date of admission (if possible))	The Issuer has to request admission of bonds to trading on regulated market, and upon getting admission under the RA laws, bonds can be circulated only on regulated market. Under regulated market, the Issuer implies Armenia Securities Exchange OJSC. Admission to trading may be declined
30.	Securities rating	The bonds have no rating
31.	Methods (frequency, bank accounts, etc.) and dates of payment against securities, and methods and dates of receiving securities, method of receiving excerpt of securities ownership	The payment is made on the day of submission to the Bank of the buy order in due form no later than by 16:30, through cash payment or transfer onto the special transit account opened with the Bank #1930043129906501 (for USD bonds) and #1930043123398600 (for AMD bonds). Where the buy order was placed and the respective amount was paid by 16:30 of the particular day, the price of the bond is determined at the particular date. The amount of payment for the buy order placed and/or effected after 16:30 is determined at the price of the bond at the following business day. The bondholders can register their bond rights and responsibilities with a duly licensed Account Operators through opening of the respective securities account. The ownership of bonds can be transferred in compliance with the RA laws and the internal rules of the custodian. The bondholders can obtain the excerpt on the securities ownership from their Account Operator.

The Issuer is responsible for the information included in the Final Issuance Terms. The Issuer (the Underwriter) assures that the information included herein corresponds to the information (general methodology) included in the Program Prospectus and amendments thereto, and the information is accurate (to the best of their knowledge), and no fact has been omitted or misrepresented.

Signatories

__________________________ __________________________

Armen Ter-Tachatyan (date)

Chairman of Board, Converse Bank CJSC

__________________________ __________________________

Arsen Gamaghelyan (Ter Hovel Archpriest) (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Jose Luis Persico (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Juan Carlos Ozcoidi (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Jorge Alberto Del Aguila (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Daniel Guillermo Simonutti (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Marcelo Wende (date)

Converse Bank CJSC Board Member

__________________________ __________________________

Artur Hakobyan (date)

Converse Bank CJSC, CEO

Chairman of Executive Management

__________________________ __________________________

Grant Akopian (date)

Converse Bank CJSC Deputy CEO,

Financial Director

Member of Executive Management

______________________________ ______________________________
Davit Azatyan (date)
Converse Bank CJSC
Head of Accounting Division/Chief Accountant
Member of Executive Management

______________________________ ______________________________
Gohar Harutyunyan (date)
Converse Bank CJSC
Operations and Services IT Director
Member of Executive Management

______________________________ ______________________________
Vahe Dalyan (date)
Converse Bank CJSC Risk Management Director
Member of Executive Management

______________________________ ______________________________
Artur Nahapetyan (date)
Converse Bank CJSC
Business Development Director
Member of Executive Management

______________________________ ______________________________
Grigory Baghdasaryan (date)
Converse Bank CJSC
Retail Business Director
Member of Executive Management

______________________________ ______________________________
Aram Zakaryan (date)
Converse Bank CJSC
IT Director
Member of Executive Management

______________________________ ______________________________
Sargis Khachatryan (date)
Converse Bank CJSC
Corporate Business Director
Member of Executive Management

ANNEX 5 List of Branches

Head Office 26/1 Vazgen Sargsyan, Kentron community, 0010 Yerevan, Armenia Tel. (374 10) 51-12-00	
Avan Branch 161/2 Khudyakov, Avan community, 0060 Yerevan Tel. (374 10) 51-12-77, 61-44-72	Metsamor Branch 1st floor, City Hall, 0910 Metsamor Tel. (374 237) 32-070, (374 10) 28-18-33
Central Branch 1/3 49 Komitas, Arabkir community, 0051 Yerevan Tel. (374 10) 51-12-11	Etchmiadzin Branch 69/90 Mashtost, 1101 Etchmiadzin Tel. (374 231) 52-093, 52-088
Davtashen Branch 18/6, 3rd Block, Davtashen community, 0054 Yerevan Tel (374 10) 51-12-11	Sevan Branch 155, 2 Nairyan, 1501 Sevan Tel. (374 261) 20-162, 20-165
Erebuni Branch 11 Erebuni, Erebuni community, 0041 Yerevan Tel. (374 10) 43-04-57, 43-04-58	Stepanakert Branch 25/2 V. Sargsyan, Stepanakert, Republic of Artsakh Tel. (374 47) 97-52-77
Moskovyan Branch 39/12 Mashtots, Kentron community, 0009 Yerevan Tel. (374 10) 52-15-28	Vanadzor Branch 40 G. Lusavorich, 2021 Vanadzor Tel. (374 322) 42-910, 41-258
Kilikia Branch 4/1 Kajaznuni, Kentron community, 0070 Yerevan Tel. (374 10) 55-13-59	Abovyan Branch 8 Constitution Square, 2202 Abovyan Tel. (374 222) 33-080, 22-025
Yeritasardakan Branch 105/1 Teryan, 0070 Yerevan Tel. (374 10) 51-12-11	Avan-1 Branch Global Motors Car Salon, Yerevan-Sevan Highway Tel. (374 10) 51-1 2-11 (1477)
Sayat-Nova Branch 19 Sayat-Nova, Kentron community, 0001 Yerevan Tel. (374 10) 51-12-11	Hrazdan Branch 1st floor, 104 Microdistrict, 2302 Hrazdan Tel. (374 223) 34-709, 24-707
Zvartnots Airport Branch 42 Zvartnots i/a, Departures, Malatya community Tel. (374 10) 49-31-97, 49-31-98	Nor-Hachn Branch 8 Charents, 2412 Not Hachn Tel. (374 224) 43-810, 43-840
Aviatia Branch 42 Zvartnots i/a, Arrivals, Malatya community Tel. (374 10) 49-31-97	Charentsavan Branch 21 Khanjyan, 2501 Charentsavan Tel. (374 226) 41-597
Malatia Branch 50-82 Sebastia, Yerevan Tel. (37410) 51-12-11	Kotayk Branch Trade Center at 17-1 B District, Arinj Tel. (374 10) 51-12-11
Nor-Nork Branch 10/6 Guy, Nor-Nork community, 0056 Yerevan Tel. (374 10) 51-12-11	Kumayri Branch 46a Khrimyan Hayrik, 3106 Gyumri Tel. (374 312) 49-606, 49-605

Araratyan Branch 13, 111 Bagratunyats, Shengavit community, 0039 Tel. (374 10) 46-50-07, 42-44-95	Shirak Branch Kiosk at Gyumri Airport, Gyumri Tel. (374 312) 35-605
Arshakunyats Branch 1-17 Arshakunyats, 0039, Yerevan Tel. (374 10) 51-12-11	Gyumri Branch 7/7 Yerevan highway, Gyumri Tel. (374 312) 40-629
Zeytun Branch 14/7 Rubinyants, Kanaker-Zeytun, 0069 Yerevan Tel. (374 10) 51-12-11	Kapan Branch 1/2 Tumanyan, 3301 Kapan Tel. (374 285) 20-058, 20-068
Ashtarak Branch 1 Sisakyan, 0201 Ashtarak Tel. (374 232) 36-911, 36-922	Dilijan Branch Miasnikyan street, 3901 Dilijan Tel. (374 268) 22-386
Artashat Branch 43-23 Ogostos, 0701 Artashat Tel. (374 235) 22-499, 22-478	Ijevan Branch 6/1 Valans, 4001 Ijevan Tel. (374 263) 40-844, 40-899
Armavir Branch 46 Shahumyan, 0902 Armavir Tel. (374 237) 22-273	

ANNEX 6 Financial Ratios Calculation Formulae

ROE = (Net profit after profit tax deduction / Average equity) x 100

ROA = (Net profit after profit tax deduction / Average total assets) x 100

NPM = Net profit after profit tax deduction / Operating profit

AU = Operating profit / Average total assets

EM = Average total assets / Average equity

NIM = Net interest income / Average earning assets

Yield on earning assets = Interest income / Average earning assets

Cost of liabilities involving interest expense = Interest expense / Liabilities involving interest expense

EPS = Net profit after profit tax deduction / Average weighted number of shares

Spread = (Interest income / Average earning assets) - (Interest expense / Liabilities involving interest expense)

ANNEX 7 Financial Statements

Converse Bank CJSC

Consolidated financial statements

Year ended 31 December 2018
together with independent auditor's report

Contents

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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 of 31 December 2018, 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 of 31 December 2018 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' Code of Ethics for Professional Accountants ("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
Allowance for impairment of loans and advances to customers	
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 newly adopted IFRS 9 *Financial Instruments* ("IFRS 9"). 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. 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. The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have material effect on the financial results of the Group. 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*.	We focused our audit on the following: ▸ Evaluation of credit risk models and assumptions used to determine ECL on portfolio basis; ▸ Testing the ECL for significant credit-impaired loans and advances to customers on individual basis. To test allowance calculated on a portfolio basis, we evaluated underlying statistical models, key inputs and assumptions used and forward looking information incorporated in the calculation of ECL, including 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 default date and behavior of defaulted exposures from initial recognition date to default date. For significant credit-impaired exposures, we tested calculation of estimated future cash flows from realization of collateral and other sources. We also performed procedures regarding the consolidated financial statements disclosures of the Group's exposure to credit risk.

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 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, related safeguards.

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 Sergei Taskaev.

CJSC Ernst & Young
Yerevan, Armenia

Partner (Assurance) Sergei Taskaev

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance) Eric Hayrapetyan

30 April 2019

«ERNST & YOUNG»
00057741

Consolidated statement of financial position
as of 31 December 2018
(thousands of Armenian drams)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	6	40,470,858	39,842,049
Trading securities	7	1,160,345	787,330
Amounts due from banks	8	5,212,487	10,546,355
Loans and advances to customers	9	196,282,332	165,167,500
Investment securities	10	18,356,454	23,158,358
Investment securities pledged under repurchase agreements	10	8,092,013	3,056,113
Property, plant and equipment	11	6,739,038	6,115,287
Intangible assets	12	296,331	226,538
Repossessed assets	13	1,977,614	1,832,119
Other assets	14	2,531,906	2,004,204
Total assets		**281,119,378**	**252,735,853**
Liabilities			
Amounts due to banks	15	13,963,370	15,173,467
Derivative financial liabilities	16	26,583	68,857
Amounts due to customers	17	187,214,116	173,914,157
Debt securities issued	18	16,653,444	5,931,969
Current income tax liabilities		199,430	609,855
Deferred income tax liabilities	19	938,233	1,210,763
Other borrowed funds	20	15,684,413	12,659,350
Subordinated debt	21	5,852,819	5,854,396
Provisions on commitments and contingencies	22	70,056	-
Other liabilities	14	1,482,613	1,336,873
Total liabilities		**242,085,077**	**216,759,687**
Equity	23		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,898,319	1,243,064
Revaluation surplus for land and buildings		3,057,881	3,181,072
Revaluation reserve for financial assets at FVOCI / available-for-sale financial assets		1,651,410	2,171,785
Retained earnings		15,946,825	12,900,379
Total equity		**39,034,301**	**35,976,166**
Total equity and liabilities		**281,119,378**	**252,735,853**

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

Arthur Hakobyan Chief Executive Officer – Chairman of Executive Management

Davit Azatyan Chief Accountant

30 April 2019

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	2018	2017
Interest revenue calculated using effective interest rate	24	21,013,954	17,560,946
Other interest revenue	24	100,724	63,307
Interest expense	24	(9,635,307)	(8,284,069)
Net interest income	24	**11,479,371**	**9,340,184**
Credit loss expense	25	(948,002)	(1,212,874)
Net interest income after credit loss expense		**10,531,369**	**8,127,310**
Fee and commission income	26	2,713,169	2,433,145
Fee and commission expense	26	(871,738)	(752,304)
Net trading income	27	1,539,144	1,279,654
Net loss from foreign currency translation		(313,262)	(1,128)
Gains less losses from investment securities available for sale		–	304,220
Gains less losses from investment securities measured at fair value through other comprehensive income		884,812	–
Other income	28	720,816	910,112
Non-interest income		**4,672,941**	**4,173,699**
Personnel expenses	29	(4,906,867)	(4,298,789)
Depreciation of property and equipment	11	(601,397)	(731,100)
Amortization of intangible assets	12	(61,780)	(41,719)
Administrative and other operating expenses	29	(3,392,533)	(2,815,439)
Other impairment and provisions	13, 25	(35,871)	(58,078)
Non-interest expense		**(8,998,448)**	**(7,945,125)**
Profit before income tax expense		**6,205,862**	**4,355,884**
Income tax expense	19	(1,310,591)	(799,838)
Profit for the year		**4,895,271**	**3,556,046**

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	*2018*	*2017*
Profit for the year		**4,895,271**	**3,556,046**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Gains on equity instruments at fair value through other comprehensive income		138,140	–
Income tax effect		(27,628)	–
Net other comprehensive income not to be reclassified subsequently to profit or loss		**110,512**	**–**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised losses on investment securities at FVOCI		(6,368)	–
Realised gains on investment securities at FVOCI transferred to profit or loss		(884,812)	–
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(9,375)	
Income tax effect		180,111	–
Unrealised gains on investment securities available-for-sale		–	1,312,450
Realised gains on investment securities available-for-sale transferred to profit or loss		–	(304,220)
Income tax effect	19	–	(201,646)
Net other comprehensive (loss)/income to be reclassified subsequently to profit or loss		**(720,444)**	**806,584**
Other comprehensive (loss)/income for the year, net of tax		**(609,932)**	**806,584**
Total comprehensive income for the year		**4,285,339**	**4,362,630**

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2018

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI/ available-for-sale financial assets*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2017	**16,416,633**	**63,233**	**1,005,996**	**1,365,201**	**3,353,126**	**9,973,814**	**32,178,003**
Issue of share capital	–	–	237,068	–	–	(237,068)	**–**
Dividends to shareholders	–	–	–	–	–	(564,467)	**(564,467)**
Transactions with owners	**–**	**–**	**237,068**	**–**	**–**	**(801,535)**	**(564,467)**
Profit for the year	–	–	–	–	–	3,556,046	**3,556,046**
Other comprehensive income for the year	–	–	–	806,584	–	–	**806,584**
Total comprehensive income for the year	**–**	**–**	**–**	**806,584**	**–**	**3,556,046**	**4,362,630**
Depreciation of revaluation reserve	–	–	–	–	(172,054)	172,054	**–**
Balance as at 31 December 2017	**16,416,633**	**63,233**	**1,243,064**	**2,171,785**	**3,181,072**	**12,900,379**	**35,976,166**
Impact of adopting IFRS 9	–	–	–	89,557	–	(746,411)	**(656,854)**
Restated opening balance under IFRS 9	**16,416,633**	**63,233**	**1,243,064**	**2,261,342**	**3,181,072**	**12,153,968**	**35,319,312**
Distribution to general reserve	–	–	655,255	–	–	(655,255)	**–**
Dividends to shareholders	–	–	–	–	–	(570,350)	**(570,350)**
Transactions with owners	**–**	**–**	**655,255**	**–**	**–**	**(1,225,605)**	**(570,350)**
Profit for the year	–	–	–	–	–	4,895,271	**4,895,271**
Other comprehensive income for the year	–	–	–	(609,932)	–	–	**(609,932)**
Total comprehensive income for the year	**–**	**–**	**–**	**(609,932)**	**–**	**4,895,271**	**4,285,339**
Depreciation of revaluation reserve	–	–	–	–	(123,191)	123,191	**–**
Balance as at 31 December 2018	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	2018	2017
Cash flows from operating activities			
Interest received		21,169,444	16,627,930
Interest paid		(8,547,527)	(7,984,091)
Fees and commissions received		2,713,169	2,433,145
Fees and commissions paid		(871,738)	(752,304)
Net trading income received		1,519,121	1,233,793
Other income received		720,766	910,112
Personnel expenses paid		(4,779,790)	(3,892,063)
Administrative and other operating expenses paid		(3,464,277)	(2,813,989)
Cash flows from operating activities before changes in operating assets and liabilities		**8,459,168**	**5,762,533**
Net (increase)/decrease in operating assets			
Trading securities		(279,974)	(556,636)
Amounts due from banks		5,317,501	(8,296,629)
Loans and advances to customers		(30,751,558)	(48,262,440)
Repossessed assets		475,452	584,633
Other assets		(483,322)	(1,182,528)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		545,372	15,513,185
Amounts due to customers		9,515,901	35,343,011
Derivative financial liabilities		(43,252)	37,678
Other liabilities		18,713	89,140
Net cash used in operating activities before income tax		**(7,225,999)**	**(968,053)**
Income tax paid		(1,676,849)	(469,751)
Net cash used in operating activities		**(8,902,848)**	**(1,437,804)**
Cash flows from investing activities			
Purchase of investment securities at FVOCI / available for sale		(10,082,445)	(10,955,217)
Proceeds from sale and redemption of investment securities at FVOCI / available for sale		10,774,528	1,633,685
Purchase of securities at amortised cost / held-to-maturity investments		(2,671,163)	(346,349)
Proceeds from repayment of securities at amortised cost / held-to-maturity investments		345,964	–
Purchase of property and equipment		(1,225,342)	(738,006)
Proceeds from sale of property and equipment		6,380	274,936
Purchase of intangible assets		(131,572)	(128,455)
Net cash used in investing activities		**(2,983,650)**	**(10,259,406)**
Cash flows from financing activities			
Proceeds from bonds issued	37	19,904,690	5,848,861
Redemption of bonds issued	37	(9,215,087)	–
Proceeds from other borrowed funds	37	6,520,883	6,240,921
Repayment of other borrowed funds	37	(3,460,357)	(2,703,308)
Repayment of subordinated debt	37	–	(1,453,077)
Dividends paid to shareholders		(570,350)	(564,467)
Net cash from financing activities		**13,179,779**	**7,368,930**
Net increase/(decrease) in cash and cash equivalents		**1,293,281**	**(4,328,280)**
Cash and cash equivalents at the beginning of the year		39,842,049	44,751,939
Effect of exchange rates changes on cash and cash equivalents		(658,628)	(581,610)
Effect of expected credit losses on cash and cash equivalents		(5,844)	–
Cash and cash equivalents at the end of the year	6	**40,470,858**	**39,842,049**

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

(thousands of Armenian drams)

1. Principal activities

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

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

The Bank’s main office is in Yerevan and its 34 branches are located in Yerevan and in different regions, and 1 branch is located in NKR.

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 following shareholders of the Bank are:

Shareholder	*2018, %*	*2017, %*
Advanced Global Investments LLC	80.94	80.94
Haypost Trust Management BV	14.06	14.06
Mother See of Holy Etchmiadzin	5.00	5.00
Total	**100.0**	**100.0**

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

Armenian business environment

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

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

(thousands of Armenian drams)

2. Basis of preparation (continued)

Reclassifications

Following adoption of IFRS 9 (Note 3), the Group updated presentation of consolidated statement of profit or loss to present impairment losses determined in accordance with IFRS 9 as a single line item. Accordingly, the following reclassifications of impairment losses and interest income have been made to 2017 statement of comprehensive income to conform to the 2018 presentation.

	As previously reported	*Reclassification*	*As adjusted*
Allowance for loan impairment	(1,146,313)	1,146,313	−
Other impairment and provisions	(124,639)	66,561	(58,078)
Credit loss expense	−	(1,212,874)	(1,212,874)
Interest income	17,624,253	(17,624,253)	−
Interest revenue calculated using effective interest rate	−	17,560,946	17,560,946
Other interest revenue	−	63,307	63,307

3. Summary of accounting policies

Changes in accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortised cost;
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group’s accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Group's impairment method are disclosed in Note 30. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement			*IFRS 9*		
Financial assets	***Category***	***Amount***	***Reclassification***	***ECL***	***Amount***	***Category***
Cash and cash equivalents	L&R[1]	39,842,049	–	(6,004)	39,836,045	Amortised cost
Amounts due from banks	L&R[1]	10,546,355	–	(5,979)	10,540,376	Amortised cost
Loans and advances to customers	L&R[1]	165,167,500	–	(739,288)	164,428,212	Amortised cost
From: Investment securities available for sale, including pledged under repo agreements	AFS[3]	25,868,331	(25,868,331)	–	–	N/A
To: Trading securities		787,330	579,582	–	1,366,912	FVPL
To: Investment securities, including pledged under repurchase agreements – debt securities at FVOCI		–	25,288,749	–	25,288,749	FVOCI
From: Held-to-maturity investments	HTM[2]	346,140	(346,140)	–	–	N/A
To: Investment securities – debt securities at amortised cost		–	346,140	(2,064)	344,076	Amortised cost
Other financial assets		778,482	–	–	778,482	Amortised cost
Total assets		**243,336,187**	**–**	**(753,335)**	**242,582,852**	
Non-financial liabilities		–	–	–	–	
Deferred tax liabilities		1,210,763	–	(164,214)	1,046,549	
Provisions		–	–	67,733	67,733	
Total liabilities		**1,210,763**	**–**	**(96,481)**	**1,114,282**	

1 L&R: Loans and receivables.

2 HTM: Held-to-maturity.

3 AFS: Available-for-sale.

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**2,171,785**
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	284,213
Recognition of revaluation of AFS securities reclassed to trading securities	(172,267)
Deferred tax in relation to the above	(22,389)
Restated opening balance under IFRS 9 (1 January 2018)	**2,261,342**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**12,900,379**
Recognition of IFRS 9 ECLs including those measured at FVOCI	(1,105,281)
Recognition of revaluation of AFS securities reclassed to trading securities	172,267
Deferred tax in relation to the above	186,603
Restated opening balance under IFRS 9 (1 January 2018)	**12,153,968**
Total change in equity due to adopting IFRS 9	**(656,854)**

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Loan loss allowance/ provision under IAS 39 at 31 December 2017	***Remeasurement***	***ECL under IFRS 9 at 1 January 2018***
Impairment allowance for			
Loans and receivables at amortised cost	4,906,772	751,271	5,658,043
Held to maturity securities per IAS 39 / investment securities at amortised cost under IFRS 9	−	2,064	2,064
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	−	284,213	284,213
Financial guarantees	−	38,450	38,450
Letters of credit	−	680	680
Undrawn loan commitments	−	28,603	28,603
	4,906,772	**1,105,281**	**6,012,053**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Group's income are not impacted by the adoption of this standard.

The Group adopted the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Basis of consolidation

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

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

Before 1 January 2018, amounts due from banks and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term;
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, 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

From 1 January 2018, 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

From 1 January 2018, 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 IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – 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, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

Performance guarantees

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

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

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derivative financial instruments

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

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

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

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

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

Leases

Finance – Group as lessee

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

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

Finance – Group as lessor

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating – Group as lessor

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

Offsetting of financial instruments

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

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

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

Impairment of financial assets under IAS 39

Before 1 January 2018, the Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Group assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in consolidated statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Group’s internal credit grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in Note 30.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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

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

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

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

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

Property and equipment

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

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

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

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

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Intangible assets

Intangible assets include computer software, licenses and other.

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

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

Repossessed assets

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

Grants

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

Financial guarantees

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

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

Provisions

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

Equity

Share capital

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Share capital (continued)

Share premium

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

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for investment securities

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

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

From 1 January 2018, 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 (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

Fee and commission income

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

Dividend income

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

Foreign currency translation

The consolidated financial statements are presented in Armenian drams, which is the Group’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of comprehensive income 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 2018 and 31 December 2017 were AMD 483.75 and AMD 484.1 to 1 USD, respectively.

Standards issued but not yet effective

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Group plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value. The Group is in the process of quantifying the effect of adoption of IFRS 16.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

4. Significant accounting judgments and estimates

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

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

Revaluation of land and buildings

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

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

Measurement of fair values

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

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

5. Segment information

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 or 2017.

(thousands of Armenian drams)

5. Segment information (continued)

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

2018	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	10,116,816	8,062,940	2,834,198	**21,013,954**
Other interest revenue	101	7,022	93,601	**100,724**
Interest expense	(3,206,393)	(4,827,378)	(1,601,536)	**(9,635,307)**
Net interest income	**6,910,524**	**3,242,584**	**1,326,263**	**11,479,371**
Credit loss expense	(310,714)	(637,288)	–	**(948,002)**
Fee and commission income	1,985,758	662,060	65,351	**2,713,169**
Fee and commission expense	(617,524)	(254,214)	–	**(871,738)**
Other non-interest income	1,011,010	808,159	1,012,341	**2,831,510**
Non-interest expense	(3,920,905)	(3,723,592)	(1,353,951)	**(8,998,448)**
Segment profit	**5,058,149**	**97,709**	**1,050,004**	**6,205,862**
Income tax expense	(1,068,211)	(20,635)	(221,746)	**(1,310,591)**
Profit for the period	**3,989,938**	**77,074**	**828,258**	**4,895,271**

2017	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	8,480,783	6,854,415	2,225,748	**17,560,946**
Other interest revenue	407	8,908	53,992	**63,307**
Interest expense	(3,424,273)	(4,201,232)	(658,564)	**(8,284,069)**
Net interest income	**5,056,917**	**2,662,091**	**1,621,176**	**9,340,184**
Credit loss expense	(415,187)	(797,687)	–	**(1,212,874)**
Fee and commission income	1,871,092	491,154	70,899	**2,433,145**
Fee and commission expense	(554,120)	(198,182)	(2)	**(752,304)**
Other non-interest income	1,241,583	1,051,097	200,178	**2,492,858**
Non-interest expense	(3,579,135)	(3,431,403)	(934,587)	**(7,945,125)**
Segment profit/(loss)	**3,621,150**	**(222,930)**	**957,664**	**4,355,884**
Income tax expense	(604,881)	(34,105)	(160,852)	**(799,838)**
Profit for the period	**3,016,269**	**(257,035)**	**796,812**	**3,556,046**

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

	2018				
	Interest bearing			***Non-interest bearing***	***Total***
	Retail banking	***Corporate banking***	***Trading and IB***		
Assets	89,167,642	107,109,553	32,840,387	52,001,796	**281,119,378**
Liabilities	83,839,754	107,451,030	48,103,961	2,690,332	**242,085,077**

	2017				
	Interest bearing			***Non-interest bearing***	***Total***
	Retail banking	***Corporate banking***	***Trading and IB***		
Assets	70,521,233	94,646,267	37,548,156	50,020,197	**252,735,853**
Liabilities	76,763,097	103,005,465	33,833,643	3,157,482	**216,759,687**

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

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

(thousands of Armenian drams)

5. Segment information (continued)

Geographic information

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

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the year ended 31 December 2018 is as follows:

2018	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	1,073,999	–	–	**1,073,999**
Wire transfer fees	544,656	184,778	–	**729,434**
Settlement operation	78,454	113,845	65,351	**257,650**
Loan accounts servicing fees	103,287	152,161	–	**255,448**
Guarantees and letters of credit	281	49,281	–	**49,562**
Other	185,081	161,995	–	**347,076**
Total revenue from contracts with customers	**1,985,758**	**662,060**	**65,351**	**2,713,169**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	*2017*
Cash on hand	8,731,933	8,802,423
Current accounts with the Central Bank, including obligatory reserves	29,218,035	29,005,963
Placements with other banks	2,526,734	2,033,663
Less – allowance for impairment	(5,844)	–
Cash and cash equivalents	**40,470,858**	**39,842,049**

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

	2018
ECL allowance as at 1 January 2018	**6,004**
Changes in ECL	(160)
At 31 December 2018	**5,844**

As of 31 December 2018 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 23,711,584 thousand (2017: AMD 22,573,220 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2018 placements with other banks in the amount of AMD 2,128,984 thousand (84.3%) were due from three banks (2017: AMD 1,716,360 thousand (84.4%) were due from three banks).

7. Trading securities

Trading securities owned comprise:

	2018	*2017*
Investments in funds	640,554	–
Debt securities issued by the RA government	383,618	787,330
Corporate bonds	136,173	–
Trading securities	**1,160,345**	**787,330**

(thousands of Armenian drams)

8. Amounts due from banks

Amounts due from banks comprise:

	2018	*2017*
Loans and deposits to banks	1,937,868	753,858
Receivables from payment and settlement operations	1,286,688	1,194,907
Deposits and deposited funds with CBA	1,142,500	920,000
Other amounts	858,086	652,177
Reverse repurchase agreements	–	7,025,413
	5,225,142	**10,546,355**
Less – allowance for impairment	(12,655)	–
Amounts due from banks	**5,212,487**	**10,546,355**

As at 31 December 2017 amounts receivable under reverse repurchase agreements were collateralized by RA government and corporate bonds with fair value of AMD 11,831,416 thousand.

As of 31 December 2018 the balances included loans and deposits to banks in amount of AMD 1,937,868 thousand due from two counterparties (2017: AMD 753,858 thousand due from one counterparty).

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 year ended 31 December 2018 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2018	**10,546,355**	**10,546,355**
New assets originated or purchased	4,204,943	**4,204,943**
Assets repaid	(9,014,185)	**(9,014,185)**
Foreign exchange adjustments	(511,971)	**(511,971)**
At 31 December 2018	**5,225,142**	**5,225,142**

	Stage 1	*Total*
ECL allowance as at 1 January 2018	**5,979**	**5,979**
New assets originated or purchased	14,951	**14,951**
Assets repaid	(7,963)	**(7,963)**
Foreign exchange adjustments	(312)	**(312)**
At 31 December 2018	**12,655**	**12,655**

9. Loans and advances to customers

	2018	*2017*
Loans to customers	160,878,193	139,239,113
Overdrafts	35,459,413	25,558,298
Reverse repurchase agreements	4,022,197	4,820,511
Financial lease receivables	300,884	316,157
Factoring	17,406	95,247
Letter of credit	3,634	1,525
	200,681,727	**170,030,851**
Less − allowance for loan impairment	(4,399,395)	(4,863,351)
Total loans and advances to customers	**196,282,332**	**165,167,500**

	2018	*2017*
Business loans	110,959,901	98,280,538
Consumer loans	35,520,946	27,233,358
Mortgage loans	35,030,730	28,612,660
Gold loans	19,170,150	15,904,295
Gross loans and advances to customers	**200,681,727**	**170,030,851**
Less – allowance for impairment	(4,399,395)	(4,863,351)
Total loans and advances to customers	**196,282,332**	**165,167,500**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans during the year ended 31 December 2018 is as follows:

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**93,069,513**	**574,521**	**4,636,504**	**98,280,538**
New assets originated or purchased	60,193,620	−	−	**60,193,620**
Assets repaid	(45,397,351)	(564,339)	(310,334)	**(46,272,024)**
Transfers to Stage 2	(1,677,555)	1,677,555	−	**−**
Transfers to Stage 3	−	(1,606,726)	1,606,726	**−**
Recoveries	−	−	317,047	**317,047**
Amounts written off	−	−	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(376,561)	(13)	(32,710)	**(409,284)**
At 31 December 2018	**105,811,666**	**80,998**	**5,067,237**	**110,959,901**

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**745,396**	**20,554**	**2,733,496**	**3,499,446**
New assets originated or purchased	559,390	−	−	**559,390**
Assets repaid	(214,186)	(14,645)	(27,933)	**(256,764)**
Transfers to Stage 2	(70,190)	70,190	−	**−**
Transfers to Stage 3	−	(61,664)	61,664	**−**
Impact on period end ECL of exposures transferred between stages during the period	−	14,254	98,652	**112,906**
Unwinding of discount (recognised in interest revenue)	−	−	6,780	**6,780**
Changes to models and inputs used for ECL calculations	(94,949)	(3,912)	25,677	**(73,184)**
Recoveries	−	−	317,047	**317,047**
Amounts written off	−	−	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(4,504)	(4)	(19,796)	**(24,304)**
At 31 December 2018	**920,957**	**24,773**	**2,045,591**	**2,991,321**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2018 is as follows:

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**26,143,304**	**289,776**	**800,278**	**27,233,358**
New assets originated or purchased	20,605,231	−	−	**20,605,231**
Assets repaid	(11,266,081)	(142,306)	(236,399)	**(11,644,786)**
Transfers to Stage 1	27,548	(24,936)	(2,612)	**−**
Transfers to Stage 2	(1,717,958)	1,720,771	(2,813)	**−**
Transfers to Stage 3	−	(1,351,180)	1,351,180	**−**
Recoveries	−	−	516,781	**516,781**
Amounts written off	−	−	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(63,488)	(47)	(2,269)	**(65,804)**
At 31 December 2018	**33,728,556**	**492,078**	**1,300,312**	**35,520,946**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**303,328**	**48,133**	**257,744**	**609,205**
New assets originated or purchased	155,160	–	–	**155,160**
Assets repaid	(109,468)	(15,166)	(47434)	**(172,068)**
Transfers to Stage 1	5,580	(4,055)	(1,525)	**–**
Transfers to Stage 2	(117,601)	118,986	(1,385)	**–**
Transfers to Stage 3	–	(102,818)	102,818	**–**
Impact on period end ECL of exposures transferred between stages during the period	(5,337)	11,501	430,652	**436,816**
Unwinding of discount (recognised in interest revenue)	–	–	21,827	**21,827**
Changes to models and inputs used for ECL calculations	(116,743)	(21,952)	138,946	**251**
Recoveries	–	–	516,781	**516,781**
Amounts written off	–	–	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(791)	(9)	(307)	**(1,107)**
At 31 December 2018	**114,128**	**34,620**	**294,283**	**443,031**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2018 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**26,199,049**	**263,824**	**2,149,787**	**28,612,660**
New assets originated or purchased	12,229,856	–	–	**12,229,856**
Assets repaid	(4,804,836)	(41,682)	(226,570)	**(5,073,088)**
Transfers to Stage 1	68,159	(65,358)	(2,801)	**–**
Transfers to Stage 2	(468,022)	482,874	(14,852)	**–**
Transfers to Stage 3	–	(518,556)	518,556	**–**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(817,117)**
Foreign exchange adjustments	(145,538)	(141)	(1,402)	**(147,081)**
At 31 December 2018	**33,078,668**	**120,961**	**1,831,101**	**35,030,730**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**321,234**	**50,896**	**1,095,993**	**1,468,123**
New assets originated or purchased	36,059	–	–	**36,059**
Assets repaid	(29,739)	(7,361)	(58,042)	**(95,142)**
Transfers to Stage 1	16,278	(15,051)	(1,227)	**–**
Transfers to Stage 2	(65,396)	71,875	(6,479)	**–**
Transfers to Stage 3	–	(81,444)	81,444	**–**
Impact on period end ECL of exposures transferred between stages during the period	(15,688)	1,442	26,488	**12,242**
Unwinding of discount (recognised in interest revenue)	–	–	18,684	**18,684**
Changes to models and inputs used for ECL calculations	(186,894)	(9,772)	107,878	**(88,788)**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(817,117)**
Foreign exchange adjustments	(1,512)	(25)	(726)	**(2,263)**
At 31 December 2018	**74,342**	**10,560**	**672,396**	**757,298**

(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 during the year ended 31 December 2018 is as follows:

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**15,792,726**	**87,567**	**24,002**	**15,904,295**
New assets originated or purchased	17,520,988	–	–	**17,520,988**
Assets repaid	(14,036,696)	(70,816)	(30,344)	**(14,137856)**
Transfers to Stage 1	5,413	(5,413)	–	**–**
Transfers to Stage 2	(608,374)	608,374	–	**–**
Transfers to Stage 3	–	(360,331)	360,331	**–**
Recoveries	–	–	32,428	**32,428**
Amounts written off	–	–	(143,074)	**(143,074)**
Foreign exchange adjustments	(6,535)	(95)	(1)	**(6,631)**
At 31 December 2018	**18,667,522**	**259,286**	**243,342**	**19,170,150**

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**9,503**	**5,161**	**11,201**	**25,865**
New assets originated or purchased	173,944	–	–	**173,944**
Assets repaid	(7,878)	(3,273)	(6,540)	**(17,691)**
Transfers to Stage 1	299	(299)	–	**–**
Transfers to Stage 2	(142,987)	142,987	–	**–**
Transfers to Stage 3	–	(117,961)	117,961	**–**
Impact on period end ECL of exposures transferred between stages during the period	(293)	2,265	131,394	**133,366**
Unwinding of discount (recognised in interest revenue)	–	–	1,638	**1,638**
Changes to models and inputs used for ECL calculations	1,255	24	–	**1,279**
Recoveries	–	–	32,428	**32,428**
Amounts written off	–	–	(143,074)	**(143,074)**
Foreign exchange adjustments	(4)	(5)	(1)	**(10)**
At 31 December 2018	**33,839**	**28,899**	**145,007**	**207,745**

A reconciliation of the allowance for impairment of loans to customers by class during the year ended 31 December 2017 is as follows:

	2017										
	Manu-facturing	*Energy*	*Agriculture (including loans to individuals)*	*Construc-tion*	*Trading*	*Transport and commu-nications*	*Services*	*Consumer loans to individuals*	*Mortgage*	*Other*	*Total*
At 1 January 2017	**547,956**	**44,656**	**734,327**	**708,490**	**417,923**	**220,099**	**121,723**	**676,991**	**1,045,123**	**36,908**	**4,554,196**
Charge/(reversal) for the year	30,820	24,642	197,988	87,276	232,288	23,419	92,338	218,628	182,016	56,898	**1,146,313**
Amounts written off	(9,747)	–	(110,431)	(90,418)	(207,695)	–	(136,936)	(1,190,886)	(480,995)	(47,081)	**(2,274,189)**
Recoveries	19,853	–	19,391	26,457	65,571	9,155	54,395	779,854	430,147	32,208	**1,437,031**
At 31 December 2017	**588,882**	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Individual impairment	541,002	–	792,508	708,705	345,723	240,206	449	38,299	917,763	19,988	**3,604,643**
Collective impairment	47,880	69,298	48,767	23,100	162,364	12,467	131,071	446,288	258,528	58,945	**1,258,708**
	588,882	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,049,703**	**–**	**1,010,943**	**1,109,031**	**1,217,730**	**479,852**	**49,890**	**274,782**	**1,790,144**	**1,005,311**	**7,987,386**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*					
		Property	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2018							
Corporate lending	5,067,237	5,630,148	331,024	(2,556,426)	**3,404,746**	1,662,491	2,045,591
Residential mortgages	1,831,101	1,952,424	–	(735,993)	**1,216,431**	614,670	672,396
Gold	243,342	–	189,452	(10,063)	**179,389**	63,953	145,007
Consumer lending	1,300,312	1,572,468	90,328	(865,718)	**797,078**	503,234	294,283
	8,441,992	**9,155,040**	**610,804**	**(4,168,200)**	**5,597,644**	**2,844,348**	**3,157,277**

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

Concentration of loans and advances to customers

As at 31 December 2018 the Group had a concentration of loans totalling to AMD 41,852,275 thousand due from the ten largest groups of borrowers (20.9% of gross loan portfolio) (2017: AMD 48,686,742 thousand or 28.6% of gross loan portfolio). An allowance for impairment in amount of AMD 1,355,805 thousand (2017: AMD 1,250,634 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	2018	*2017*
Private companies	105,218,342	92,063,900
Individuals	90,611,259	72,186,041
Financial organizations	4,022,198	4,820,511
State companies	829,928	960,399
	200,681,727	**170,030,851**

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

	2018	*2017*
Consumer loans to individuals	54,691,087	43,137,483
Mortgage	35,030,730	28,612,812
Trade	29,598,144	23,146,111
Other	23,968,584	15,660,561
Construction	19,054,286	13,557,363
Services	10,714,497	7,139,864
Agriculture (including loans to individuals)	10,122,610	7,012,168
Energy	8,403,730	7,699,388
Manufacturing	7,318,002	6,364,056
Transport and communication	1,780,057	17,701,045
Gross loan portfolio	**200,681,727**	**170,030,851**
Less allowance for loan impairment	(4,399,395)	(4,863,351)
Total	**196,282,332**	**165,167,500**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2018 is as follows:

	2018	*2017*
Gross investment in finance lease, receivable		
Not later than 1 year	265,912	254,216
1-5 years	47,777	80,438
More than 5 years	–	5,580
	313,689	**340,234**
Unearned future finance income on finance lease	(12,805)	(24,077)
Net investment in financial lease, before impairment allowance	**300,884**	**316,157**
Impairment allowance	(231,623)	(237,461)
Net investment in finance lease	**69,261**	**78,696**

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	2018	*2017*
Debt securities at amortised cost (previously classified as held-to-maturity)		
RA government bonds	584,339	346,140
Less – allowance for impairment	(281)	–
Debt securities at amortised cost (previously classified as held-to-maturity)	**584,058**	**346,140**
RA government bonds pledged under repo	2,087,000	–
Less – allowance for impairment	(9,542)	–
Debt securities at amortised cost (previously classified as held-to-maturity) pledged under repurchase agreements	**2,077,458**	**–**
Debt securities at FVOCI		
RA government bonds	10,862,103	–
RA corporate bonds	5,825,950	–
Debt securities at FVOCI	**16,688,053**	**–**
RA government bonds	6,014,555	–
Debt securities at FVOCI pledged under repurchase agreements	**6,014,555**	**–**
		–
Equity securities at FVOCI		–
Equity shares of OECD countries	1,026,549	–
RA equity shares	57,794	–
Equity securities at FVOCI	**1,084,343**	**–**
Available-for-sale securities		
RA government bonds	–	18,518,365
RA corporate bonds	–	2,645,006
Equity shares of OECD countries	–	888,409
Investments in funds	–	579,582
Corporate bonds of OECD countries	–	123,062
RA equity shares	–	57,794
Available-for-sale securities	**–**	**22,812,218**
RA government bonds	–	3,056,113
Available-for-sale securities pledged under repurchase agreements	**–**	**3,056,113**
Total	**26,448,467**	**26,214,471**

(thousands of Armenian drams)

10. Investment securities (continued)

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

Debt securities at amortised cost	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	**346,140**	**346,140**
New assets originated or purchased	2,671,163	**2,671,163**
Assets repaid	(345,964)	**(345,964)**
At 31 December 2018	**2,671,339**	**2,671,339**

Debt securities at amortised cost	*Stage 1*	*Total*
ECLs as at 1 January 2018	**2,064**	**2,064**
New assets originated or purchased	9,824	**9,824**
Assets repaid	(2,065)	**(2,065)**
At 31 December 2018	**9,823**	**9,823**

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

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	**24,342,546**	**24,342,546**
New assets originated or purchased	10,220,585	**10,220,585**
Assets repaid	(3,950,020)	**(3,950,020)**
Assets sold	(7,910,503)	**(7,910,503)**
At 31 December 2018	**22,702,608**	**22,702,608**

Debt securities at FVOCI	*Stage 1*	*Total*
ECLs as at 1 January 2018	**284,213**	**284,213**
New assets originated or purchased	134,266	**134,266**
Assets repaid	(16,723)	**(16,723)**
Assets sold	(90,929)	**(90,929)**
Changes to models and inputs used for ECL calculations	(35,989)	**(35,989)**
At 31 December 2018	**274,838**	**274,838**

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Equipment*	*Vehicles*	*Computers*	*Other fixed assets*	*Leasehold improve-ments*	*Total*
Cost or revalued amount							
31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Additions	83,003	85,601	310	688,049	158,657	209,722	**1,225,342**
Disposals and write-offs	–	(66,617)	(347)	(329,883)	(54,592)	(764)	**(452,203)**
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**11,854,579**
Accumulated depreciation							
31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Depreciation charge	193,204	36,331	318	241,867	35,190	94,487	**601,397**
Disposals and write-offs	–	(66,606)	–	(329,731)	(54,908)	(764)	**(452,009)**
31 December 2018	**385,992**	**629,088**	**206,385**	**2,535,956**	**628,302**	**729,818**	**5,115,541**
Net book value							
31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**
31 December 2018	**4,614,029**	**141,096**	**4,230**	**1,139,017**	**289,254**	**551,412**	**6,739,038**

(thousands of Armenian drams)

11. Property and equipments (continued)

	Land and buildings	*Equipment*	*Vehicles*	*Computers*	*Other fixed assets*	*Leasehold improve-ments*	*Total*
Cost or revalued amount							
31 December 2016	**5,134,018**	**753,258**	**208,627**	**2,936,691**	**741,403**	**965,437**	**10,739,434**
Additions	103	31,317	6,025	414,507	108,028	178,026	**738,006**
Disposals and write-offs	(217,103)	(33,375)	(4,000)	(34,391)	(35,940)	(71,191)	**(396,000)**
31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Accumulated depreciation							
31 December 2016	**–**	**634,109**	**193,354**	**2,370,101**	**601,374**	**555,729**	**4,354,667**
Depreciation charge	197,005	58,625	12,935	285,869	67,782	108,884	**731,100**
Disposals and write-offs	(4,217)	(33,371)	(222)	(32,150)	(21,136)	(28,518)	**(119,614)**
31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Net book value							
31 December 2016	**5,134,018**	**119,149**	**15,273**	**566,590**	**140,029**	**409,708**	**6,384,767**
31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**

The net book value of buildings that would have been recognized under the historic cost method is AMD 780,998 thousand as of 31 December 2018 (2017: AMD 737,210 thousand).

Fully depreciated items

As of 31 December 2018 property, plant and equipment included fully depreciated assets in amount of AMD 2,088,194 thousand (2017: AMD 2,778,877 thousand).

Property, plant and equipment in the phase of installation

As of 31 December 2018 property, plant and equipment included assets in the phase of installation in amount of AMD 155,545 thousand (2017: AMD 137,069 thousand).

Restrictions on title of property, plant and equipment

As of 31 December 2018 and 31 December 2017, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

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

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2017	**714,891**	**66,816**	**172,834**	**954,541**
Additions	53,024	78,549	–	**131,573**
Disposals and write-offs	–	–	(126)	**(126)**
31 December 2018	**767,915**	**145,365**	**172,708**	**1,085,988**
Accumulated amortization and impairment				
31 December 2017	**633,036**	**44,468**	**50,499**	**728,003**
Amortisation charge	38,933	7,748	15,099	**61,780**
Disposals and write-offs	–	–	(126)	**(126)**
31 December 2018	**671,969**	**52,216**	**65,472**	**789,657**
Net book value				
31 December 2017	**81,855**	**22,348**	**122,335**	**226,538**
31 December 2018	**95,946**	**93,149**	**107,236**	**296,331**

(thousands of Armenian drams)

12. Intangible assets (continued)

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2016	**685,286**	**61,566**	**79,234**	**826,086**
Additions	29,605	5,250	93,600	**128,455**
31 December 2017	**714,891**	**66,816**	**172,834**	**954,541**
Accumulated amortization and impairment				
31 December 2016	**601,610**	**41,470**	**43,204**	**686,284**
Amortisation charge	31,426	2,998	7,295	**41,719**
31 December 2017	**633,036**	**44,468**	**50,499**	**728,003**
Net book value				
31 December 2016	**83,676**	**20,096**	**36,030**	**139,802**
31 December 2017	**81,855**	**22,348**	**122,335**	**226,538**

Fully amortized items

As of 31 December 2018, intangible assets included fully amortized assets in amount of AMD 569,700 thousand (2017: AMD 454,122 thousand).

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 December 2018 and 31 December 2017 are shown below:

	2018	*2017*
Property, plant and equipment	1,947,843	1,807,659
Vehicles	–	11,000
Other assets	29,771	13,460
Total repossessed collateral	**1,977,614**	**1,832,119**

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. During 2018 impairment loss on repossessed assets in amount of AMD 35,871 thousand was recognised (2017: AMD 58,078 thousand).

14. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets		
Accounts receivables	280,237	416,023
Receivables from unsettled transactions	227,772	355,454
Receivables on cash transfers	51,892	7,005
Total other financial assets	**559,901**	**778,482**
Less – allowance for impairment of other financial assets	(25,726)	(43,421)
Total net other financial assets	**534,175**	**735,061**
Other non-financial assets		
Precious metals	945,824	444,766
Prepayments to suppliers	404,411	195,129
Other prepaid taxes	367,742	342,867
Materials	213,224	239,255
Unamortized insurance premium	56,743	44,994
Settlements with employees	7,922	267
Other	1,865	1,865
Total other non-financial assets	**1,997,731**	**1,269,143**
Other assets	**2,531,906**	**2,004,204**

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 and 31 December 2017 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**35,030**	**280**	**8,111**	**43,421**
Assets originated and repaid (net amount)	25,159	(197)	(1,975)	**22,987**
Transfers to Stage 1	9	(9)	–	**–**
Transfers to Stage 3	(44,426)	(2)	44,428	**–**
Recoveries	–	–	42,921	**42,921**
Amounts written off	–	–	(82,852)	**(82,852)**
Impact on period end ECL of exposures transferred between stages during the period	(423)	(6)	(374)	**(803)**
Foreign exchange adjustments	52	–	–	**52**
At 31 December 2018	**15,401**	**66**	**10,259**	**25,726**

	Total
As at 1 January 2016	**45,203**
Charge for the year	36,567
Amounts written off	(22,596)
As at 31 December 2016	**59,174**
Charge for the year	66,561
Amounts written off	(82,314)
As at 31 December 2017	**43,421**

Other liabilities comprise:

	2018	*2017*
Other financial liabilities		
Due to personnel	727,471	600,445
Accounts payables	276,769	343,221
Total other financial liabilities	**1,004,240**	**943,666**
Other non-financial liabilities		
Tax payable, other than income tax	442,064	360,502
Grants related to assets	23,584	26,008
Other	12,725	6,697
Total other non-financial liabilities	**478,373**	**393,207**
Total other liabilities	**1,482,613**	**1,336,873**

15. Amounts due to banks

Amounts due to banks comprise:

	2018	*2017*
Loans from banks	5,862,785	12,004,512
Repurchase agreements with CBA	4,002,716	–
Repurchase agreements with banks	3,876,869	2,900,619
Correspondent accounts of other banks	114,833	143,170
Other liabilities	106,167	125,166
Total amounts due to banks	**13,963,370**	**15,173,467**

As of 31 December 2018 the Group has received loans from 4 banks (2017: also from 4 banks). The Group has repurchase agreement liabilities to 2 banks as of 31 December 2018 (2017: to 1 bank).

As of 31 December 2018 83.9% of correspondent accounts of other banks are concentrated within 1 counterparty (2017: 86% within 2 counterparties).

(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.

	2018			*2017*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps – foreign currency	9,430,627	–	26,583	7,628,876	–	68,857
Total derivative assets/liabilities	**9,430,627**	**–**	**26,583**	**7,628,876**	**–**	**68,857**

As of 31 December 2018, the Group has positions in the following types of derivatives:

Swaps

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

17. Amounts due to customers

The amounts due to customers include the following:

	2018	*2017*
Corporate customers		
Current/settlement accounts	42,974,649	42,525,666
Time deposits	58,623,562	54,625,403
	101,598,211	**97,151,069**
Retail customers		
Current/settlement accounts	27,693,588	24,815,673
Time deposits	57,922,317	51,947,415
	85,615,905	**76,763,088**
Amounts due to customers	**187,214,116**	**173,914,157**

As of 31 December 2018 included in amounts due to customers are deposits amounting to AMD 30,280,617 thousand (2017: AMD 33,078,968 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 2018 the aggregate balance of top ten customers of the Group amounts to AMD 73,244,218 thousand (2017: AMD 78,683,050 thousand) or 39.5% of total customer accounts (2017: 45.2%).

18. Debt securities issued

Debt securities issued consisted of the following:

	2018	*2017*
Domestic bonds in USD	9,769,113	4,888,531
Domestic bonds in AMD	4,095,754	1,043,438
Domestic bonds in EUR	2,788,577	–
Debt securities issued	**16,653,444**	**5,931,969**

The contractual maturity of AMD and USD bonds ranges from 2019-2021, The contractual maturity of EUR denominated bonds is in 2021. Bonds issued by the Bank are listed on Armenia Securities Exchange.

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	2018	2017
Current tax charge	1,266,424	990,049
Adjustments of current income tax of previous years	–	(86,187)
Deferred tax charge/(credit) – origination and reversal of temporary differences	44,167	(104,024)
Total income tax expense	**1,310,591**	**799,838**

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2017: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

	2018	2017
Profit before tax	**6,205,862**	**4,355,884**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**1,241,172**	**871,177**
Non-deductible expenses	69,419	14,848
Adjustments of current income tax of previous years	–	(86,187)
Income tax expense	**1,310,591**	**799,838**

Deferred tax assets and liabilities as of 31 December 2018 and 2017 and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	Balance 1 January 2017	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2017*	*Effect of adoption of IFRS 9*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2018*
Other liabilities	41,163	70,672	–	111,835	–	24,042	–	135,877
Repossessed assets	39,209	11,616	–	50,825	–	7,174	–	57,999
Loans and advances to customers	(626,276)	22,157	–	(604,119)	147,858	(113,463)	–	(569,724)
Investment securities at FVOCI	(337,476)	–	(201,646)	(539,122)	–	1,875	152,483	(384,764)
Property, plant and equipment	(255,144)	31,841	–	(223,303)	–	41,989	–	(181,314)
Other impairment and provisions	27,190	(31,273)	–	(4,083)	16,356	(3,859)	–	8,414
Amounts due to customers	(1,807)	(989)	–	(2,796)	–	(1,925)	–	(4,721)
Net deferred tax liabilities	**(1,113,141)**	**104,024**	**(201,646)**	**(1,210,763)**	**164,214**	**(44,167)**	**152,483**	**(938,233)**

20. Other borrowed funds

Other borrowed funds consisted of the following:

	2018	2017
Loans from CBA	5,956,021	5,117,959
Loans from refinancing credit organizations	9,380,933	6,216,391
Loans from international financial institution	297,376	1,271,923
Loans from Government of the RA	50,083	53,077
Other borrowed funds	**15,684,413**	**12,659,350**

As of 31 December 2018 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 European Bank for Reconstruction and Development.

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

(thousands of Armenian drams)

20. Other borrowed funds (continued)

Covenants

As at 31 December 2018 and 2017 the Group was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	2018	*2017*
Subordinated debt provided by related party	5,852,819	5,854,396
Subordinated loans	**5,852,819**	**5,854,396**

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

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity from January 2023 (2017: 7.12% and with contractual maturity to January 2023) (See note 35).

22. Commitments and contingencies

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

Commitments and contingencies

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

	2018	*2017*
Credit related commitments		
Undrawn loan commitments	12,491,499	10,248,879
Financial guarantees	3,677,373	3,232,716
Letters of credit	1,484,715	58,010
	17,653,587	**13,539,605**
Operating lease commitments		
Not later than 1 year	642,068	579,847
Later than 1 year but not later than 5 years	1,594,628	1,952,989
Later than 5 years	1,236,165	2,398,534
	3,472,861	**4,931,370**
Commitments and contingencies	**21,126,448**	**18,470,975**
Provisions for ECL for credit related commitments	70,056	–

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

An analysis of changes in the ECLs during the year ended 31 December 2018 is as follows:

Undrawn loan commitments	*Stage 1*	*Total*
ECLs as at 1 January 2018	28,603	**28,603**
New exposures	7,823	**7,823**
Expired exposures	(22,500)	**(22,500)**
Foreign exchange adjustments	(143)	**(143)**
At 31 December 2018	**13,783**	**13,783**

Letters of credit	*Stage 1*	*Total*
ECLs as at 1 January 2018	**680**	**680**
New exposures	16,203	**16,203**
Expired exposures	(680)	**(680)**
At 31 December 2018	**16,203**	**16,203**

Financial guarantees	*Stage 1*	*Total*
ECLs as at 1 January 2018	**38,450**	**38,450**
New exposures	24,178	**24,178**
Expired exposures	(22,194)	**(22,194)**
Foreign exchange adjustments	(364)	**(364)**
At 31 December 2018	**40,070**	**40,070**

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 2018 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 2018 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2017: AMD 16,416,633 thousand).

In accordance with the Bank's statues, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2017: 54,722 ordinary shares and 333 privileged shares).

The respective shareholdings as at 31 December 2018 and 31 December 2017 may be specified as follows:

	2018		*2017*	
	Paid-in share capital	*% of total paid-in capital*	*Paid-in share capital*	*% of total paid-in capital*
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	16,416,633	**100**	**16,416,633**	**100**

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

(thousands of Armenian drams)

23. Equity (continued)

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

According to decision of Meeting of Shareholders dated on 18 June 2018 dividends declared and paid by the Bank amounted to AMD 570,343 thousand (2017: declared and paid AMD 564,460 thousand) for ordinary shares and 6.6 thousand (2017: AMD 6.6 thousand) to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 10,423 (2017: AMD 10,315), and dividends per preference share amounted to AMD 19.8 (2017: 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.

24. Net interest income

Net interest income comprises:

	2018	*2017*
Financial assets measured at amortized cost		
Loans to customers	18,522,832	15,621,760
Amounts due from banks	104,883	78,279
Investment securities	98,424	21,458
Cash equivalents	14,378	8,209
Other interest income	106,560	17,483
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI/AFS	2,166,877	1,813,757
Interest revenue calculated using effective interest rate	**21,013,954**	**17,560,946**
Trading securities	93,601	53,992
Finance leases	7,123	9,315
Other interest revenue	**100,724**	**63,307**
Total interest revenue	**21,114,678**	**17,624,253**
Amounts due to customers	7,027,060	6,855,003
Other borrowed funds	1,125,113	819,192
Debt securities issued	817,932	173,838
Subordinated loans	411,790	404,862
Amounts due to banks	253,412	31,174
Interest expense	**9,635,307**	**8,284,069**
Net interest income	**11,479,371**	**9,340,184**

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(160)	–	–	**(160)**
Amounts due from banks	8	6,988	–	–	**6,988**
Loans and advances to customers	9	144,633	(46,595)	819,738	**917,776**
Debt securities measured at amortised cost	10	7,759	–	–	**7,759**
Debt securities measured at FVOCI	10	(9,375)	–	–	**(9,375)**
Other financial assets	14	24,736	(203)	(2,349)	**22,184**
Financial guarantees	22	1,984	–	–	**1,984**
Loan commitments	22	(14,677)	–	–	**(14,677)**
Letters of credit	22	15,523	–	–	**15,523**
Total credit loss expense		**177,411**	**(46,798)**	**817,389**	**948,002**

Other impairment and provisions amounting 35,871 AMD thousand (2017: 58,078 AMD thousand) refers to the impairment loss of repossessed assets.

26. Net fee and commission income

Net fee and commission income comprises:

	2018	*2017*
Plastic cards operations	1,073,999	947,367
Wire transfer fees	729,434	722,044
Settlement operation	257,650	312,131
Fees and commission income from loans	255,448	174,983
Guarantees and letters of credit	49,562	43,690
Other	347,076	232,930
Fee and commission income	**2,713,169**	**2,433,145**
Plastic cards operations	570,510	524,870
Wire transfer fees	140,100	100,136
Settlement operations	103,146	91,569
Guarantees and letters of credit	9,841	5,015
Other expenses	48,141	30,714
Fee and commission expense	**871,738**	**752,304**
Net fee and commission income	**1,841,431**	**1,680,841**

27. Net trading income

	2018	*2017*
Net gains from foreign currency transactions	1,365,239	1,387,360
Net gain/(loss) on derivative financial instruments	153,882	(153,567)
Net gain from trading securities	20,023	45,861
Total net trading income	**1,539,144**	**1,279,654**

(thousands of Armenian drams)

28. Other income

	2018	*2017*
Fines and penalties received	499,585	589,407
Income from cash collection services	38,440	31,812
Net income from operations with precious metals	8,224	110,193
Dividend income	6,488	4,127
Income from grants	2,424	2,424
Other income	165,655	172,149
Total other income	**720,816**	**910,112**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	*2017*
Salaries	4,810,802	4,250,933
Other expenses	96,065	47,856
Personnel expenses	**4,906,867**	**4,298,789**
Advertising costs	634,793	315,430
Operating lease	575,703	507,801
Insurance of deposits	202,174	231,003
Expenses related to Armenian Card payment system	199,541	174,557
Security	198,723	205,518
Software maintenance expenses	195,762	261,194
Fixed assets maintenance	129,086	125,906
Communications	124,743	133,030
Consulting and other service	112,527	72,333
Insurance expenses	111,323	100,583
Utility expenses	98,812	105,771
Taxes, other than income tax, duties	51,957	35,006
Business trip expenses	47,298	24,020
Office supplies	31,515	40,745
Financial system mediator	25,086	18,887
Penalties paid	2,009	3,891
Loss from disposal of fixed assets	–	1,450
Other operating expenses	167,398	142,303
Other expenses	484,083	316,011
Other operating expenses	**3,392,533**	**2,815,439**

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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management department

The main functions of the risk management department are:

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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

The management of competition risk is implemented by the business departments and business development 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 Department 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 Department 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 department 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 unit, which operates in accordance with the requirements of anti-money laundering legislation and Bank's internal legal acts.

Excessive risk concentrations

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

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

Credit risk

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

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

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

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

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

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

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

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

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

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

- Business loans;
- Consumer loans;
- Mortgage loans;
- Gold loans

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

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

Exposure at default

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Loss given default

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

- The Bank's management also considers the following factors to determine whether there is an increase in credit risk:
- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

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

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. 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 2018.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2019*	*2020*	*2021*
GDP annual growth, %					
	Upside	10%	6.7	6.7	6.7
	Base case	80%	5.4	5.1	4.9
	Downside	10%	3.9	3.3	2.9
USD/AMD exchange rate					
	Upside	10%	495	500	500
	Base case	80%	490	495	498
	Downside	10%	485	490	493
Central Bank base rate growth, %					
	Upside	10%	0.25	0.50	0.75
	Base case	80%	0.0	0.25	0.50
	Downside	10%	-0.25	0.0	0.25
Unemployment rate, %					
	Upside	10%	16.0	15.9	15.8
	Base case	80%	15.8	15.7	15.6
	Downside	10%	15.6	15.5	15.4

(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 in the consolidated statement of financial position, based on the Group's credit rating system.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	525,624	31,219,145	–	–	**31,744,769**
Amounts due from banks	8	Stage 1	412,665	4,812,477	–	–	**5,225,142**
Loans and advances to customers	9						
- Business loans		Stage 1	18,171,946	87,639,720	–	–	**105,811,666**
		Stage 2	–	–	80,998		**80,998**
		Stage 3	–	–	–	5,067,237	**5,067,237**
- Consumer loans		Stage 1	1,390,733	32,337,823	–	–	**33,728,556**
		Stage 2	–	–	492,078		**492,078**
		Stage 3	–	–	–	1,300,312	**1,300,312**
- Mortgage loans		Stage 1	–	33,078,668	–	–	**33,078,668**
		Stage 2	–	–	120,961	–	**120,961**
		Stage 3	–	–	–	1,831,101	**1,831,101**
- Gold loans		Stage 1	–	18,667,522	–	–	**18,667,522**
		Stage 2	–	–	259,286	–	**259,286**
		Stage 3	–	–	–	243,342	**243,342**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	22,702,608	–	–	**22,702,608**
- Measured at amortised cost		Stage 1	–	2,671,339	–	–	**2,671,339**
Undrawn loan commitments	22	Stage 1	–	12,491,499	–	–	**12,491,499**
Letters of credit	22	Stage 1	–	1,484,715	–	–	**1,484,715**
Financial guarantees	22	Stage 1	–	3,677,373	–	–	**3,677,373**
Total			**20,500,968**	**250,782,889**	**953,323**	**8,441,992**	**280,679,172**

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.

	Neither past due nor impaired			*Past due but not individually impaired*	*Individually impaired*	*Total*
	High grade	*Standard grade*	*Sub-standard grade*			
31 December 2017						
Loans and advances to customers	35,148,213	125,750,079	–	1,145,173	7,987,386	**170,030,851**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans as at 31 December 2017, by age, is provided below. The majority of the past due loans are not considered to be impaired.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	2017				
	Less than 30 days	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Manufacture	–	10,016	5,296	14,672	**29,984**
Agriculture	186	2,638	4,788	26,842	**34,454**
Construction	909	–	–	–	**909**
Trade	–	–	14,196	14,923	**29,119**
Transport and communication	–	–	–	12,014	**12,014**
Consumer loans to individuals	191,801	131,696	72,872	311,736	**708,105**
Mortgage	28,088	66,224	17,632	214,449	**326,393**
Other sectors	–	–	–	4,195	**4,195**
Total	**220,984**	**210,574**	**114,784**	**598,831**	**1,145,173**

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

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

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical regions as at 31 December 2018 and 31 December 2017.

	2018			
	Armenia	*Other non-OECD countries*	*OECD countries*	*Total*
Cash and cash equivalents	37,944,682	2,327,575	198,601	**40,470,858**
Trading securities	1,160,345	–	–	**1,160,345**
Amounts due from banks	3,359,131	1,006,353	847,003	**5,212,487**
Loans and advances to customers	182,424,202	13,844,200	13,930	**196,282,332**
Investment securities	16,523,883	806,022	1,026,549	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**
Other financial assets	302,505	4,923	226,747	**534,175**
	249,806,761	**17,989,073**	**2,312,830**	**270,108,664**

	2017			
	Armenia	*Other non-OECD countries*	*OECD countries*	*Total*
Cash and cash equivalents	37,825,148	1,460,198	556,703	**39,842,049**
Trading securities	787,330	–	–	**787,330**
Amounts due from banks	9,502,670	285,730	757,955	**10,546,355**
Loans and advances to customers	142,405,903	6,205,348	16,556,249	**165,167,500**
Investment securities	22,146,887	–	1,011,471	**23,158,358**
Securities pledged under repurchase agreements	3,056,113	–	–	**3,056,113**
Other financial assets	509,445	265	225,351	**735,061**
	216,233,496	**7,951,541**	**19,107,729**	**243,292,766**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Group denominated in Armenian drams and 18% 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, these ratios were as follows:

	Threshold	*2018, %*	*2017, %*
N21 “General Liquidity Ratio” (highly liquid assets / total assets)	min 15%	23.69	35.26
N22 “Current Liquidity Ratio” (highly liquid assets / liabilities payable on demand)	min 60%	81.83	102.49

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 December 2018 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.

	2018					
	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	12,493,396	1,287,043	127,441	−	72,563	**13,980,443**
Derivative liabilities	26,583	−	−	−	−	**26,583**
Amounts due to customers	77,767,987	16,269,442	77,640,309	24,265,421	819,953	**196,763,112**
Other borrowed funds	141,098	377,393	1,825,741	11,756,654	6,361,484	**20,462,370**
Debt securities issued	−	52,500	6,724,733	11,580,313	−	**18,357,546**
Subordinated debt	−	−	395,709	7,105,036	−	**7,500,745**
Total undiscounted financial liabilities	**90,429,064**	**17,986,378**	**86,713,933**	**54,707,424**	**7,254,000**	**257,090,799**
Commitments and contingent liabilities	**17,653,587**	**−**	**−**	**−**	**−**	**17,653,587**

	2017					
	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	13,463,293	−	1,674,272	−	72,615	**15,210,180**
Derivative liabilities	68,857	−	−	−	−	**68,857**
Amounts due to customers	73,352,138	11,248,147	65,922,616	28,109,919	564,589	**179,197,409**
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	**16,242,520**
Debt securities issued	−	52,500	321,087	6,129,507	−	**6,503,094**
Subordinated debt	−	−	−	−	7,904,560	**7,904,560**
Total undiscounted financial liabilities	**87,016,841**	**11,527,982**	**69,607,966**	**44,451,941**	**12,521,890**	**225,126,620**
Commitments and contingent liabilities	**13,539,605**	**−**	**−**	**−**	**−**	**13,539,605**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

Market risk

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

Interest rate risk

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

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities and on net trading income, based on trading instruments held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets (before 1 January 2018) and debt financial assets measured at FVOCI (after 1 January 2018) 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.

Currency	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
AMD	1.00%	(25,250)	(415,856)
USD	1.60%	(5,795)	(190,402)
EUR	0.20%	−	(1,475)

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
AMD	3.50%	88,376	1,455,495
USD	0.50%	1,811	59,501
EUR	0.01%	−	74

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
AMD	1.6%	(48,646)	(701,721)
USD	1.3%	−	(230,585)

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
AMD	3.5%	106,414	1,535,014
USD	0.5%	−	88,686

(thousands of Armenian drams)

30. Risk management (continued)

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 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.

	2018		***2017***	
	Change in currency rate in %	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
Currency				
USD	3.5%	12,064	3.5%	(23,270)
USD	(3.5%)	(12,064)	(3.5%)	23,270
EUR	8.0%	(4,847)	13.7%	1,535
EUR	(8.3%)	5,028	(6.3%)	(706)

Operational risk

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

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

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

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

The risk mitigation mechanisms for the process are:

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

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

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

(thousands of Armenian drams)

31. Fair value measurements

Fair value measurement procedures

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

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

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

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

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

Financial instruments that are not measured at fair value

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

			2018		
	Level 1	***Level 2***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets					
Loans and advances to customers	–	–	177,980,279	**177,980,279**	**196,282,332**
Cash and cash equivalents	40,470,858	–	–	**40,470,858**	**40,470,858**
Amounts due from banks	–	–	5,212,033	**5,212,033**	**5,212,487**
Investment securities at amortised cost	–	–	584,089	**584,089**	**584,058**
Investment securities at amortised cost pledged under repurchase agreements			2,184,418	**2,184,418**	**2,077,458**
Other financial assets	–	–	534,175	**534,175**	**534,175**
Financial liabilities					
Amounts due to customers	–	–	187,214,116	**187,214,116**	**187,214,116**
Other borrowed funds	–	–	15,684,413	**15,684,413**	**15,684,413**
Amounts due to banks	–	–	13,963,370	**13,963,370**	**13,963,370**
Debt securities issued		16,647,928	–	**16,647,928**	**16,653,444**
Subordinated debt	–	–	5,852,819	**5,852,819**	**5,852,819**
Other financial liabilities	–	–	1,004,291	**1,004,291**	**1,004,240**

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement procedures (continued)

	2017				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	151,021,736	**151,021,736**	**165,167,500**
Cash and cash equivalents	39,842,049	–	–	**39,842,049**	**39,842,049**
Amounts due from banks	–	–	10,546,355	**10,546,355**	**10,546,355**
Held to maturity investments	–	–	346,127	**346,127**	**346,140**
Other financial assets	–	–	735,061	**735,061**	**735,061**
Financial liabilities					
Amounts due to customers	–	–	173,914,157	**173,914,157**	**173,914,157**
Other borrowed funds	–	–	12,659,350	**12,659,350**	**12,659,350**
Amounts due to banks	–	–	15,173,467	**15,173,467**	**15,173,467**
Debt securities issued	–	5,952,200	–	**5,952,200**	**5,931,969**
Subordinated debt	–	–	5,854,396	**5,854,396**	**5,854,396**
Other financial liabilities	–	–	943,666	**943,666**	**943,666**

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 (2017: 3% to 24% per annum).

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

Financial instruments that are measured at fair value

	2018		
	Level 1	*Level 2*	*Total*
Financial assets			
Trading securities	–	1,160,345	**1,160,345**
Investment securities at FVOCI	1,021,216	16,751,180	**17,772,396**
Investment securities at FVOCI pledged under repurchase agreements	-	6,014,555	**6,014,555**
Total	**1,021,216**	**23,926,080**	**24,947,296**
Financial liabilities			
Derivative financial liabilities	–	26,583	**26,583**
Total	**–**	**26,583**	**26,583**
Net fair value	**1,021,216**	**23,952,663**	**24,973,879**

	2017		
	Level 1	*Level 2*	*Total*
Financial assets			
Securities pledged under repurchase agreements	–	3,056,113	**3,056,113**
Investments available for sale	883,076	21,871,348	**22,754,424**
Trading securities	–	787,330	**787,330**
Total	**883,076**	**25,714,791**	**26,597,867**
Financial liabilities			
Derivative financial liabilities	–	68,857	**68,857**
Total	**–**	**68,857**	**68,857**
Net fair value	**883,076**	**25,645,934**	**26,529,010**

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

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement of non-financial assets and liabilities

	2018	
	Level 3	*Total*
Non financial assets		
Land and buildings	4,614,029	**4,614,029**
Total	**4,614,029**	**4,614,029**

	2017	
	Level 3	*Total*
Non financial assets		
Land and buildings	4,724,230	**4,724,230**
Total	**4,724,230**	**4,724,230**

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 2018	4,724,230	**4,724,230**
Purchases	83,003	**83,003**
Disposals	–	**–**
Depreciation charge	(193,204)	**(193,204)**
Net fair value at 31 December 2018	**4,614,029**	**4,614,029**

Non financial assets	***Land and buildings***	***Total***
Balance as at 1 January 2017	5,134,018	**5,134,018**
Purchases	103	**103**
Disposals	(212,886)	**(212,886)**
Depreciation charge	(197,005)	**(197,005)**
Net fair value at 31 December 2017	**4,724,230**	**4,724,230**

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.

There was no revaluation of the land and buildings during 2018. The land and buildings were previously revalued on 31 December 2016.

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

(thousands of Armenian drams)

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

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

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

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

As at 31 December 2018 the Group has securities sold under repurchase agreements amounted to AMD 8,092,013 thousand which were classified as measured at FVOCI and amortised cost (2017: AMD 3,056,113 thousand classified as available-for-sale investments.

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 2018 as amounts due to banks with carrying amount of AMD 7,879,585 thousand, (2017: AMD 2,900,619 thousand).

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:

2018	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
Financial assets						
Loans and advances to customers – reverse repo	4,022,197	–	4,022,197	–	(4,022,197)	–
Total	**4,022,197**	**–**	**4,022,197**	**–**	**(4,022,197)**	**–**
Financial liabilities						
Amounts due to banks – repo	7,879,585	–	7,879,585	(7,879,585)	–	–
Total	**7,879,585**	**–**	**7,879,585**	**(7,879,585)**	**–**	**–**

2017	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
Financial assets						
Loans and advances to banks – reverse repo	7,025,413	–	**7,025,413**	–	(7,025,413)	–
Loans and advances to customers – reverse repo	4,820,511	–	**4,820,511**	–	(4,820,511)	–
Total	**11,845,924**	**–**	**11,845,924**	**–**	**(11,845,924)**	**–**
Financial liabilities						
Amounts due to banks – repo	2,900,619	–	**2,900,619**	(2,900,619)	–	–
Total	**2,900,619**	**–**	**2,900,619**	**(2,900,619)**	**–**	**–**

(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.

	2018			*2017*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	40,470,858	–	**40,470,858**	39,842,049	–	**39,842,049**
Trading securities	7,125	1,153,220	**1,160,345**	14,713	772,617	**787,330**
Amounts due from banks	4,110,562	1,101,925	**5,212,487**	9,014,185	1,532,170	**10,546,355**
Loans and advances to customers	59,315,748	136,966,584	**196,282,332**	64,318,196	100,849,304	**165,167,500**
Investment securities	2,137,102	16,219,352	**18,356,454**	2,295,265	20,863,093	**23,158,358**
Investment securities pledged under repurchase agreements	8,092,013	–	**8,092,013**	3,056,113	–	**3,056,113**
Property, plant and equipment	–	6,739,038	**6,739,038**	–	6,115,287	**6,115,287**
Intangible assets	–	296,331	**296,331**	–	226,538	**226,538**
Repossessed assets	1,977,614	–	**1,977,614**	1,832,119	–	**1,832,119**
Other assets	2,504,264	27,642	**2,531,906**	1,982,559	21,645	**2,004,204**
Total	**118,615,286**	**162,504,092**	**281,119,378**	**122,355,199**	**130,380,654**	**252,735,853**
Liabilities						
Amounts due to banks	13,890,807	72,563	**13,963,370**	15,100,852	72,615	**15,173,467**
Derivative liabilities	26,583	–	**26,583**	68,857	–	**68,857**
Amounts due to customers	164,802,436	22,411,680	**187,214,116**	148,295,966	25,618,191	**173,914,157**
Other borrowed funds	1,404,832	14,279,581	**15,684,413**	1,964,472	10,694,878	**12,659,350**
Debt securities issued	6,047,694	10,605,750	**16,653,444**	90,969	5,841,000	**5,931,969**
Current income tax liabilities	199,430	–	**199,430**	609,855	–	**609,855**
Deferred income tax liabilities	–	938,233	**938,233**	–	1,210,763	**1,210,763**
Other liabilities	1,459,076	23,537	**1,482,613**	1,310,863	26,010	**1,336,873**
Provisions on commitments and contingencies	70,056	–	**70,056**	–	–	**–**
Subordinated debt	–	5,852,819	**5,852,819**	–	5,854,396	**5,854,396**
Total	**187,900,914**	**54,184,163**	**242,085,077**	**167,441,834**	**49,317,853**	**216,759,687**
Net position	**(69,285,628)**	**108,319,929**	**39,034,301**	**(45,086,635)**	**81,062,801**	**35,976,166**

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 2018.

(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 2018								
	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	40,470,858	–	–	**40,470,858**	–	–	**–**	–	**40,470,858**
Trading securities	383,618	603	–	**384,221**	135,570	640,554	**776,124**	–	**1,160,345**
Amounts due from banks	3,140,377	970,185	–	**4,110,562**	38,746	–	**38,746**	1,063,179	**5,212,487**
Loans and advances to customers	6,546,582	10,081,740	42,687,426	**59,315,748**	83,775,096	53,191,488	**136,966,584**	–	**196,282,332**
Investment securities	13,440,942	651,768	832,007	**14,924,717**	2,199,340	148,255	**2,347,595**	1,084,142	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**	–	–	**–**	–	**8,092,013**
Property, plant and equipment	–	–	–	**–**	–	–	**–**	6,739,038	**6,739,038**
Intangible assets	–	–	–	**–**	–	–	**–**	296,331	**296,331**
Repossessed assets	–	–	1,977,614	**1,977,614**	–	–	**–**	–	**1,977,614**
Other assets	2,314,307	100,554	89,403	**2,504,264**	144	25,633	**25,777**	1,865	**2,531,906**
Total assets	**74,388,697**	**11,804,850**	**45,586,450**	**131,779,997**	**86,148,896**	**54,005,930**	**140,154,826**	**9,184,555**	**281,119,378**
Liabilities									
Amounts due to banks	12,489,381	1,278,285	123,141	**13,890,807**	–	–	**–**	72,563	**13,963,370**
Derivative financial liabilities	26,583	–	–	**26,583**	–	–	**–**	–	**26,583**
Amounts due to customers	77,145,649	15,486,147	72,170,640	**164,802,436**	21,901,888	509,792	**22,411,680**	–	**187,214,116**
Other borrowed funds	123,917	285,292	995,623	**1,404,832**	8,798,188	5,481,393	**14,279,581**	–	**15,684,413**
Debt securities issued	–	43,439	6,004,255	**6,047,694**	10,605,750	–	**10,605,750**	–	**16,653,444**
Income tax liabilities	–	–	199,430	**199,430**	–	–	**–**	–	**199,430**
Deferred tax liabilities	–	–	–	**–**	938,233	–	**938,233**	–	**938,233**
Other liabilities	850,211	175,480	433,385	**1,459,076**	–	23,537	**23,537**	–	**1,482,613**
Other provisions	70,056	–	–	**70,056**	–	–	**–**	–	**70,056**
Subordinated debt	–	–	–	–	5,852,819	–	**5,852,819**	–	**5,852,819**
Total liabilities	**90,705,797**	**17,268,643**	**79,926,474**	**187,900,914**	**48,096,878**	**6,014,722**	**54,111,600**	**72,563**	**242,085,077**
Net position	**(16,317,100)**	**(5,463,793)**	**(34,340,024)**	**(56,120,917)**	**38,052,018**	**47,991,208**	**86,043,226**	**9,111,992**	**39,034,301**
Accumulated gap	**(16,317,100)**	**(21,780,893)**	**(56,120,917)**		**(18,068,899)**	**29,922,309**			

35. Related party disclosures

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

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

(thousands of Armenian drams)

35. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

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

	2018			*2017*		
	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	**19,037**	**27,463,688**	**395,002**	**4,811**	**28,951,581**	**177,661**
Loans issued during the year	130,714	23,934,804	848,528	92,282	26,081,083	823,174
Loan repayments during the year	(142,415)	(29,561,192)	(642,764)	(78,056)	(27,568,976)	(605,833)
Loans outstanding at 31 December, gross	**7,336**	**21,837,300**	**600,766**	**19,037**	**27,463,688**	**395,002**
Less: allowance for loan impairment	(73)	(218,373)	(6,008)	(190)	(274,637)	(3,950)
Loans outstanding as of 31 December, net	**7,263**	**21,618,927**	**594,758**	**18,847**	**27,189,051**	**391,052**
Amounts due to customers						
Deposits at 1 January	**367,619**	**37,441,903**	**409,070**	**348,105**	**38,802,129**	**167,545**
Deposits received during the year	1,137,797	611,888,652	3,689,233	1,022,935	622,429,078	3,968,001
Deposits repaid during the year	(1,291,577)	(603,311,199)	(3,534,159)	(1,003,421)	(623,789,304)	(3,726,476)
Deposits as of 31 December	**213,839**	**46,019,356**	**564,144**	**367,619**	**37,441,903**	**409,070**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	**–**	**5,854,396**	**–**	**–**	**7,598,818**	**–**
Subordinated debt repaid during the year	–	(5,498)	–	–	(1,748,435)	–
Net result from FX revaluation	–	3,920	–	–	4,013	–
Subordinated debt as of 31 December	**–**	**5,852,818**	**–**	**–**	**5,854,396**	**–**
Items not recognised in the consolidated statement of financial position						
Guarantees given	–	190,815	124,683	–	283,558	140,044
Consolidated statement of comprehensive income						
Interest income	–	1,479,467	30,627	–	2,227,176	13,510
Fee and commission income	770	26,092	779	702	24,965	660
Other income	1,384	47,280	1,198	1,300	61,251	910
Interest expense	(4,207)	(1,984,209)	(16,051)	(3,771)	(2,285,300)	(15,985)
Impairment charge	117	56,264	(2,058)	(142)	14,879	(2,173)
Other expenses	–	(45,563)	(29,886)	–	(43,109)	(28,601)

Compensation of key management personnel was comprised of the following:

	2018	*2017*
Salaries and other short-term benefits	608,794	494,746
Total key management personnel compensation	**608,794**	**494,746**

(thousands of Armenian drams)

36. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
2018				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
2017				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

37. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2016	18, 20, 21	**–**	**9,096,208**	**7,598,818**	**16,695,026**
Proceeds from issue		5,848,861	6,240,921	–	**12,089,782**
Redemption		–	(2,703,308)	(1,453,077)	**(4,156,385)**
Foreign currency translation		7,176	(12,008)	4,013	**(819)**
Other		75,932	37,537	(295,358)	**(181,889)**
Carrying amount at 31 December 2017	18, 20, 21	**5,931,969**	**12,659,350**	**5,854,396**	**24,445,715**
Proceeds from issue		19,904,690	6,520,883	–	**26,425,573**
Redemption		(9,215,087)	(3,460,357)	–	**(12,675,444)**
Foreign currency translation		(87,353)	(29,749)	(4,226)	**(121,328)**
Other		119,225	(5,714)	2,649	**116,160**
Carrying amount at 31 December 2018	18, 20, 21	**16,653,444**	**15,684,413**	**5,852,819**	**38,190,676**

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

38. Capital adequacy

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

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

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

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2018 and 31 December 2017, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2018 and 31 December 2017.

(thousands of Armenian drams)

38. Capital adequacy (continued)

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 2018 and 2017:

	2018	***2017***
Tier 1 capital	33,211,591	29,670,418
Tier 2 capital	10,764,991	11,210,469
Total capital	**43,976,582**	**40,880,887**
Risk-weighted assets	**269,190,735**	**223,220,237**
Capital adequacy ratio	**16.34%**	**18.31%**

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.

Converse Bank Closed Joint-Stock Company

Consolidated financial statements

Year ended 31 December 2019
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 2019, 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 2019 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' 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
Allowance for impairment of loans and advances to customers	
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 *Financial Instruments* ("IFRS 9"). 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 deterioriation of financial position of the borrower. 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. 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. 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".	We focused our audit on the following: ▸ Analysis of credit risk models and assumptions used to determine ECL on portfolio basis; ▸ 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. 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 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. For significant credit-impaired exposures, we tested calculation of estimated future cash flows from sale of collateral and other sources. We also performed procedures regarding the consolidated financial statements disclosures of the Group's exposure to credit risk.

Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 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.

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- 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, related safeguards.

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) Eric Hayrapetyan

15 May 2020

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Consolidated statement of financial position

as of 31 December 2019

(thousands of Armenian drams)

	Notes	2019	2018
Assets			
Cash and cash equivalents	6	43,540,737	40,470,858
Trading securities	7	646,487	1,160,345
Amounts due from banks	8	20,549,255	5,212,487
Loans and advances to customers	9	226,444,991	196,282,332
Investment securities	10	20,326,218	18,356,454
Investment securities pledged under repurchase agreements	10	–	8,092,013
Property, plant and equipment	11	9,479,389	6,739,038
Intangible assets	12	337,260	296,331
Repossessed assets	13	2,023,928	1,977,614
Other assets	14	2,280,260	2,531,906
Total assets		**325,628,525**	**281,119,378**
Liabilities			
Amounts due to banks	15	6,913,474	13,963,370
Derivative financial liabilities	16	24,488	26,583
Amounts due to customers	17	222,172,144	187,214,116
Debt securities issued	18	19,920,288	16,653,444
Current income tax liabilities		644,892	199,430
Deferred income tax liabilities	19	947,921	938,233
Other borrowed funds	20	21,177,406	15,684,413
Lease liabilities	3	2,066,563	–
Subordinated debt	21	5,806,646	5,852,819
Provisions on commitments and contingencies	22	53,620	70,056
Other liabilities	14	1,659,775	1,482,613
Total liabilities		**281,387,217**	**242,085,077**
Equity	23		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		2,798,799	1,898,319
Revaluation surplus for land and buildings		3,487,892	3,057,881
Revaluation reserve for financial assets at FVOCI		789,418	1,651,410
Retained earnings		20,685,333	15,946,825
Total equity		**44,241,308**	**39,034,301**
Total equity and liabilities		**325,628,525**	**281,119,378**

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

Arthur Hakobyan — Chief Executive Officer – Chairman of Executive Management

Davit Azatyan — Chief Accountant

15 May 2020

The accompanying notes on pages 6 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

for the period ended 31 December 2019

(thousands of Armenian drams)

	Note	2019	2018
Interest revenue calculated using effective interest rate	24	23,965,984	21,013,954
Other interest revenue	24	127,397	100,724
Interest expense	24	(11,140,589)	(9,635,307)
Net interest income	24	**12,952,792**	**11,479,371**
Credit loss expense	25	(1,204,198)	(948,002)
Net interest income after credit loss expense		**11,748,594**	**10,531,369**
Fee and commission income	26	3,194,074	2,713,169
Fee and commission expense	26	(1,020,933)	(871,738)
Net trading income	27	1,093,450	1,539,144
Net gain/(loss) from foreign currency translation		65,291	(313,262)
Gains less losses from investment securities measured at fair value through other comprehensive income		597,430	884,812
Other income	28	1,250,732	720,816
Non-interest income		**5,180,044**	**4,672,941**
Personnel expenses	29	(5,540,998)	(4,906,867)
Depreciation of property and equipment	11	(1,099,011)	(601,397)
Amortization of intangible assets	12	(74,203)	(61,780)
Administrative and other operating expenses	29	(3,253,254)	(3,392,533)
Other impairment and provisions	25	–	(35,871)
Non-interest expense		**(9,967,466)**	**(8,998,448)**
Profit before income tax expense		**6,961,172**	**6,205,862**
Income tax expense	19	(1,509,035)	(1,310,591)
Profit for the year		**5,452,137**	**4,895,271**

The accompanying notes on pages 6 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the period ended 31 December 2019

(thousands of Armenian drams)

	Note	*2019*	*2018*
Profit for the year		**5,452,137**	**4,895,271**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
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	138,140
Income tax effect	19	(23,497)	(27,628)
Net other comprehensive income not to be reclassified subsequently to profit or loss		**650,271**	**110,512**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised gains/(losses) on debt securities at FVOCI		747,964	(6,368)
Realised gains on debt securities at FVOCI transferred to profit or loss		(597,436)	(884,812)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(205,430)	(9,375)
Income tax effect	19	9,882	180,111
Net other comprehensive loss to be reclassified subsequently to profit or loss		**(45,020)**	**(720,444)**
Other comprehensive income/(loss) for the year, net of tax		**605,251**	**(609,932)**
Total comprehensive income for the year		**6,057,388**	**4,285,339**

The accompanying notes on pages 6 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the period ended 31 December 2019

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2018	**16,416,633**	**63,233**	**1,243,064**	**2,261,342**	**3,181,072**	**12,153,968**	**35,319,312**
Distribution to general reserve	–	–	655,255	–	–	(655,255)	**–**
Dividends to shareholders	–	–	–	–	–	(570,350)	**(570,350)**
Transactions with owners	**–**	**–**	**655,255**	**–**	**–**	**(1,225,605)**	**(570,350)**
Profit for the year	–	–	–	–	–	4,895,271	**4,895,271**
Other comprehensive income for the year	–	–	–	(609,932)	–	–	**(609,932)**
Total comprehensive income for the year	**–**	**–**	**–**	**(609,932)**	**–**	**4,895,271**	**4,285,339**
Depreciation of revaluation reserve	–	–	–	–	(123,191)	123,191	**–**
Balance as at 31 December 2018	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**
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**

The accompanying notes on pages 6 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the period ended 31 December 2019

(thousands of Armenian drams)

	Note	*2019*	*2018*
Cash flows from operating activities			
Interest received		23,760,455	21,169,444
Interest paid		(10,856,291)	(8,547,527)
Fees and commissions received		3,194,074	2,713,169
Fees and commissions paid		(1,020,933)	(871,738)
Net trading income received		1,288,369	1,519,121
Other income received		823,570	720,766
Personnel expenses paid		(5,442,652)	(4,779,790)
Administrative and other operating expenses paid		(3,294,349)	(3,464,277)
Cash flows from operating activities before changes in operating assets and liabilities		**8,452,243**	**8,459,168**
Net (increase)/decrease in operating assets			
Trading securities		579,843	(279,974)
Amounts due from banks		(6,349,407)	5,317,501
Loans and advances to customers		(33,296,592)	(30,751,558)
Repossessed assets		837,103	475,452
Other assets		517,517	(483,322)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		(7,095,225)	545,372
Amounts due to customers		35,646,857	9,515,901
Derivative financial liabilities		(68,932)	(43,252)
Other liabilities		112,256	18,713
Net cash used in operating activities before income tax		**(664,337)**	**(7,225,999)**
Income tax paid		(1,189,610)	(1,676,849)
Net cash used in operating activities		**(1,853,947)**	**(8,902,848)**
Cash flows from investing activities			
Purchase of investment securities		(9,391,046)	(12,753,608)
Proceeds from sale and redemption of investment securities		16,326,197	11,120,492
Purchase of property and equipment		(844,263)	(1,225,342)
Proceeds from sale of property and equipment		50,337	6,380
Purchase of intangible assets		(115,132)	(131,572)
Net cash from / (used) in investing activities		**6,026,093**	**(2,983,650)**
Cash flows from financing activities			
Proceeds from debt securities issued		14,211,537	19,904,690
Redemption of debt securities issued		(10,818,447)	(9,215,087)
Proceeds from other borrowed funds		8,141,849	6,520,883
Repayment of other borrowed funds		(2,701,526)	(3,460,357)
Repayment of lease liabilities		(317,280)	–
Dividends paid to shareholders		(850,381)	(570,350)
Net cash from financing activities		**7,665,752**	**13,179,779**
Net increase in cash and cash equivalents		**11,837,898**	**1,293,281**
Cash and cash equivalents at the beginning of the year		40,470,858	39,842,049
Effect of foreign currency obligatory reserve reclassification	6	(8,811,998)	–
Effect of exchange rates changes on cash and cash equivalents		40,637	(658,628)
Effect of expected credit losses on cash and cash equivalents		3,342	(5,844)
Cash and cash equivalents at the end of the year	6	**43,540,737**	**40,470,858**

The accompanying notes on pages 6 to 69 are an integral part of these consolidated financial statements.

(thousands of Armenian drams)

1. Principal activities

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

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

The Bank's main office is in Yerevan and its 36 branches are located in Yerevan and in different regions.

As of 31 December 2019, the number of Bank's employees is 803, 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:

Shareholder	***2019, %***	***2018, %***
Advanced Global Investments LLC	80.94	80.94
Haypost Trust Management BV	14.06	14.06
Mother See of Holy Etchmiadzin	5.00	5.00
Total	**100.0**	**100.0**

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

Armenian business environment

2019 was a positive year for Armenian economy as GDP growth rate comprised 7.6%. Main contributors of the growth were trade and services. As an emerging market, Armenia continues economic and regulatory reforms.

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

(thousands of Armenian drams)

3. Summary of accounting policies

Changes in accounting policies

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

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

Assets	
Property and equipment	2,239,693
Total assets	**2,239,693**
Liabilities	
Lease liabilities	2,239,693
Total liabilities	**2,239,693**
Total adjustment on equity	**–**

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finances were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

<u>Leases previously accounted for as operating leases</u>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- ► Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ► Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- ► Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ► Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- ► Right-of-use assets of AMD 2,239,693 thousand were recognised and included in Property and equipment;
- ► Additional Lease liabilities of AMD 2,239,693 thousand were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**3,472,861**
Weighted average incremental borrowing rate as at 1 January 2019	10.66%
Discounted operating lease commitments at 1 January 2019	**2,350,200**
Less:	
Commitments relating to short-term leases	(24,029)
Commitments relating to leases of low-value assets	(60,111)
Reclassed to other items	(26,367)
Lease liabilities as at 1 January 2019	**2,239,693**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

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.

<u>Right-of-use assets</u>

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Lease liabilities

At the commencement date of the lease, the 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 2,500 thousand or equivalent Armenian drams). 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.

Significant judgement in 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.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	***Lease liabilities***
As at 1 January 2019	**2,239,693**	**2,239,693**
Additions	135,605	125,278
Depreciation expense	(391,253)	−
Interest expense	−	226,448
Payments	−	(524,856)
As at 31 December 2019	**1,984,045**	**2,066,563**

The Group recognised rent expense from short-term leases of AMD 4,166 thousand and leases of low-value assets of AMD 32,690 thousand. The Group had total cash outflows for leases of AMD 524,856 thousand in 2019 (2018: AMD 575,703 thousand).

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group’s current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group’s current practice is in line with these amendments, they 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 contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

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

Borrowings

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

(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.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

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

Financial liabilities

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

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

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

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

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

Property and equipment

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

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

	Useful life (years)	***Rate (%)***
Buildings	20	5
Computers	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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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 2019 and 31 December 2018 were AMD 479.70 and AMD 483.75 to 1 USD, respectively.

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.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes 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. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier.
The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

4. Significant accounting judgments and estimates

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

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

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method 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).

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

Impairment losses on financial assets

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

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

5. Segment information

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 31 December 2019 or 2018.

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

As of 31 December 2019	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
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	(363,431)	(840,767)	–	**(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	**7,195,803**	**450,178**	**(684,809)**	**6,961,172**
Income tax expense	(1,560,135)	(97,467)	148,567	**(1,509,035)**
Profit for the period	**5,635,668**	**352,711**	**(536,242)**	**5,452,137**

(thousands of Armenian drams)

5. Segment information (continued)

As of 31 December 2018	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	10,116,816	8,062,940	2,834,198	**21,013,954**
Other interest revenue	101	7,022	93,601	**100,724**
Interest expense	(3,206,393)	(4,827,378)	(1,601,536)	**(9,635,307)**
Net interest income	**6,910,524**	**3,242,584**	**1,326,263**	11,479,371
Credit loss expense	(310,714)	(637,288)	–	**(948,002)**
Fee and commission income	1,985,758	662,060	65,351	**2,713,169**
Fee and commission expense	(617,524)	(254,214)	–	**(871,738)**
Other non-interest income	1,011,010	808,159	1,012,341	**2,831,510**
Non-interest expense	(3,920,905)	(3,723,592)	(1,353,951)	**(8,998,448)**
Segment profit	**5,058,149**	**97,709**	**1,050,004**	6,205,862
Income tax expense	(1,068,210)	(20,635)	(221,746)	**(1,310,591)**
Profit for the period	**3,989,939**	**77,074**	**828,258**	**4,895,271**

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

	As of 31 December 2019				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
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**

	As of 31 December 2018				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
Assets	89,167,642	107,109,553	32,840,387	52,001,796	**281,119,378**
Liabilities	83,839,754	107,451,030	48,103,961	2,690,332	**242,085,077**

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 2019 and 31 December 2018 are as follows:

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)

5. Segment information (continued)

Revenue from contracts with customers (continued)

As of 31 December 2018	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	1,073,999	–	–	**1,073,999**
Wire transfer fees	544,656	184,778	–	**729,434**
Settlement operation	78,454	113,845	65,351	**257,650**
Loan accounts servicing fees	103,287	152,161	–	**255,448**
Guarantees and letters of credit	281	49,281	–	**49,562**
Other	185,081	161,995	–	**347,076**
Total revenue from contracts with customers	**1,985,758**	**662,060**	**65,351**	**2,713,169**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019	*31 December 2018*
Current accounts with the Central Bank, including obligatory reserves in AMD	26,171,105	29,218,035
Cash on hand	11,405,370	8,731,933
Placements with other banks	5,966,764	2,526,734
Less – allowance for impairment	(2,502)	(5,844)
Cash and cash equivalents	**43,540,737**	**40,470,858**

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 2019	*31 December 2018*
ECL allowance as at 1 January 2019	**5,844**	**6,004**
Changes in ECL	(3,342)	(160)
At 31 December 2019	**2,502**	**5,844**

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 2% (2018: 2%) of the amounts attracted in Armenian drams and 18% (2018: 18%) of the amounts attracted in foreign currencies

As of 31 December 2019, current accounts with Central Bank of Armenia include obligatory reserve in the amount of AMD 28,171,541 thousand (2018: AMD 23,711,584 thousand).

Before 2019, the Bank's ability to withdraw such deposit was not restricted by the statutory legislation, and these amounts were fully classified as cash and cash equivalents. however, if the Bank failed to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams, and minimum average amount of daily reserve for amounts attracted in foreign currency, the sanctions might be imposed.

In 2019 the regulation changed. Starting from June 2019, the banks are required to maintain 12% of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 6% – in the foreign currency.

Moreover, the banks' ability to withdraw reserved amounts in foreign currency is restricted. After the legislation change, the Group classifies obligatory reserves deposited in foreign currency as amounts due from banks (Note 8).

As of 31 December 2019 placements with other banks in the amount of AMD 5,442,954 thousand (91.2%) were due from three banks (2018: AMD 2,128,984 thousand (84.3%) were due from three banks).

(thousands of Armenian drams)

7. Trading securities

Trading securities owned comprise:

	31 December 2019	*31 December 2018*
Debt securities issued by the RA government	369,970	383,618
Investments in funds	276,517	640,554
Corporate bonds	–	136,173
Trading securities	**646,487**	**1,160,345**

8. Amounts due from banks

Amounts due from banks comprise:

	31 December 2019	*31 December 2018*
Foreign currency obligatory reserves with CBA	8,811,998	–
Deposits and deposited funds with CBA	4,546,377	1,142,500
Reverse repurchase agreements	3,054,369	–
Loans and deposits to banks	2,419,415	1,937,868
Receivables from payment and settlement operations	814,008	1,286,688
Other amounts	913,881	858,086
	20,560,048	**5,225,142**
Less – allowance for impairment	(10,793)	(12,655)
Amounts due from banks	**20,549,255**	**5,212,487**

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

As of 31 December 2019 the balances included loans and deposits to banks in amount of AMD 2,419,415 thousand due from two counterparties (2018: AMD 1,937,868 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 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)

8. Amounts due from banks (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the year ended 31 December 2018 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2018	**10,546,355**	**10,546,355**
New assets originated or purchased	4,204,943	**4,204,943**
Assets repaid	(9,014,185)	**(9,014,185)**
Foreign exchange adjustments	(511,971)	**(511,971)**
At 31 December 2018	**5,225,142**	**5,225,142**

	Stage 1	*Total*
ECL allowance as at 1 January 2018	**5,979**	**5,979**
New assets originated or purchased	14,951	**14,951**
Assets repaid	(7,963)	**(7,963)**
Foreign exchange adjustments	(312)	**(312)**
At 31 December 2018	**12,655**	**12,655**

9. Loans and advances to customers

	31 December 2019	*31 December 2018*
Loans to customers	187,856,798	160,878,193
Overdrafts	35,709,999	35,459,413
Reverse repurchase agreements	7,066,707	4,022,197
Financial lease receivables	338,427	300,884
Factoring	144,376	17,406
Letter of credit	2,619	3,634
	231,118,926	**200,681,727**
Less − allowance for loan impairment	(4,673,935)	(4,399,395)
Total loans and advances to customers	**226,444,991**	**196,282,332**

	31 December 2019	*31 December 2018*
Large business loans	79,327,720	71,377,779
SME loans	40,479,951	39,582,122
Consumer loans	45,180,825	35,520,946
Mortgage loans	44,600,296	35,030,730
Gold loans	21,530,134	19,170,150
Gross loans and advances to customers	**231,118,926**	**200,681,727**
Less – allowance for impairment	(4,673,935)	(4,399,395)
Total loans and advances to customers	**226,444,991**	**196,282,332**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

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

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**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

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**

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**

(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 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**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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:

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
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**

An analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans and SME loans during the year ended 31 December 2018 is as follows:

Business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**93,069,513**	**574,521**	**4,636,504**	**98,280,538**
New assets originated or purchased	60,193,620	–	–	**60,193,620**
Assets repaid	(45,397,351)	(564,339)	(310,334)	**(46,272,024)**
Transfers to Stage 2	(1,677,555)	1,677,555	–	**–**
Transfers to Stage 3	–	(1,606,726)	1,606,726	**–**
Recoveries	–	–	317,047	**317,047**
Amounts written off	–	–	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(376,561)	(13)	(32,710)	**(409,284)**
At 31 December 2018	**105,811,666**	**80,998**	**5,067,237**	**110,959,901**

Business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**745,396**	**20,554**	**2,733,496**	**3,499,446**
New assets originated or purchased	559,390	–	–	**559,390**
Assets repaid	(214,186)	(14,645)	(27,933)	**(256,764)**
Transfers to Stage 2	(70,190)	70,190	–	**–**
Transfers to Stage 3	–	(61,664)	61,664	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	14,254	98,652	**112,906**
Unwinding of discount (recognised in interest revenue)	–	–	6,780	**6,780**
Changes to models and inputs used for ECL calculations	(94,949)	(3,912)	25,677	**(73,184)**
Recoveries	–	–	317,047	**317,047**
Amounts written off	–	–	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(4,504)	(4)	(19,796)	**(24,304)**
At 31 December 2018	**920,957**	**24,773**	**2,045,591**	**2,991,321**

(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 during the year ended 31 December 2018 is as follows:

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**26,143,304**	**289,776**	**800,278**	**27,233,358**
New assets originated or purchased	20,605,231	–	–	**20,605,231**
Assets repaid	(11,266,081)	(142,306)	(236,399)	**(11,644,786)**
Transfers to Stage 1	27,548	(24,936)	(2,612)	**–**
Transfers to Stage 2	(1,717,958)	1,720,771	(2,813)	**–**
Transfers to Stage 3	–	(1,351,180)	1,351,180	**–**
Recoveries	–	–	516,781	**516,781**
Amounts written off	–	–	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(63,488)	(47)	(2,269)	**(65,804)**
At 31 December 2018	**33,728,556**	**492,078**	**1,300,312**	**35,520,946**

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**303,328**	**48,133**	**257,744**	**609,205**
New assets originated or purchased	155,160	–	–	**155,160**
Assets repaid	(109,468)	(15,166)	(47,434)	**(172,068)**
Transfers to Stage 1	5,580	(4,055)	(1,525)	**–**
Transfers to Stage 2	(117,601)	118,986	(1,385)	**–**
Transfers to Stage 3	–	(102,818)	102,818	**–**
Impact on period end ECL of exposures transferred between stages during the period	(5,337)	11,501	430,652	**436,816**
Unwinding of discount (recognised in interest revenue)	–	–	21,827	**21,827**
Changes to models and inputs used for ECL calculations	(116,743)	(21,952)	138,946	**251**
Recoveries	–	–	516,781	**516,781**
Amounts written off	–	–	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(791)	(9)	(307)	**(1,107)**
At 31 December 2018	**114,128**	**34,620**	**294,283**	**443,031**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2018 is as follows:

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**26,199,049**	**263,824**	**2,149,787**	**28,612,660**
New assets originated or purchased	12,229,856	–	–	**12,229,856**
Assets repaid	(4,804,836)	(41,682)	(226,570)	**(5,073,088)**
Transfers to Stage 1	68,159	(65,358)	(2,801)	**–**
Transfers to Stage 2	(468,022)	482,874	(14,852)	**–**
Transfers to Stage 3	–	(518,556)	518,556	**–**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(817,117)**
Foreign exchange adjustments	(145,538)	(141)	(1,402)	**(147,081)**
At 31 December 2018	**33,078,668**	**120,961**	**1,831,101**	**35,030,730**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**321,234**	**50,896**	**1,095,993**	**1,468,123**
New assets originated or purchased	36,059	–	–	**36,059**
Assets repaid	(29,739)	(7,361)	(58,042)	**(95,142)**
Transfers to Stage 1	16,278	(15,051)	(1,227)	**–**
Transfers to Stage 2	(65,396)	71,875	(6,479)	**–**
Transfers to Stage 3	–	(81,444)	81,444	**–**
Impact on period end ECL of exposures transferred between stages during the period	(15,688)	1,442	26,488	**12,242**
Unwinding of discount (recognised in interest revenue)	–	–	18,684	**18,684**
Changes to models and inputs used for ECL calculations	(186,894)	(9,772)	107,878	**(88,788)**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(817,117)**
Foreign exchange adjustments	(1,512)	(25)	(726)	**(2,263)**
At 31 December 2018	**74,342**	**10,560**	**672,396**	**757,298**

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold loans during the year ended 31 December 2018 is as follows:

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**15,792,726**	**87,567**	**24,002**	**15,904,295**
New assets originated or purchased	17,520,988	–	–	**17,520,988**
Assets repaid	(14,036,696)	(70,816)	(30,344)	**(14,137856)**
Transfers to Stage 1	5,413	(5,413)	–	**–**
Transfers to Stage 2	(608,374)	608,374	–	**–**
Transfers to Stage 3	–	(360,331)	360,331	**–**
Recoveries	–	–	32,428	**32,428**
Amounts written off	–	–	(143,074)	**(143,074)**
Foreign exchange adjustments	(6,535)	(95)	(1)	**(6,631)**
At 31 December 2018	**18,667,522**	**259,286**	**243,342**	**19,170,150**

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**9,503**	**5,161**	**11,201**	**25,865**
New assets originated or purchased	173,944	–	–	**173,944**
Assets repaid	(7,878)	(3,273)	(6,540)	**(17,691)**
Transfers to Stage 1	299	(299)	–	**–**
Transfers to Stage 2	(142,987)	142,987	–	**–**
Transfers to Stage 3	–	(117,961)	117,961	**–**
Impact on period end ECL of exposures transferred between stages during the period	(293)	2,265	131,394	**133,366**
Unwinding of discount (recognised in interest revenue)	–	–	1,638	**1,638**
Changes to models and inputs used for ECL calculations	1,255	24	–	**1,279**
Recoveries	–	–	32,428	**32,428**
Amounts written off	–	–	(143,074)	**(143,074)**
Foreign exchange adjustments	(4)	(5)	(1)	**(10)**
At 31 December 2018	**33,839**	**28,899**	**145,007**	**207,745**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties, 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*						
		Cash	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
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**

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*					
		Property	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2018							
Corporate lending	5,067,237	5,630,148	331,024	(2,556,426)	**3,404,746**	1,662,491	2,045,591
Mortgages	1,831,101	1,952,424	–	(735,993)	**1,216,431**	614,670	672,396
Gold	243,342	–	189,452	(10,063)	**179,389**	63,953	145,007
Consumer lending	1,300,312	1,572,468	90,328	(865,718)	**797,078**	503,234	294,283
	8,441,992	**9,155,040**	**610,804**	**(4,168,200)**	**5,597,644**	**2,844,348**	**3,157,277**

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

Concentration of loans and advances to customers

As at 31 December 2019 the Group had a concentration of loans totalling to AMD 48,564,640 thousand due from the ten largest groups of borrowers (21.01% of gross loan portfolio) (2018: AMD 41,852,275 thousand or 20.9% of gross loan portfolio). An allowance for impairment in amount of AMD 1,396,186 thousand (2018: AMD 1,355,805 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	31 December 2019	*31 December 2018*
Private companies	110,354,663	105,218,342
Individuals	113,067,740	90,611,259
Financial organizations	7,066,707	4,022,198
State companies	629,816	829,928
	231,118,926	**200,681,727**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Concentration of loans and advances to customers (continued)

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

	31 December 2019	*31 December 2018*
Consumer loans to individuals	66,711,250	54,691,087
Mortgage	44,600,296	35,030,730
Trade	37,195,285	29,844,164
Construction	24,775,667	24,779,316
Agriculture (including loans to individuals)	13,515,156	11,188,845
Services	9,276,072	10,714,497
Manufacturing	8,896,100	8,104,958
Energy	3,349,906	8,403,730
Transport and communication	2,965,134	1,780,057
Other	19,834,060	16,144,343
Gross loan portfolio	**231,118,926**	**200,681,727**
Less allowance for loan impairment	(4,673,935)	(4,399,395)
Total	**226,444,991**	**196,282,332**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2019 is as follows:

	31 December 2019	*31 December 2018*
Gross investment in finance lease, receivable		
Not later than 1 year	75,230	265,912
1-5 years	324,670	47,777
More than 5 years	82,865	–
	482,765	**313,689**
Unearned future finance income on finance lease	(144,338)	(12,805)
Net investment in financial lease, before impairment allowance	**338,427**	**300,884**
Impairment allowance	(3,398)	(231,623)
Net investment in finance lease	**335,029**	**69,261**

(thousands of Armenian drams)

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2019	*31 December 2018*
Debt securities at amortised cost		
RA government bonds	726,031	584,339
RA corporate bonds	959,738	–
Less – allowance for impairment	(5,809)	(281)
Debt securities at amortised cost	**1,679,960**	**584,058**
RA government bonds pledged under repo	–	2,087,000
Less – allowance for impairment	–	(9,542)
Debt securities at amortised pledged under repurchase agreements	**–**	**2,077,458**
Debt securities at FVOCI		
RA government bonds	13,102,410	10,862,103
RA corporate bonds	4,626,604	5,019,928
Corporate bonds of non-OECD countries	854,117	806,022
Debt securities at FVOCI	**18,583,131**	**16,688,053**
RA government bonds	–	6,014,555
Debt securities at FVOCI pledged under repurchase agreements	**–**	**6,014,555**
Equity securities at FVOCI		
Equity shares of OECD countries	5,333	1,026,549
RA equity shares	57,794	57,794
Equity securities at FVOCI	**63,127**	**1,084,343**
Total	**20,326,218**	**26,448,467**

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

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

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2019	**9,823**	**9,823**
New assets originated or purchased	5,809	**5,809**
Assets repaid	(9,823)	**(9,823)**
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 amortized cost at 31 December 2018 is as follows:

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2018	**346,140**	**346,140**
New assets originated or purchased	2,671,163	**2,671,163**
Assets repaid	(345,964)	**(345,964)**
At 31 December 2018	**2,671,339**	**2,671,339**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2018	**2,064**	**2,064**
New assets originated or purchased	9,824	**9,824**
Assets repaid	(2,065)	**(2,065)**
At 31 December 2018	**9,823**	**9,823**

(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 FVOCI is as follows:

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying value as at 1 January 2019	**22,702,608**	**22,702,608**
New assets originated or purchased	8,352,213	**8,352,213**
Assets repaid	(1,553,255)	**(1,553,255)**
Assets sold	(10,918,435)	**(10,918,435)**
At 31 December 2019	**18,583,131**	**18,583,131**

Debt securities at FVOCI	*Stage 1*	*Total*
ECLs as at 1 January 2019	**274,838**	**274,838**
New assets originated or purchased	22,101	**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**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI 31 December 2018 is as follows:

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	**24,342,546**	**24,342,546**
New assets originated or purchased	10,220,585	**10,220,585**
Assets repaid	(3,950,020)	**(3,950,020)**
Assets sold	(7,910,503)	**(7,910,503)**
At 31 December 2018	**22,702,608**	**22,702,608**

Debt securities at FVOCI	*Stage 1*	*Total*
ECLs as at 1 January 2018	**284,213**	**284,213**
New assets originated or purchased	134,266	**134,266**
Assets repaid	(16,723)	**(16,723)**
Assets sold	(90,929)	**(90,929)**
Changes to models and inputs used for ECL calculations	(35,989)	**(35,989)**
At 31 December 2018	**274,838**	**274,838**

(thousands of Armenian drams)

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**–**	**11,854,579**
IFRS 16 impact	–	–	–	–	–	–	2,239,693	**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**

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Total*
Cost or revalued amount							
31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Additions	83,003	85,601	310	688,049	158,657	209,722	**1,225,342**
Disposals and write-offs	–	(66,617)	(347)	(329,883)	(54,592)	(764)	**(452,203)**
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**11,854,579**
Accumulated depreciation							
31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Depreciation charge	193,204	36,331	318	241,867	35,190	94,487	**601,397**
Disposals and write-offs	–	(66,606)	–	(329,731)	(54,908)	(764)	**(452,009)**
31 December 2018	**385,992**	**629,088**	**206,385**	**2,535,956**	**628,302**	**729,818**	**5,115,541**
Net book value							
31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**
31 December 2018	**4,614,029**	**141,096**	**4,230**	**1,139,017**	**289,254**	**551,412**	**6,739,038**

Revaluation of assets

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

The net book value of buildings that would have been recognized under the historic cost method is AMD 819,487 thousand as of 31 December 2019 (2018: AMD 780,998 thousand).

Fully depreciated items

As of 31 December 2019 property, plant and equipment included fully depreciated assets in amount of AMD 1,952,561 thousand (2018: AMD 2,088,194 thousand).

Property, plant and equipment in the phase of installation

As of 31 December 2019 property, plant and equipment included assets in the phase of installation in amount of AMD 123,057 thousand (2018: AMD 155,545 thousand).

(thousands of Armenian drams)

11. Property and equipment (continued)

Restrictions on title of property, plant and equipment

As of 31 December 2019 and 31 December 2018, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

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

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 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**

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2017	**714,891**	**66,816**	**172,834**	**954,541**
Additions	53,024	78,549	–	**131,573**
Disposals and write-offs	–	–	(126)	**(126)**
31 December 2018	**767,915**	**145,365**	**172,708**	**1,085,988**
Accumulated amortization and impairment				
31 December 2017	**633,036**	**44,468**	**50,499**	**728,003**
Amortisation charge	38,933	7,748	15,099	**61,780**
Disposals and write-offs	–	–	(126)	**(126)**
31 December 2018	**671,969**	**52,216**	**65,472**	**789,657**
Net book value				
31 December 2017	**81,855**	**22,348**	**122,335**	**226,538**
31 December 2018	**95,946**	**93,149**	**107,236**	**296,331**

Fully amortized items

As of 31 December 2019, intangible assets included fully amortized assets in amount of AMD 595,503 thousand (2018: AMD 569,700 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 2019 and 31 December 2018 are shown below:

	31 December 2019	*31 December 2018*
Land and buildings	1,994,157	1,947,843
Other assets	29,771	29,771
Total repossessed collateral	**2,023,928**	**1,977,614**

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. During 2019 the Group repossessed assets in amount of AMD 675,124 thousand (2018: AMD 619,797 thousand). During 2018 the Group recognized impairment loss on repossessed assets in amount of AMD 35,871 thousand.

14. Other assets and liabilities

Other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Accounts receivables	473,465	280,237
Receivables from unsettled transactions	167,712	227,772
Receivables from cash transfers	50,897	51,892
Total other financial assets	**692,074**	**559,901**
Less – allowance for impairment of other financial assets	(17,427)	(25,726)
Total net other financial assets	**674,647**	**534,175**
Other non-financial assets		
Precious metals	1,018,709	945,824
Materials	295,309	213,224
Prepayments to suppliers	162,013	404,411
Other prepaid taxes	76,796	367,742
Unamortized insurance premium	35,072	56,743
Settlements with employees	15,849	7,922
Other	1,865	1,865
Total other non-financial assets	**1,605,613**	**1,997,731**
Other assets	**2,280,260**	**2,531,906**

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**15,401**	**66**	**10,259**	**25,726**
Assets originated and repaid (net amount)	(7,451)	(59)	(9,717)	**(17,227)**
Transfers to Stage 1	278	(2)	(276)	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	–	(1)	1	**–**
Impact on period end ECL of exposures transferred between stages during the period	212	70	4,116	**4,398**
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**

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**35,030**	**280**	**8,111**	**43,421**
Assets originated and repaid (net amount)	25,159	(197)	(1,975)	**22,987**
Transfers to Stage 1	9	(9)	–	**–**
Transfers to Stage 3	(44,426)	(2)	44,428	**–**
Recoveries	–	–	42,921	**42,921**
Amounts written off	–	–	(82,852)	**(82,852)**
Impact on period end ECL of exposures transferred between stages during the period	(423)	(6)	(374)	**(803)**
Foreign exchange adjustments	52	–	–	**52**
At 31 December 2018	**15,401**	**66**	**10,259**	**25,726**

Other liabilities comprise:

	31 December 2019	*31 December 2018*
Other financial liabilities		
Due to personnel	833,744	727,471
Accounts payables	394,400	276,769
Total other financial liabilities	**1,228,144**	**1,004,240**
Other non-financial liabilities		
Tax payable, other than income tax	400,969	442,064
Grants related to assets	21,164	23,584
Other	9,498	12,725
Total other non-financial liabilities	**431,631**	**478,373**
Total other liabilities	**1,659,775**	**1,482,613**

15. Amounts due to banks

Amounts due to banks comprise:

	31 December 2019	*31 December 2018*
Loans from banks	5,131,658	5,862,785
Unsettled transactions	195,590	–
Correspondent accounts of other banks	145,943	114,833
Repurchase agreements with banks	–	3,876,869
Repurchase agreements with CBA	–	4,002,716
Other liabilities	1,440,283	106,167
Total amounts due to banks	**6,913,474**	**13,963,370**

As of 31 December 2019 the Group has received loans from 4 banks (2018: 4 banks).

As of 31 December 2019 87.1% of correspondent accounts of other banks are concentrated within 1 counterparty (2018: 83.9% within 1 counterparty).

(thousands of Armenian drams)

16. Derivative financial instruments

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

	31 December 2019			*31 December 2018*		
	Notional	*Fair values*		*Notional*	*Fair value*	
Foreign exchange contracts	***amount***	***Asset***	***Liability***	***amount***	***Asset***	***Liability***
Swaps – foreign currency	4,650,063	–	24,488	9,430,627	–	26,583
Total derivative liabilities	**4,650,063**	**–**	**24,488**	**9,430,627**	**–**	**26,583**

As of 31 December 2019, the Group has positions in the following types of derivatives:

Swaps

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

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2019	*31 December 2018*
Corporate customers		
Current/settlement accounts	55,943,380	42,974,649
Time deposits	66,314,442	58,623,562
	122,257,822	**101,598,211**
Retail customers		
Current/settlement accounts	27,979,337	27,693,588
Time deposits	71,934,985	57,922,317
	99,914,322	**85,615,905**
Amounts due to customers	**222,172,144**	**187,214,116**

As of 31 December 2019 included in amounts due to customers are deposits amounting to AMD 36,954,707 thousand (2018: AMD 30,280,617 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 2019 the aggregate balance of top ten customers of the Group amounts to AMD 88,104,066 thousand (2018: AMD 73,244,218 thousand) or 39.66% of total customer accounts (2018: 39.5%).

18. Debt securities issued

Debt securities issued consisted of the following:

	31 December 2019	*31 December 2018*
Domestic bonds in USD	12,121,332	9,769,113
Domestic bonds in AMD	5,092,932	4,095,754
Domestic bonds in EUR	2,706,024	2,788,577
Debt securities issued	**19,920,288**	**16,653,444**

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

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	31 December 2019	*31 December 2018*
Current tax charge	1,515,072	1,266,424
Adjustment of current income tax of previous years	120,000	–
Deferred tax charge/(credit) – origination and reversal of temporary differences	(126,037)	44,167
Total income tax expense	**1,509,035**	**1,310,591**

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 20%). For periods starting from 1 January 2020 the corporate income tax rate will be 18%. 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 2019	*31 December 2018*
Profit before tax	**6,961,172**	**6,205,862**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**1,392,234**	**1,241,172**
Non-deductible expenses	116,801	69,419
Income tax expense	**1,509,035**	**1,310,591**

Deferred tax assets and liabilities as of 31 December 2019 and 31 December 2018 and their movements for the respective periods comprise:

			Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 31 December 2017	*Effect of adoption of IFRS 9*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2018*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2019*
Other liabilities	111,835	–	24,042	–	135,877	4,338	–	140,215
Repossessed assets	50,825	–	7,174	–	57,999	(5,800)	–	52,199
Loans and advances to customers	(604,119)	147,858	(113,463)	–	(569,724)	(145,402)	–	(715,126)
Investment securities at FVOCI	(539,122)	–	1,875	152,483	(384,764)	233,643	(13,615)	(164,736)
Property, plant and equipment	(223,303)	–	41,989	–	(181,314)	60,293	(122,110)	(243,131)
Other impairment and provisions	(4,083)	16,356	(3,859)	–	8,414	(20,623)	–	(12,209)
Amounts due to customers	(2,796)	–	(1,925)	–	(4,721)	(412)	–	(5,133)
Net deferred tax liabilities	**(1,210,763)**	**164,214**	**(44,167)**	**152,483**	**(938,233)**	**126,037**	**(135,725)**	**(947,921)**

20. Other borrowed funds

Other borrowed funds consisted of the following:

	31 December 2019	*31 December 2018*
Loans from CBA	5,565,432	5,956,021
Loans from refinancing credit organizations	12,649,697	9,380,933
Loans from international financial institution	2,912,194	297,376
Loans from the Government of the RA	50,083	50,083
Other borrowed funds	**21,177,406**	**15,684,413**

(thousands of Armenian drams)

20. Other borrowed funds (continued)

As of 31 December 2019 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.

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

Covenants

As at 31 December 2019 and 31 December 2018 the Group was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	31 December 2019	***31 December 2018***
Subordinated debt provided by related party	5,806,646	5,852,819
Subordinated loans	**5,806,646**	**5,852,819**

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

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity in January 2023 (2018: 7.12% and with contractual maturity in January 2023) (see Note 35).

22. Commitments and contingencies

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Commitments and contingencies

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

	31 December 2019	*31 December 2018*
Credit related commitments		
Undrawn loan commitments	13,260,404	12,491,499
Financial guarantees	3,225,978	3,677,373
Letters of credit	1,834,846	1,484,715
	18,321,228	**17,653,587**
Operating lease commitments		
Not later than 1 year	–	642,068
Later than 1 year but not later than 5 years	–	1,594,628
Later than 5 years	–	1,236,165
	–	**3,472,861**
Commitments and contingencies	**18,321,228**	**21,126,448**
Provisions for ECL for credit related commitments	53,620	70,056

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

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2019	**13,783**	**13,783**
New exposures	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**

Letters of credit	***Stage 1***	***Total***
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**

Financial guarantees	***Stage 1***	***Total***
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**

An analysis of changes in the ECLs at 31 December 2018 is as follows:

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2018	**28,603**	**28,603**
New exposures	7,823	**7,823**
Expired exposures	(22,500)	**(22,500)**
Foreign exchange adjustments	(143)	**(143)**
At 31 December 2018	**13,783**	**13,783**

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2018	**680**	**680**
New exposures	16,203	**16,203**
Expired exposures	(680)	**(680)**
At 31 December 2018	**16,203**	**16,203**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2018	**38,450**	**38,450**
New exposures	24,178	**24,178**
Expired exposures	(22,194)	**(22,194)**
Foreign exchange adjustments	(364)	**(364)**
At 31 December 2018	**40,070**	**40,070**

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 2019 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 2019 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2018: AMD 16,416,633 thousand).

In accordance with the Bank's statues, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2018: 54,722 ordinary shares and 333 privileged shares).

The respective shareholdings as at 31 December 2019 and 31 December 2018 may be specified as follows:

	31 December 2019		***31 December 2018***	
	Paid-in share capital	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	16,416,633	**100**	**16,416,633**	**100**

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

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 decision of Meeting of Shareholders dated on 19 June 2019 dividends declared and paid by the Bank amounted to AMD 850,374 thousand (2018: declared and paid AMD 570,343 thousand) for ordinary shares and AMD 6.6 thousand (2018: AMD 6.6 thousand) to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 15,540 (2018: AMD 10,423), and dividends per preference share amounted to AMD 19.8 (2018: AMD 19.8).

(thousands of Armenian drams)

23. Equity (continued)

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

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

24. Net interest income

Net interest income comprises:

	2019	*2018*
Financial assets measured at amortized cost		
Loans to customers	22,085,893	18,522,832
Investment securities	81,958	98,424
Amounts due from banks	37,230	104,883
Cash equivalents	22,385	14,378
Other interest income	7,542	106,560
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI	1,730,976	2,166,877
Interest revenue calculated using effective interest rate	**23,965,984**	**21,013,954**
Trading securities	112,090	93,601
Finance leases	15,307	7,123
Other interest revenue	**127,397**	**100,724**
Total interest revenue	**24,093,381**	**21,114,678**
Amounts due to customers	7,803,953	7,027,060
Other borrowed funds	1,240,662	1,125,113
Debt securities issued	1,091,421	817,932
Subordinated loans	409,689	411,790
Amounts due to banks	368,417	253,412
Lease liabilities	226,447	–
Interest expense	**11,140,589**	**9,635,307**
Net interest income	**12,952,792**	**11,479,371**

25. Credit loss expense and other impairment and provisions

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

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions (continued)

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss at 31 December 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(160)	–	–	**(160)**
Amounts due from banks	8	6,988	–	–	**6,988**
Loans and advances to customers	9	144,633	(46,595)	819,738	**917,776**
Debt securities measured at amortised cost	10	7,759	–	–	**7,759**
Debt securities measured at FVOCI	10	(9,375)	–	–	**(9,375)**
Other financial assets	14	24,736	(203)	(2,349)	**22,184**
Financial guarantees	22	1,984	–	–	**1,984**
Loan commitments	22	(14,677)	–	–	**(14,677)**
Letters of credit	22	15,523	–	–	**15,523**
Total credit loss expense		**177,411**	**(46,798)**	**817,389**	**948,002**

Other impairment and provisions amounting 35,871 AMD thousand in 2018 refers to the impairment loss of repossessed assets (Note 13).

26. Net fee and commission income

Net fee and commission income comprises:

	2019	*2018*
Plastic cards operations	1,358,039	1,073,999
Wire transfer fees	757,503	729,434
Fees and commission income from loans	337,616	255,448
Settlement operation	262,021	257,650
Guarantees and letters of credit	56,861	49,562
Other	422,034	347,076
Fee and commission income	**3,194,074**	**2,713,169**
Plastic cards operations	703,332	570,510
Wire transfer fees	183,080	140,100
Settlement operations	60,706	103,146
Guarantees and letters of credit	7,757	9,841
Other expenses	66,058	48,141
Fee and commission expense	**1,020,933**	**871,738**
Net fee and commission income	**2,173,141**	**1,841,431**

27. Net trading income

	2019	*2018*
Net gains from foreign currency transactions	1,304,344	1,365,239
Net (loss)/gain on derivative financial instruments	(277,425)	153,882
Net gain from trading securities	66,531	20,023
Total net trading income	**1,093,450**	**1,539,144**

(thousands of Armenian drams)

28. Other income

	2019	*2018*
Fines and penalties received	463,953	499,585
Net income from operations with precious metals	253,891	8,224
Net gain from disposal of repossessed assets	208,293	12,358
Income from cash collection services	41,478	38,440
Dividend income	3,149	6,488
Income from grants	2,424	2,424
Net gain from disposal of property, plant and equipment	2,072	6,857
Other income	275,472	146,440
Total other income	**1,250,732**	**720,816**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Salaries	5,434,453	4,810,802
Other expenses	106,545	96,065
Personnel expenses	**5,540,998**	**4,906,867**
Advertising costs	512,842	634,793
Software maintenance expenses	440,520	367,798
Insurance of deposits	250,727	202,174
Expenses related to Armenian Card payment system	233,708	199,541
Security	215,073	198,723
Consulting and other services	202,399	175,145
Taxes, other than income tax, duties	185,244	51,957
Fixed assets maintenance	156,248	129,086
Communications	144,731	124,743
Insurance expenses	112,779	111,323
Office supplies and maintenance	111,195	89,958
Utility expenses	104,302	98,812
Penalties paid	84,424	2,009
Operating lease	47,243	575,703
Business trip expenses	40,697	47,298
Financial system mediator	28,050	25,086
Other expenses	383,072	358,384
Other operating expenses	**3,253,254**	**3,392,533**

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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management division

The main functions of the risk management division are:

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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

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

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

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

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

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

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

Excessive risk concentrations

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

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

Credit risk

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

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

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

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

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

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

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

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

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

For stage 1 and stage 2 loans to customers, as well as for individually not significant stage 3 exposures, the Group calculates ECL on portfolio level. The following portfolios are segregated by the Group in 2019.

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

In 2018 the following portfolios were segregated.

- Business loans;
- Consumer loans;
- Mortgage loans;
- Gold loans.

In 2019 Business portfolio was divided into Large business loans and SME loans and the Group calculated ECL for each of them separately.

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

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

Exposure at default

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Loss given default

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

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

- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

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

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. 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 2019.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2020*	*2021*	*2022*
GDP annual growth, %					
	Upside	10%	8.0	7.5	7.0
	Base case	80%	6.5	6.0	5.0
	Downside	10%	3.5	3.0	2.5
USD/AMD exchange rate					
	Upside	10%	480	485	490
	Base case	80%	490	495	500
	Downside	10%	498	500	510
Central Bank base rate growth, %					
	Upside	10%	0.25	0.50	0.75
	Base case	80%	0.0	0.25	0.50
	Downside	10%	0.25	0.0	0.0
Unemployment rate, %					
	Upside	10%	16.0	15.8	15.6
	Base case	80%	17.9	17.6	17.3
	Downside	10%	18.5	18.5	18.5

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

31 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	9						
-SME loans		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**

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 2018	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	525,624	31,219,145	–	–	**31,744,769**
Amounts due from banks	8	Stage 1	412,665	4,812,477	–	–	**5,225,142**
Loans and advances to customers	9						
- Business loans		Stage 1	18,171,946	87,639,720	–	–	**105,811,666**
		Stage 2	–	–	80,998	–	**80,998**
		Stage 3	–	–	–	5,067,237	**5,067,237**
- Consumer loans		Stage 1	1,390,733	32,337,823	–	–	**33,728,556**
		Stage 2	–	–	492,078	–	**492,078**
		Stage 3	–	–	–	1,300,312	**1,300,312**
- Mortgage loans		Stage 1	–	33,078,668	–	–	**33,078,668**
		Stage 2	–	–	120,961	–	**120,961**
		Stage 3	–	–	–	1,831,101	**1,831,101**
- Gold loans		Stage 1	–	18,667,522	–	–	**18,667,522**
		Stage 2	–	–	259,286	–	**259,286**
		Stage 3	–	–	–	243,342	**243,342**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	22,702,608	–	–	**22,702,608**
- Measured at amortised cost		Stage 1	–	2,671,339	–	–	**2,671,339**
Undrawn loan commitments	22	Stage 1	–	12,491,499	–	–	**12,491,499**
Letters of credit	22	Stage 1	–	1,484,715	–	–	**1,484,715**
Financial guarantees	22	Stage 1	–	3,677,373	–	–	**3,677,373**
Total			**20,500,968**	**250,782,889**	**953,323**	**8,441,992**	**280,679,172**

(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.

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2019 and 31 December 2018.

	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**

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

	31 December 2018			
	Armenia	*Other non-OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	37,944,682	2,327,575	198,601	**40,470,858**
Trading securities	1,160,345	–	–	**1,160,345**
Amounts due from banks	3,359,131	1,006,353	847,003	**5,212,487**
Loans and advances to customers	182,424,202	13,844,200	13,930	**196,282,332**
Investment securities	16,523,883	806,022	1,026,549	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**
Other financial assets	302,505	4,923	226,747	**534,175**
	249,806,761	**17,989,073**	**2,312,830**	**270,108,664**
Liabilities				
Amounts due to banks	13,422,498	108,115	432,757	**13,963,370**
Derivative financial liabilities	–	–	26,583	**26,583**
Amounts due to customers	137,561,178	39,850,209	9,802,729	**187,214,116**
Debt securities issued	14,564,528	1,365,226	723,690	**16,653,444**
Other borrowed funds	15,387,038	–	297,375	**15,684,413**
Subordinated debt	–	5,852,819	–	**5,852,819**
Other financial liabilities	961,504	–	42,736	**1,004,240**
	181,896,746	**47,176,369**	**11,325,870**	**240,398,985**
Net assets/(liabilities)	**67,910,015**	**(29,187,296)**	**(9,013,040)**	**29,709,679**

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Other non-OECD countries as of 31 December 2018 are mostly represented by Russia, Georgia, Argentina, British Virgin Irelands, Cyprus and Uruguay.

Liquidity risk and funding management

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

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

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

	Threshold	*2019, %*	*2018, %*
N21 "General Liquidity Ratio" (highly liquid assets / total assets)	Min 15%	26.22	23.69
N22 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	Min 60%	88.58	81.83

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2019 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 2019					
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to banks	4,589,797	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**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	31 December 2018					
	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	12,493,396	1,287,043	127,441	–	72,563	**13,980,443**
Derivative liabilities	26,583	–	–	–	–	**26,583**
Amounts due to customers	77,767,987	16,269,442	77,640,309	24,265,421	819,953	**196,763,112**
Other borrowed funds	141,098	377,393	1,825,741	11,756,654	6,361,484	**20,462,370**
Debt securities issued	–	52,500	6,724,733	11,580,313	–	**18,357,546**
Subordinated debt	–	–	395,709	7,105,036	–	**7,500,745**
Total undiscounted financial liabilities	**90,429,064**	**17,986,378**	**86,713,933**	**54,707,424**	**7,254,000**	**257,090,799**
Commitments and contingent liabilities	**17,653,587**	**–**	**–**	**–**	**–**	**17,653,587**

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.

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Market risk (continued)

Currency	*Increase in basis points 31 December 2018*	*Sensitivity of net interest income 31 December 2018*	*Sensitivity of equity 31 December 2018*
AMD	1.00%	(25,250)	(415,856)
USD	1.60%	(5,795)	(190,402)
EUR	0.20%	−	(1,475)

Currency	*Decrease in basis points 31 December 2018*	*Sensitivity of net interest income 31 December 2018*	*Sensitivity of equity 31 December 2018*
AMD	3.50%	88,376	1,455,495
USD	0.50%	1,811	59,501
EUR	0.01%	−	74

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

	31 December 2019		*31 December 2018*	
Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
USD	3.0%	(52,993)	3.5%	12,064
USD	(3.0%)	52,993	(3.5%)	(12,064)
EUR	6.5%	3,426	8.0%	(4,847)
EUR	(6.5%)	(3,426)	(8.3%)	5,028

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 available-for-sale securities, derivatives and for non-recurring measurement, such as repossessed assets.

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

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

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

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

(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 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**

	31 December 2018				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	−	−	177,980,279	**177,980,279**	**196,282,332**
Cash and cash equivalents	40,470,858	−	−	**40,470,858**	**40,470,858**
Amounts due from banks	−	−	5,212,033	**5,212,033**	**5,212,487**
Investment securities at amortised cost	−	584,089	−	**584,089**	**584,058**
Investment securities at amortised cost pledged under repurchase agreements	−	−	2,184,418	**2,184,418**	**2,077,458**
Other financial assets	−	−	534,175	**534,175**	**534,175**
Financial liabilities					
Amounts due to customers	−	−	187,214,116	**187,214,116**	**187,214,116**
Other borrowed funds	−	−	15,684,413	**15,684,413**	**15,684,413**
Amounts due to banks	−	−	13,963,370	**13,963,370**	**13,963,370**
Debt securities issued	−	16,647,928	−	**16,647,928**	**16,653,444**
Subordinated debt	−	−	5,852,819	**5,852,819**	**5,852,819**
Other financial liabilities	−	−	1,004,291	**1,004,291**	**1,004,240**

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 (2018: 3% to 24% per annum).

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

(thousands of Armenian drams)

31. Fair value measurements (continued)

Financial instruments that are measured at fair value

	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**

	31 December 2018		
	Level 1	***Level 2***	***Total***
Financial assets			
Trading securities	–	1,160,345	**1,160,345**
Investment securities at FVOCI	1,021,216	16,751,180	**17,772,396**
Investment securities at FVOCI pledged under repurchase agreements	–	6,014,555	**6,014,555**
Total	**1,021,216**	**23,926,080**	**24,947,296**
Financial liabilities			
Derivative financial liabilities	–	26,583	**26,583**
Total	**–**	**26,583**	**26,583**
Net fair value	**1,021,216**	**23,899,497**	**24,920,713**

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 2019	
	Level 3	***Total***
Non-financial assets		
Land and buildings	5,177,297	**5,177,297**
Total	**5,177,297**	**5,177,297**

	31 December 2018	
	Level 3	***Total***
Non-financial assets		
Land and buildings	4,614,029	**4,614,029**
Total	**4,614,029**	**4,614,029**

(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 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**

Non-financial assets	*Land and buildings*	*Total*
Balance as at 1 January 2018	**4,724,230**	**4,724,230**
Purchases	83,003	**83,003**
Disposals	–	**–**
Depreciation charge	(193,204)	**(193,204)**
Net fair value at 31 December 2018	**4,614,029**	**4,614,029**

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 and 2018:

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

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.

(thousands of Armenian drams)

32. Transferred financial assets and assets held or pledged as collateral (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

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 2019 the Group has no securities sold under repurchase agreements which were classified as measured at FVOCI and amortised cost (2018: AMD 8,092,013 thousand classified as FVOCI).

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as amounts due to banks, at 31 December 2019 the Group didn't have any balances (2018: AMD 7,879,585 thousand).

33. Offsetting of financial instruments

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

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

				Related amounts not offset in the consolidated statement of financial position		
31 December 2018	***Gross amount of recognised financial assets***	***Gross amount of recognised financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial assets recognised in the consolidated statement of financial position***	***Financial instruments***	***Non-cash collateral received***	***Net amount***
Financial assets						
Loans and advances to customers – reverse repo	4,022,197	–	4,022,197	–	(4,022,197)	–
Total	**4,022,197**	**–**	**4,022,197**	**–**	**(4,022,197)**	**–**
Financial liabilities						
Amounts due to banks – repo	7,879,585	–	7,879,585	(7,879,585)	–	–
Total	**7,879,585**	**–**	**7,879,585**	**(7,879,585)**	**–**	**–**

(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 2019			*31 December 2018*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	43,540,737	–	**43,540,737**	40,470,858	–	**40,470,858**
Trading securities	369,970	276,517	**646,487**	7,125	1,153,220	**1,160,345**
Amounts due from banks	19,089,874	1,459,381	**20,549,255**	4,110,562	1,101,925	**5,212,487**
Loans and advances to customers	74,908,492	151,536,499	**226,444,991**	59,315,748	136,966,584	**196,282,332**
Investment securities	1,918,772	18,407,446	**20,326,218**	2,137,102	16,219,352	**18,356,454**
Investment securities pledged under repurchase agreements	–	–	**–**	8,092,013	–	**8,092,013**
Property, plant and equipment	–	9,479,389	**9,479,389**	–	6,739,038	**6,739,038**
Intangible assets	–	337,260	**337,260**	–	296,331	**296,331**
Repossessed assets	2,023,928	–	**2,023,928**	1,977,614	–	**1,977,614**
Other assets	2,245,113	35,147	**2,280,260**	2,504,264	27,642	**2,531,906**
Total	**144,096,886**	**181,531,639**	**325,628,525**	**118,615,286**	**162,504,092**	**281,119,378**
Liabilities						
Amounts due to banks	6,841,519	71,955	**6,913,474**	13,890,807	72,563	**13,963,370**
Derivative liabilities	24,488	–	**24,488**	26,583	–	**26,583**
Amounts due to customers	177,677,805	44,494,339	**222,172,144**	164,802,436	22,411,680	**187,214,116**
Other borrowed funds	2,020,552	19,156,854	**21,177,406**	1,404,832	14,279,581	**15,684,413**
Debt securities issued	241,488	19,678,800	**19,920,288**	6,047,694	10,605,750	**16,653,444**
Lease liabilities	351,902	1,714,661	**2,066,563**	–	–	**–**
Current income tax liabilities	644,892	–	**644,892**	199,430	–	**199,430**
Deferred income tax liabilities	–	947,921	**947,921**	–	938,233	**938,233**
Other liabilities	1,638,611	21,164	**1,659,775**	1,459,076	23,537	**1,482,613**
Provisions on commitments and contingencies	53,620	–	**53,620**	70,056	–	**70,056**
Subordinated debt	2,276	5,804,370	**5,806,646**	–	5,852,819	**5,852,819**
Total	**189,497,153**	**91,890,064**	**281,387,217**	**187,900,914**	**54,184,163**	**242,085,077**
Net position	**(45,400,267)**	**89,641,575**	**44,241,308**	**(69,285,628)**	**108,319,929**	**39,034,301**

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.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

The table below shows an analysis of assets and liabilities analysed according securities instant liquidity as at 31 December 2019.

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 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**
Repossessed 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**			

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

	31 December 2018								
	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	40,470,858	–	–	**40,470,858**	–	–	**–**	–	**40,470,858**
Trading securities	383,618	603	–	**384,221**	135,570	640,554	**776,124**	–	**1,160,345**
Amounts due from banks	3,140,377	970,185	–	**4,110,562**	38,746	–	**38,746**	1,063,179	**5,212,487**
Loans and advances to customers	6,546,582	10,081,740	42,687,426	**59,315,748**	83,775,096	53,191,488	**136,966,584**	–	**196,282,332**
Investment securities	13,440,942	651,768	832,007	**14,924,717**	2,199,340	148,255	**2,347,595**	1,084,142	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**	–	–	**–**	–	**8,092,013**
Property, plant and equipment	–	–	–	**–**	–	–	**–**	6,739,038	**6,739,038**
Intangible assets	–	–	–	**–**	–	–	**–**	296,331	**296,331**
Repossessed assets	–	–	1,977,614	**1,977,614**	–	–	**–**	–	**1,977,614**
Other assets	2,314,307	100,554	89,403	**2,504,264**	144	25,633	**25,777**	1,865	**2,531,906**
Total assets	**74,388,697**	**11,804,850**	**45,586,450**	**131,779,997**	**86,148,896**	**54,005,930**	**140,154,826**	**9,184,555**	**281,119,378**
Liabilities									
Amounts due to banks	12,489,381	1,278,285	123,141	**13,890,807**	–	–	**–**	72,563	**13,963,370**
Derivative financial liabilities	26,583	–	–	**26,583**	–	–	**–**	–	**26,583**
Amounts due to customers	77,145,649	15,486,147	72,170,640	**164,802,436**	21,901,888	509,792	**22,411,680**	–	**187,214,116**
Other borrowed funds	123,917	285,292	995,623	**1,404,832**	8,798,188	5,481,393	**14,279,581**	–	**15,684,413**
Debt securities issued	–	43,439	6,004,255	**6,047,694**	10,605,750	–	**10,605,750**	–	**16,653,444**
Income tax liabilities	–	–	199,430	**199,430**	–	–	**–**	–	**199,430**
Deferred tax liabilities	–	–	–	**–**	938,233	–	**938,233**	–	**938,233**
Other liabilities	850,211	175,480	433,385	**1,459,076**	–	23,537	**23,537**	–	**1,482,613**
Other provisions	70,056	–	–	**70,056**	–	–	**–**	–	**70,056**
Subordinated debt	–	–	–	**–**	5,852,819	–	**5,852,819**	–	**5,852,819**
Total liabilities	**90,705,797**	**17,268,643**	**79,926,474**	**187,900,914**	**48,096,878**	**6,014,722**	**54,111,600**	**72,563**	**242,085,077**
Net position	**(16,317,100)**	**(5,463,793)**	**(34,340,024)**	**(56,120,917)**	**38,052,018**	**47,991,208**	**86,043,226**	**9,111,992**	**39,034,301**
Accumulated gap	**(16,317,100)**	**(21,780,893)**	**(56,120,917)**		**(18,068,899)**	**29,922,309**			

(thousands of Armenian drams)

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:

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

	31 December 2019			*31 December 2018*		
	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	**7,263**	**21,618,927**	**594,758**	**19,037**	**27,463,688**	**395,002**
Loans issued during the year	111,602	20,793,012	675,549	130,714	23,934,804	848,528
Loan repayments during the year	(118,841)	(8,710,648)	(734,539)	(142,415)	(29,561,192)	(642,764)
Loans outstanding at 31 December, gross	**24**	**33,701,291**	**535,768**	**7,336**	**21,837,300**	**600,766**
Less: allowance for loan impairment	–	(337,013)	(5,358)	(73)	(218,373)	(6,008)
Loans outstanding as of 31 December, net	**24**	**33,364,278**	**530,410**	**7,263**	**21,618,927**	**594,758**
Amounts due to customers						
Deposits at 1 January	**213,839**	**46,019,356**	**564,144**	**367,619**	**37,441,903**	**409,070**
Deposits received during the year	1,489,880	610,641,018	3,180,100	1,137,797	611,888,652	3,689,233
Deposits repaid during the year	(1,021,212)	(598,431,902)	(3,458,254)	(1,291,577)	(603,311,199)	(3,534,159)
Deposits as of 31 December	**682,507**	**58,228,472**	**285,990**	**213,839**	**46,019,356**	**564,144**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	**–**	**5,852,819**	**–**	**–**	**5,854,396**	**–**
Net result from FX revaluation	–	(48,885)	–	–	(4,226)	–
Other movements	–	2,712	–	–	2,649	–
Subordinated debt as of 31 December	**–**	**5,806,646**	**–**	**–**	**5,852,819**	**–**
Items not recognised in the consolidated statement of financial position						
Guarantees given	–	188,042	26,863	–	190,815	124,683
Consolidated statement of comprehensive income						
Interest income	–	2,271,369	34,727	–	1,479,467	30,627
Fee and commission income	93	34,874	852	770	26,092	779
Other income	1,855	85,874	748	1,384	47,280	1,198
Interest expense	(2,176)	(2,321,838)	(23,087)	(4,207)	(1,984,209)	(16,051)
Impairment charge	73	(118,640)	650	117	56,264	(2,058)
Other expenses	–	(45,132)	(32,661)	–	(45,563)	(29,886)

Compensation of key management personnel was comprised of the following:

	31 December 2019	***31 December 2018***
Salaries and other short-term benefits	662,492	608,794
Total key management personnel compensation	**662,492**	**608,794**

(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 2017	18, 20, 21	**5,931,969**	**12,659,350**	**5,854,396**	**–**	**24,445,715**
Proceeds from issue		19,904,690	6,520,883	–	–	**26,425,573**
Redemption		(9,215,087)	(3,460,357)	–	–	**(12,675,444)**
Foreign currency translation		(87,353)	(29,749)	(4,226)	–	**(121,328)**
Other		119,225	(5,714)	2,649	–	**116,160**
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**

The "Other" line includes origination of new lease liabilities being a non-cash movement. 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, polices and processes from the previous years.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2019 and 31 December 2018, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2019 and 31 December 2018.

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 2019 and 31 December 2018:

	2019	***2018***
Tier 1 capital	39,894,182	33,211,591
Tier 2 capital	7,759,930	10,764,991
Total capital	**47,654,112**	**43,976,582**
Risk-weighted assets	**288,388,820**	**269,190,735**
Capital adequacy ratio	**16.52%**	**16.34%**

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.

(thousands of Armenian drams)

38. Events after the reporting period

The recent outbreak of novel coronavirus (COVID-19) negatively affects economic conditions regionally as well as globally. The full impact of coronavirus outbreak is unclear yet and the Group monitors the situation closely. As the situation is fluid and rapidly evolving, the Group doesn't consider it practicable to provide quantitative assessment of the potential impact of the outbreak on the Group.

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 1,011,000 thousand of this increase was attributable to the distribution of the Bank's retained earnings to the existing shareholders.

New shareholding structure is as follows:

	Paid-in share capital	***% of total***
Advanced Global Investments LLC	14,539,800	72.89%
Advanced Global Investments LLC (preference shares)	33	–
HayPost Trust Management B.V. Company	4,410,600	22.11%
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	997,200	5.00%
	19,947,633	**100%**

ConverseBank

Consolidated Statement of comprehensive income
31 December 2020
Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	Notes	01/10/20-31/12/20	01/01/20-31/12/20
Interest revenue calculated using effective interest rate	24	6,411,355	25,442,255
Other interest revenue	24	56,317	161,705
Interest expense	24	(2,795,645)	(11,573,832)
Net interest income		**3,672,027**	**14,030,128**
Credit loss expense	25	(4,365,421)	(6,391,230)
Net interest income after credit loss expense		**(693,394)**	**7,638,898**
Fee and commission income	26	901,262	3,102,283
Fee and commission expense	26	(397,616)	(1,332,674)
Net trading income	27	145,531	1,112,370
Net gain(loss) from foreign currency translation		309,653	236,093
Gains less losses from investment securities available for sale		116,507	730,554
Other income	28	333,079	1,185,359
Non-interest income		**1,408,416**	**5,033,985**
Personnel expenses	29	(709,112)	(5,038,376)
Depreciation of property and equipment	11	(301,954)	(1,185,548)
Amortization of intangible assets	12	(11,595)	(58,378)
Other operating and administrative expenses	29	(1,041,459)	(3,358,962)
Non-interest expense		**(2,064,120)**	**(9,641,264)**
Profit before income tax expense		**(1,349,098)**	**3,031,619**
Profit tax expense	19	495,038	(478,333)
Profit for the period		**(854,060)**	**2,553,286**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised gains/(losses) on investments at fair value through other comprehensive income		(1,212,995)	(658,947)
Realised (gains)/losses on investments at fair value through other comprehensive income reclassified to the statement of profit or loss		(116,507)	(730,554)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(1,038)	26,332
Income tax effect	19	239,497	245,370
Net other comprehensive income to be reclassified subsequently to profit or loss		**(1,091,043)**	**(1,117,799)**
Other comprehensive income for the year, net of tax		**(1,091,043)**	**(1,117,799)**
Total comprehensive income for the year		**(1,945,103)**	**1,435,487**

Approval date 15.01.21

Chief Executive Officer, Chairman of Executive Management A. Hakobyan

Chief Accountant D. Azatyan

ConverseBank

Consolidated Statement of financial position
31 December 2020
Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	Notes	31/12/20	31/12/2019 /audited/
ASSETS			
Cash and cash equivalents	6	33,342,983	43,540,737
Trading securities	7	879,049	646,487
Amounts due from banks	8	16,739,040	20,549,255
Loans and advances to customers	9	229,317,136	226,444,991
Investment securities	10	35,548,386	20,326,218
Investment securities pledged under repurchase agreements	10	3,182,001	-
Property, plant and equipment	11	8,605,113	9,479,389
Intangible assets	12	330,808	337,260
Repossessed assets	13	1,693,043	2,023,928
Prepayments on profit tax		206,037	-
Other assets	14	2,093,595	2,280,260
Total assets		**331,937,191**	**325,628,525**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	15	6,442,513	6,913,474
Derivative financial liabilities	16	41,664	24,488
Amounts due to customers	17	227,973,075	222,172,144
Bonds issued by the Bank	18	21,527,117	19,920,288
Current income tax liabilities		-	644,892
Deferred income tax liabilities	19	851,666	947,921
Other borrowed funds	20	23,518,467	21,177,406
Lease liabilities	11	1,761,890	2,066,563
Subordinated debt	21	366,607	5,806,646
Provisions on contingent liabilities	22	230,632	53,620
Other liabilities	14	1,133,431	1,659,775
Total liabilities		**283,847,062**	**281,387,217**
Equity			
Share capital	23	19,947,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		3,627,805	2,798,799
Revaluation surplus for land and buildings		3,360,688	3,487,892
Revaluation reserve for financial assets at FVOCI		(328,381)	789,418
Retained earnings		21,419,151	20,685,333
Total equity		**48,090,129**	**44,241,308**
Total liabilities and equity		**331,937,191**	**325,628,525**

Approval date 15.01.21

Chief Executive Officer, Chairman of Executive Management A. Hakobyan

Chief Accountant D. Azatyan

ConverseBank

Consolidated Statement of changes in equity
31 December 2020
Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2019/audited/	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**
Issue of share capital							-
Distribution to general reserve			900,480			(900,480)	-
Dividends to shareholders						(850,381)	**(850,381)**
Total Transactions with owners	-	-	**900,480**	-	-	**(1,750,861)**	**(850,381)**
							-
Profit for the period						5,452,137	**5,452,137**
Other comprehensive income for the period				48,970	556,281		**605,251**
Total comprehensive income for the peiod	-	-	-	**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 of December 31, 2019/audited/	**16,416,633**	**63,233**	**2,798,799**	**789,418**	**3,487,892**	**20,685,333**	**44,241,308**
Balance as of January 1, 2020/audited/	**16,416,633**	**63,233**	**2,798,799**	**789,418**	**3,487,892**	**20,685,333**	**44,241,308**
Issue of share capital	3,531,000					(1,117,666)	**2,413,334**
Distribution to general reserve			829,006			(829,006)	-
Dividends to shareholders						-	-
Total Transactions with owners	**3,531,000**	-	**829,006**	-	-	**(1,946,672)**	**2,413,334**
Profit for the period						2,553,286	**2,553,286**
Other comprehensive income for the period				(1,117,799)		-	**(1,117,799)**
Total comprehensive income for the peiod	-	-	-	**(1,117,799)**	-	**2,553,286**	**1,435,487**
Depreciation of revaluation reserve	-	-	-	-	(127,204)	127,204	-
Balance as of December 31, 2020	**19,947,633**	**63,233**	**3,627,805**	**(328,381)**	**3,360,688**	**21,419,151**	**48,090,129**

Approval date 15.01.21

Chief Executive Officer, Chairman of Executive Management A. Hakobyan

Chief Accountant D. Azatyan

ConverseBank

Consolidated Statement of cash flows

31 December 2020

Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	01/01/2020-31/12/2020	01/01/2019-31/12/2019
Cash flows from operating activities		
Interest received	23,777,579	23,760,455
Interest paid	(11,720,687)	(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	1,770,395	1,288,369
Other income received	922,485	823,570
Personnel expenses paid	(5,338,672)	(5,442,652)
Administrative and other operating expenses paid	(3,562,290)	(3,294,349)
Cash flows from operating activities before changes in operating assets and liabilities	**7,618,419**	**8,452,243**
Net (increase)/decrease in operating assets		
Trading securities	(229,872)	579,843
Amounts due from banks	4,805,004	(6,349,407)
Loans and advances to customers	5,932,175	(33,296,592)
Repossessed assets	656,892	837,103
Other assets	419,955	517,517
Net increase/(decrease) in operating liabilities	-	-
Amounts due to banks	(1,892,683)	(7,095,225)
Amounts due to customers	(7,576,045)	35,646,857
Derivative financial liabilities	(663,274)	(68,932)
Other liabilities	(12,695)	112,256
Net cash flows from operating activities before income tax	**9,057,876**	**(664,337)**
Income tax paid	(1,174,417)	(1,189,610)
Net cash from / (used in) operating activities	**7,883,459**	**(1,853,947)**
Net cash flow from investing activities		
Purchase of investment securities	(30,042,242)	(9,391,046)
Proceeds from sale and redemption of investment securities	11,439,980	16,326,197
Purchase of property and equipment	(844,263)	(844,263)
Proceeds from sale of property and equipment	756,008	50,337
Purchase of intangible assets	(51,926)	(115,132)
Net cash from / (used in) investing activities	**(18,742,443)**	**6,026,093**
Net cash flow from financing activities		
Proceeds from issue of share capital	2,413,334	-
Proceeds from debt securities issued	-	14,211,537
Redemption of debt securities issued	-	(10,818,447)
Proceeds from other borrowed funds	4,985,907	8,141,849
Repayment from other borrowed funds	(2,872,653)	(2,701,526)
Repayment of subordinated loans	(5,599,452)	-
Lease liabilities	(527,273)	(317,280)
Dividends paid to shareholders	-	(850,381)
Net cash from / (used in) financing activities	**(1,600,137)**	**7,665,752**
Net increase/(decrease) in cash and cash equivalents	**(12,459,121)**	**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	**-**	**(8,811,998)**
Effect of exchange rates changes on cash and cash equivalents	2,261,367	40,637
Effect of expected credit losses on cash and cash equivalents	-	3,342
Cash and cash equivalents, ending of period	**33,342,983**	**43,540,737**

Approval date 15.01.21

Chief Executive Officer, Chairman of Executive Management A. Hakobyan

Chief Accountant D. Azatyan

ConverseBank

The main economical normatives

31 December 2020

Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	Actual	Limitations established by Central Bank	Number of break during quarter
1	*2*	*3*	*4*
Minimum statutory fund of the bank	19,947,633	50,000	no violation
Minimum total capital of the bank	42,797,989	30,000,000	no violation
N1.1 Core capital/ Risk weighted assets	13.07%	9.00%	no violation
N1.2 Total capital/ Risk weighted assets	14.27%	12.00%	no violation
N2.1 High liquid assets/ Total assets	30.35%	15.00%	no violation
N2.11 High liquid assets/ Total assets for I group CCY	16.43%	4.00%	no violation
N2.2 High liquid assets/ Demand liabilities	94.73%	60.00%	no violation
N2.21 High liquid assets/ Demand liabilities for I group CCY	47.62%	10.00%	no violation
N3.1 Maximum risk on a single borrower	11.84%	20.00%	no violation
N3.2 Maximum risk on large-scale borrowers	25.07%	500.00%	no violation
N4.1 Maximum risk on bank related person	1.24%	5.00%	no violation
N4.2 Maximum risk on all bank related persons	9.51%	20.00%	no violation
Minimum requirement for obligatory reserves allocated with the CBA			
for AMD		2.00%	
for USD	X	8% in USD, 10% in AMD	
for EUR		8% in EUR, 10% in AMD	no violation
Foreign currency position /Total capital /with Derivatives/	0.56%	10.00%	no violation
Foreign currency position /Total capital	2.31%	10.00%	no violation
Foreign currency position by seporate currencies			
for USD	X	7.00%	no violation
for EUR	X	7.00%	no violation
for RUB	0.52%	7.00%	no violation
other	X	X	no violation

Approval date 15.01.21

Chief Executive Officer, Chairman of Executive Management — A. Hakobyan

Chief Accountant — D. Azatyan

Converse Bank Closed Joint-Stock Company

Consolidated financial statements

Period ended 31 December 2020

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Consolidated statement of financial position

as of 31 December 2020

(thousands of Armenian drams)

	Notes	*31/12/2020*	*31/12/2019*
Assets			
Cash and cash equivalents	6	33,342,983	43,540,737
Trading securities	7	879,049	646,487
Amounts due from banks	8	16,739,040	20,549,255
Loans and advances to customers	9	229,317,136	226,444,991
Investment securities	10	35,548,386	20,326,218
Investment securities pledged under repurchase agreements		3,182,001	
Property, plant and equipment	11	8,605,113	9,479,389
Intangible assets	12	330,808	337,260
Repossessed assets	13	1,693,043	2,023,928
Prepayments on profit tax		206,037	
Other assets	14	2,093,595	2,280,260
Total assets		**331,937,191**	**325,628,525**
Liabilities			
Amounts due to banks	15	6,442,513	6,913,474
Derivative financial liabilities	16	41,664	24,488
Amounts due to customers	17	227,973,075	222,172,144
Debt securities issued	18	21,527,117	19,920,288
Current income tax liabilities		-	644,892
Deferred income tax liabilities	19	851,666	947,921
Other borrowed funds	20	23,518,467	21,177,406
Lease liabilities	3	1,761,890	2,066,563
Subordinated debt	21	366,607	5,806,646
Provisions on commitments and contingencies	22	230,632	53,620
Other liabilities	14	1,133,431	1,659,775
Total liabilities		**283,847,062**	**281,387,217**
Equity	23		
Share capital		19,947,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		3,627,805	2,798,799
Revaluation surplus for land and buildings		3,360,688	3,487,892
Revaluation reserve for financial assets at FVOCI		(328,381)	789,418
Retained earnings		21,419,151	20,685,333
Total equity		**48,090,129**	**44,241,308**
Total equity and liabilities		**331,937,191**	**325,628,525**

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

Arthur Hakobyan — Chief Executive Officer – Chairman of Executive Management

Davit Azatyan — Chief Accountant

Consolidated statement of profit or loss

for the period ended 31 December 2020

(thousands of Armenian drams)

	Note	01/10/2020-31/12/2020	01/01/2020-31/12/2020	01/10/2019-31/12/2019	01/01/2019-31/12/2019
Interest revenue calculated using effective interest rate	24	6,411,355	25,442,255	6,291,169	23,965,984
Other interest revenue	24	56,317	161,705	54,951	127,397
Interest expense	24	(2,795,645)	(11,573,832)	(2,938,797)	(11,140,589)
Net interest income	24	**3,672,027**	**14,030,128**	**3,407,323**	**12,952,792**
Credit loss expense	25	(4,365,421)	(6,391,230)	(579,614)	(1,204,198)
Net interest income after credit loss expense		**(693,394)**	**7,638,898**	**2,827,709**	**11,748,594**
Fee and commission income	26	901,262	3,102,283	913,029	3,194,074
Fee and commission expense	26	(397,616)	(1,332,674)	(303,955)	(1,020,933)
Net trading income	27	145,531	1,112,370	305,285	1,093,450
Net gain/(loss) from foreign currency translation		309,653	236,093	139,121	65,291
Gains less losses from investment securities measured at fair value through other comprehensive income		116,507	730,554	145,779	597,430
Other income	28	333,079	1,185,359	480,883	1,250,732
Non-interest income		**1,408,416**	**5,033,985**	**1,680,142**	**5,180,044**
Personnel expenses	29	(709,112)	(5,038,376)	(1,582,695)	(5,540,998)
Depreciation of property and equipment	11	(301,954)	(1,185,548)	(287,811)	(1,099,011)
Amortization of intangible assets	12	(11,595)	(58,378)	(18,589)	(74,203)
Administrative and other operating expenses	29	(1,041,459)	(3,358,962)	(913,720)	(3,253,254)
Non-interest expense		**(2,064,120)**	**(9,641,264)**	**(2,802,815)**	**(9,967,466)**
Profit before income tax expense		**(1,349,098)**	**3,031,619**	**1,705,036**	**6,961,172**
Income tax expense	19	495,038	(478,333)	(120,987)	(1,509,035)
Profit for the year		**(854,060)**	**2,553,286**	**1,584,049**	**5,452,137**

Consolidated statement of comprehensive income

for the period ended 31 December 2020

(thousands of Armenian drams)

	Note	*01/102020-31/12/2020*	*01/01/2020-31/12/2020*	*01/10/2019-31/12/2019*	*01/01/2019-31/12/2019*
Profit for the year		**(854,060)**	**2,553,286**	**1,584,049**	**5,452,137**
Net other comprehensive income not to be reclassified subsequently to profit or loss		-	-	650,271	650,271
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Unrealised gains/(losses) on debt securities at FVOCI		(1,212,995)	(658,947)	348,437	747,964
Realised gains on debt securities at FVOCI transferred to profit or loss		(116,507)	(730,554)	(145,779)	(597,436)
hanges in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(1,038)	26,332	4,851	(205,430)
Income tax effect	19	239,497	245,370	(37,352)	9,882
Net other comprehensive loss to be reclassified subsequently to profit or loss		**(1,091,043)**	**(1,117,799)**	**170,157**	**(45,020)**
Other comprehensive income/(loss) for the year, net of tax		**(1,091,043)**	**(1,117,799)**	**820,428**	**605,251**
Total comprehensive income for the year		**(1,945,103)**	**1,435,487**	**2,404,477**	**6,057,388**

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

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2019	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**
Distribution to general reserve	–	–	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	3,531,000					(1,117,666)	2,413,334
Distribution to general reserve			829,006			(829,006)	-
Dividends to shareholders	–	–	–	–	–	-	**-**
Transactions with owners	**3,531,000**	**–**	**829,006**	**–**	**–**	**(1,946,672)**	**2,413,334**
Profit for the year	–	–	–	–	–	2,553,286	**2,553,286**
Other comprehensive income for the year	–	–	–	(1,117,799)	-	–	**(1,117,799)**
Total comprehensive income for the year	**–**	**–**	**–**	**(1,117,799)**		**2,553,286**	**1,435,487**
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**	**21,419,151**	**48,090,129**

Consolidated statement of cash flows
for the period ended 31 December 2020

(thousands of Armenian drams)

	Note	31/12/2020	31/12/2019
Cash flows from operating activities			
Interest received		23,777,579	23,760,455
Interest paid		(11,720,687)	(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		1,770,395	1,288,369
Other income received		922,485	823,570
Personnel expenses paid		(5,338,672)	(5,442,652)
Administrative and other operating expenses paid		(3,562,290)	(3,294,349)
Cash flows from operating activities before changes in operating assets and liabilities		**7,618,419**	**8,452,243**
Net (increase)/decrease in operating assets			
Trading securities		(229,872)	579,843
Amounts due from banks		4,805,004	(6,349,407)
Loans and advances to customers		5,932,175	(33,296,592)
Repossessed assets		656,892	837,103
Other assets		419,955	517,517
Net increase/(decrease) in operating liabilities			
Amounts due to banks		(1,892,683)	(7,095,225)
Amounts due to customers		(7,576,045)	35,646,857
Derivative financial liabilities		(663,274)	(68,932)
Other liabilities		(12,695)	112,256
Net cash used in operating activities before income tax		**9,057,876**	**(664,337)**
Income tax paid		(1,174,417)	(1,189,610)
Net cash used in operating activities		7,883,459	(1,853,947)
Cash flows from investing activities			
Purchase of investment securities		(30,042,242)	(9,391,046)
Proceeds from sale and redemption of investment securities		11,439,980	16,326,197
Purchase of property and equipment		(844,263)	(844,263)
Proceeds from sale of property and equipment		756,008	50,337
Purchase of intangible assets		(51,926)	(115,132)
Net cash from / (used) in investing activities		(18,742,443)	6,026,093
Cash flows from financing activities			
Proceeds from issue of share capital		2,413,334	-
Proceeds from debt securities issued		-	14,211,537
Redemption of debt securities issued		-	(10,818,447)
Proceeds from other borrowed funds		4,985,907	8,141,849
Repayment of other borrowed funds		(2,872,653)	(2,701,526)
Repayment of subordinated loans		(5,599,452)	-
Repayment of lease liabilities		(527,273)	(317,280)
Dividends paid to shareholders		-	(850,381)
Net cash from financing activities		**(1,600,137)**	**7,665,752**
Net increase in cash and cash equivalents		**(12,459,121)**	**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		2,261,367	40,637
Effect of expected credit losses on cash and cash equivalents		-	3,342
Cash and cash equivalents at the end of the year	6	**33,342,983**	**43,540,737**

(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:

Shareholder	***31.12.2020, %***	***31.12.2019, %***
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

As an emerging market, Armenia continues economic and regulatory reforms.

The recent outbreak of novel coronavirus (COVID-19) negatively affects economic conditions regionally as well as globally. The full impact of coronavirus outbreak is unclear yet and the Group monitors the situation closely.

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

(thousands of Armenian drams)

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes 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. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

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

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

Borrowings

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

(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.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

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

Financial liabilities

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

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

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

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

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

Property and equipment

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

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

	Useful life (years)	***Rate (%)***
Buildings	20	5
Computers	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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

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.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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.

4. Significant accounting judgments and estimates

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

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

Revaluation of land and buildings

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

(thousands of Armenian drams)

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).

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

Impairment losses on financial assets

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

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

5. Segment information

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

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

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

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

As of 31 December 2020	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
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)	(5,569,159)	(1,895,719)	(11,573,832)
Net interest income	**9,423,339**	**3,648,611**	**958,178**	**14,030,128**
Credit loss expense	(2,382,711)	(3,982,187)	(26,332)	(6,391,230)
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	1,511,343	1,636,851	116,182	3,264,376
Non-interest expense	(3,847,032)	(4,136,905)	(1,657,328)	(9,641,264)
Segment profit	**6,105,132**	**(2,483,904)**	**(589,608)**	**3,031,619**
Income tax expense	(963,275)	391,913	93,029	(478,333)
Profit for the period	**5,141,857**	**(2,091,991)**	**(496,579)**	**2,553,286**

(thousands of Armenian drams)

5. Segment information (continued)

As of 31 December 2019	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
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	(363,431)	(840,767)	–	**(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	**7,195,803**	**450,178**	**(684,809)**	**6,961,172**
Income tax expense	(1,560,135)	(97,467)	148,567	**(1,509,035)**
Profit for the period	**5,635,668**	**352,711**	**(536,242)**	**5,452,137**

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

	As of 31 December 2020				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
Assets	108,805,144	120,511,992	56,348,476	46,271,579	**331,937,191**
Liabilities	101,892,680	126,677,634	51,529,761	3,746,987	**283,847,062**

	As of 31 December 2019				
	Interest bearing				
	Retail banking	*Corporate banking*	*Trading and IB*	*Non-interest bearing*	*Total*
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	191,657	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**

(thousands of Armenian drams)

5. Segment information (continued)

Revenue from contracts with customers (continued)

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**
Settlement operation	117,418	220,198	–	**337,616**
Loan accounts servicing fees	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**

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	(4,282)	(2,502)
Cash and cash equivalents	**33,342,983**	**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	1,780	(3,342)
At 31 December 2020	**4,282**	**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 28,901,981 thousand (2019: AMD 28,171,541 thousand).

Before 2019, the Bank's ability to withdraw such deposit was not restricted by the statutory legislation, and these amounts were fully classified as cash and cash equivalents. however, if the Bank failed to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams, and minimum average amount of daily reserve for amounts attracted in foreign currency, the sanctions might be imposed.

In 2019 the regulation changed, which was also changed in 0.Starting from that period, the banks are required to maintain 10% of the amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 8% – in the foreign currency.

Moreover, the banks' ability to withdraw reserved amounts in foreign currency is restricted. After the legislation change, 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 2,822,246 thousand (96.78%) were due from four banks (2019: AMD 5,442,954 thousand (91.2%) were due from three banks).

(thousands of Armenian drams)

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	11,981,615	8,811,998
Deposits and deposited funds with CBA	1,248,500	4,546,377
Reverse repurchase agreements	641,242	3,054,369
Loans and deposits to banks	423,079	2,419,415
Receivables from payment and settlement operations	1,062,901	814,008
Other amounts	1,389,767	913,881
	16,747,104	20,560,048
Less – allowance for impairment	(8,064)	(10,793)
Amounts due from banks	**16,739,040**	**20,549,255**

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	3,736,730	3,736,730
Assets repaid	(8,566,535)	(8,566,535)
Foreign exchange adjustments	1,016,861	1,016,861
At 31 December 2020	**16,747,104**	**16,747,104**

	Stage 1	*Total*
ECL allowance as at 1 January 2020	**10,793**	**10,793**
New assets originated or purchased	31,858	31,858
Assets repaid	(37,180)	(37,180)
Foreign exchange adjustments	2,593	2,593
At 31 December 2020	**8,064**	**8,064**

(thousands of Armenian drams)

8. Amounts due from banks (continued)

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**

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	(9,129,029)	(4,673,935)
Total loans and advances to customers	**229,317,136**	**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	40,789,484	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	(9,129,029)	(4,673,935)
Total loans and advances to customers	**229,317,136**	**226,444,991**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

An analysis of changes in the gross carrying value and corresponding ECL in relation to large business loans as of 31 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	32,033,039			**32,033,039**
Assets repaid	(25,752,738)	(150,648)	(115,960)	**(26,019,345)**
Transfers to Stage 2	(2,573,014)	2,573,014	-	**-**
Transfers to Stage 3	-	(470,672)	470,672	**-**
Recoveries			-	**-**
Amounts written off			(32,485)	**(32,485)**
Foreign exchange adjustments	3,250,619	35,373	432,792	**3,718,784**
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	303,196			**303,196**
Assets repaid	(99,857)	(19,089)	(281)	**(119,227)**
Transfers to Stage 2	(62,709)	62,709	-	**-**
Transfers to Stage 3	-	(238,050)	238,050	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	304,697	159	**304,856**
Unwinding of discount (recognised in interest revenue)			5,394	**5,394**
Changes to models and inputs used for ECL calculations	191,462	35,429	301,156	**528,047**
Recoveries			-	**-**
Amounts written off			(32,485)	**(32,485)**
Foreign exchange adjustments	15,134	19,131	161,832	**196,096**
At 31 December 2020	**630,889**	**448,138**	**2,421,455**	**3,500,483**

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	9,072,201			**9,072,201**
Assets repaid	(11,575,771)	(150,497)	(384,994)	**(12,111,263)**
Transfers to Stage 1	205,766	(205,766)	-	**-**
Transfers to Stage 2	(2,960,209)	3,073,214	(113,005)	**-**
Transfers to Stage 3	(3,356,211)	(489,049)	3,845,261	**-**
Recoveries			-	**-**
Amounts written off			(250,489)	**(250,489)**
Foreign exchange adjustments	2,374,449	38,501	125,908	**2,538,858**
At 31 December 2020	**32,002,868**	**2,746,628**	**4,979,763**	**39,729,258**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

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	459,307			**459,307**
Assets repaid	(80,557)	(3,394)	(34,537)	**(118,488)**
Transfers to Stage 1	3,489	(3,489)	-	**-**
Transfers to Stage 2	(317,640)	324,949	(7,309)	**-**
Transfers to Stage 3	(62,595)	(248,911)	311,507	**-**
Impact on period end ECL of exposures transferred between stages during the period	732	286,453	567,242	**854,427**
Unwinding of discount (recognised in interest revenue)			10,523	**10,523**
Changes to models and inputs used for ECL calculations	155,668	1,350	59,660	**216,678**
Recoveries			-	**-**
Amounts written off			(250,489)	**(250,489)**
Foreign exchange adjustments	24,747	1,555	35,604	**61,905**
At 31 December 2020	**580,270**	**382,933**	**1,248,283**	**2,211,486**

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	**42,323,169**	**1,092,531**	**1,765,126**	**45,180,826**
New assets originated or purchased	12,913,929			**12,913,929**
Assets repaid	(15,054,877)	(173,428)	(1,816,925)	**(17,045,230)**
Transfers to Stage 1	194,044	(194,044)	-	**-**
Transfers to Stage 2	(3,310,893)	3,367,604	(56,712)	**-**
Transfers to Stage 3	(1,965,144)	(2,217,898)	4,183,043	**-**
Recoveries			569,214	**569,214**
Amounts written off			(1,966,974)	**(1,966,974)**
Foreign exchange adjustments	1,044,057	22,639	71,023	**1,137,719**
At 31 December 2020	**36,144,285**	**1,897,404**	**2,747,795**	**40,789,484**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**109,322**	**55,219**	**440,883**	**605,424**
New assets originated or purchased	1,808,477			**1,808,477**
Assets repaid	(25,607)	(5,368)	(34,664)	**(65,639)**
Transfers to Stage 1	9,169	(9,169)	-	**-**
Transfers to Stage 2	(1,462,877)	1,478,108	(15,231)	**-**
Transfers to Stage 3	(137,389)	(1,447,901)	1,585,290	**-**
Impact on period end ECL of exposures transferred between stages during the period	(6,009)	258,623	809,518	**1,062,133**
Unwinding of discount (recognised in interest revenue)			38,620	**38,620**
Changes to models and inputs used for ECL calculations	364,933	12,178	(137,097)	**240,015**
Recoveries			569,214	**569,214**
Amounts written off			(1,966,974)	**(1,966,974)**
Foreign exchange adjustments	2,578	1,245	17,057	**20,880**
At 31 December 2020	**662,597**	**342,935**	**1,306,618**	**2,312,150**

(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 mortgage loans as of 31 December 2020:

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**42,785,196**	**351,489**	**1,463,612**	**44,600,297**
New assets originated or purchased	9,629,780			**9,629,780**
Assets repaid	(5,590,043)	16,148	(515,457)	**(6,089,351)**
Transfers to Stage 1	110,145	(110,145)	-	**-**
Transfers to Stage 2	(1,057,627)	1,170,535	(112,908)	**-**
Transfers to Stage 3	(639,168)	(560,064)	1,199,232	**-**
Recoveries			184,381	**184,381**
Amounts written off			(520,327)	**(520,327)**
Foreign exchange adjustments	1,792,195	18,300	110,749	**1,921,244**
At 31 December 2020	**47,030,476**	**886,264**	**1,809,282**	**49,726,023**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**31,152**	**14,849**	**599,269**	**645,270**
New assets originated or purchased	359,281			**359,281**
Assets repaid	(2,257)	(1,040)	(19,215)	**(22,512)**
Transfers to Stage 1	4,947	(4,947)	-	**-**
Transfers to Stage 2	(339,747)	360,653	(20,906)	**-**
Transfers to Stage 3	(4,573)	(341,961)	346,534	**-**
Impact on period end ECL of exposures transferred between stages during the period	(4,493)	34,486	138,355	**168,348**
Unwinding of discount (recognised in interest revenue)			7,686	**7,686**
Changes to models and inputs used for ECL calculations	87,610	2,112	(53,904)	**35,818**
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	**133,652**	**65,201**	**709,903**	**908,756**

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	14,651,393			**14,651,393**
Assets repaid	(16,470,046)	(205,178)	(357,243)	**(17,032,467)**
Transfers to Stage 1	15,701	(15,701)	-	**-**
Transfers to Stage 2	(437,407)	438,822	(1,415)	**-**
Transfers to Stage 3	(249,683)	(197,451)	447,134	**-**
Recoveries			153,359	**153,359**
Amounts written off			(254,264)	**(254,264)**
Foreign exchange adjustments	125,210	232	90	**125,533**
At 31 December 2020	**18,636,695**	**309,970**	**227,022**	**19,173,687**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

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	192,076			**192,076**
Assets repaid	(15,364)	(10,562)	(44,690)	**(70,616)**
Transfers to Stage 1	989	(989)	-	**-**
Transfers to Stage 2	(110,410)	110,930	(520)	**-**
Transfers to Stage 3	(55,934)	(102,012)	157,946	**-**
Impact on period end ECL of exposures transferred between stages during the period	(938)	14,005	50,172	**63,239**
Unwinding of discount (recognised in interest revenue)			6,121	**6,121**
Changes to models and inputs used for ECL calculations	8,234	64	(33,253)	**(24,956)**
Recoveries			153,359	**153,359**
Amounts written off			(254,264)	**(254,264)**
Foreign exchange adjustments	134	14	33	**181**
At 31 December 2020	**41,385**	**29,443**	**125,327**	**196,156**

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**

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)	**–**

(thousands of Armenian drams)

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**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

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**

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**

(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 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**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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:

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

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

Gold loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

8	*Maximum exposure to credit risk*	*Fair value of collateral held under the base scenario*						
		Cash	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2020								
Corporate lending SME	4,979,763		8,567,743	704,464	(4,292,444)	4,979,763	0	1,248,283
Corporate lending Large	5,363,490		4,492,945	2,677,941	(1,807,396)	5,363,490	0	2,421,455
Mortgages	1,809,282		2,868,202	20,480	(1,079,400)	1,809,282	0	709,903
Gold	227,022		435	356,916	(130,328)	227,022	0	125,327
Consumer lending	2,747,795	4,181	4,548,199	558,832	(3,221,227)	1,889,984	857,811	1,306,618
	15,127,353	**4,181**	**20,477,524**	**4,318,632**	**(10,530,795)**	**14,269,542**	**857,811**	**5,811,587**

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						
		Cash	*Property*	*Other**	*Surplus collateral*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2019								
Corporate lending SME	1,757,081	−	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.*

Concentration of loans and advances to customers

As at 31 December 2020 the Group had a concentration of loans totalling to AMD 54,576,533 thousand due from the ten largest groups of borrowers (22.89% 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 2,450,192 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	113,857,309	110,354,663
Individuals	112,222,612	113,067,740

(thousands of Armenian drams)

Financial organizations	11,874,388	7,066,707
State companies	491,856	629,816
	238,446,165	**231,118,926**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Concentration of loans and advances to customers (continued)

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	36,323,357	37,195,285
Construction	25,146,872	24,775,667
Agriculture (including loans to individuals)	13,685,903	13,515,156
Services	10,713,969	9,276,072
Manufacturing	10,888,645	8,896,100
Energy	4,773,685	3,349,906
Transport and communication	3,851,928	2,965,134
Other	23,372,612	19,834,060
Gross loan portfolio	**238,446,165**	**231,118,926**
Less allowance for loan impairment	(9,129,029)	(4,673,935)
Total	**229,317,136**	**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	777,684	726,031
RA government bills	5,592	-
RA corporate bonds	1,045,692	959,738
Less – allowance for impairment	(5,910)	(5,809)
Debt securities at amortised cost	**1,823,058**	**1,679,960**
RA government bonds pledged under repo	515,675	–
Less – allowance for impairment	–	–
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	5,114,314	4,626,604
Corporate bonds of non-OECD countries	106,430	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	**38,730,387**	**20,326,218**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost 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	(726,031)	(726,031)
At 31 December 2020	**2,339,051**	**2,339,051**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2020	**5,809**	**5,809**
New assets originated or purchased	273	273
Assets repaid	(538)	(538)
Assets repaid	366	366
At 31 December 2020	**5,910**	**5,910**

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:

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

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2019	**9,823**	**9,823**
New assets originated or purchased	5,809	**5,809**

(thousands of Armenian drams)

Assets repaid	(9,823)	**(9,823)**
At 31 December 2019	**5,809**	**5,809**

10. Investment securities (continued)

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

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2020	**18,583,131**	**18,583,131**
New assets originated or purchased	27,202,918	27,202,918
Assets repaid	(707,278)	(707,278)
Assets sold	(8,767,670)	(8,767,670)
At 31 December 2020	**36,311,100**	**36,311,100**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2020	**69,408**	**69,408**
New assets originated or purchased	68,663	68,663
Assets repaid	(2,307)	(2,307)
Assets sold	(20,618)	(20,618)
Changes to models and inputs used for ECL calculations	(19,405)	(19,405)
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:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2019	**22,702,608**	**22,702,608**
New assets originated or purchased	8,352,213	**8,352,213**
Assets repaid	(1,553,255)	**(1,553,255)**
Assets sold	(10,918,435)	**(10,918,435)**
At 31 December 2019	**18,583,131**	**18,583,131**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2019	**274,838**	**274,838**
New assets originated or purchased	22,101	**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

The movements in property and equipment were as follows:

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
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	83,889	17,934	37,347	355,022
Disposals and write-offs	-	(19,025)	(10,557)	(4,898)	(1,903)	-	(19,994)	(56,377)
Internal flow	-	-	-	-	(28,528)	(791)		(29,319)
31 December 2020	5,182,175	777,073	235,851	4,248,269	989,281	1,415,965	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	465,998	1,571,353	8,605,113

	Land and buildings	*Equipment*	*Vehicles*	*Computers and network appliances*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost or revalued amount								
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**–**	**11,854,579**
IFRS 16 impact	–	–	–	–	–	–	2,239,693	**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 where revalued by an independent appraiser in 2019. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 783,365 thousand as of 31 December 2020 (2019: AMD 819,487 thousand).

Fully depreciated items

As of 31 December 2020 property, plant and equipment included fully depreciated assets in amount of AMD 2,228,292 thousand (2019: AMD 1,952,561 thousand).

Property, plant and equipment in the phase of installation

(thousands of Armenian drams)

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).

(thousands of Armenian drams)

11. Property and equipment (continued)

Restrictions on title of property, plant and equipment

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

12. Intangible assets

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

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2019	**838,367**	**145,365**	**217,388**	**1,201,120**
Additions	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**

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2018	**767,915**	**145,365**	**172,708**	**1,085,988**
Additions	70,452	–	44,680	**115,132**
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	1,658,371	1,994,157
Vehicles	4,901	-
Other assets	29,771	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).

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**
Assets originated and repaid (net amount)	3,825	53	(24)	**3,854**
Transfers to Stage 1	3,580	(4)	(3,575)	**-**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	(28)	(4)	32	**-**
Impact on period end ECL of exposures transferred between stages during the period	1,042	(60)	12,558	**13,540**
Recoveries			10,727	**10,727**
Amounts written off			(28,418)	**(28,418)**
Foreign exchange adjustments	312			**312**
At 31 December 2020	**17,303**	**60**	**79**	**17,442**

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

(thousands of Armenian drams)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**15,401**	**66**	**10,259**	**25,726**
Assets originated and repaid (net amount)	(7,451)	(59)	(9,717)	**(17,227)**
Transfers to Stage 1	278	(2)	(276)	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	–	(1)	1	**–**
Impact on period end ECL of exposures transferred between stages during the period	212	70	4,116	**4,398**
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**

14. Other assets and liabilities (continued)

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	**225,160**	**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*
Loans from banks	2,258,887	5,131,658
Repurchase agreements with banks	2,573,962	195,590
Repurchase agreements with CBA	500,144	
Unsettled transactions	-	195,590
Correspondent accounts of other banks	190,211	145,943
Other liabilities	919,309	1,440,283
Total amounts due to banks	**6,442,513**	**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).

(thousands of Armenian drams)

16. Derivative financial instruments

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

	31 December 2020			*31 December 2019*		
	Notional	*Fair values*		*Notional*	*Fair value*	
Foreign exchange contracts	*amount*	*Asset*	*Liability*	*amount*	*Asset*	*Liability*
Forwards	128,222	3,428				
Swaps – foreign currency	6,598,620	-	45,092	4,650,063	–	24,488
Total derivative liabilities	**6,726,842**	**-**	**41,664**	**4,650,063**	**–**	**24,488**

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

Swaps

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

17. Amounts due to customers

The amounts due to customers include the following:

	31 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%).

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	**21,527,116**	**19,920,288**

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

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	31 December 2020	*31 December 2019*
Current tax charge	329,219	1,635,072
Deferred tax charge/(credit) – origination and reversal of temporary differences	149,114	(126,037)
Total income tax expense	**478,333**	**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	**3,031,619**	**6,961,172**
Statutory tax rate	18%	20%
Theoretical income tax expense at the statutory rate	**545,691**	**1,392,234**
Non-deductible expenses	(67,358)	116,801
Income tax expense	**478,333**	**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:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 31 December 2018	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2019*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2020*
Other liabilities	135,877	4,338	–	140,215	(21,060)	–	119,155
Repossessed assets	57,999	(5,800)	–	52,199	-	–	52,199
Loans and advances to customers	(569,724)	(145,402)	–	(715,126)	(164,533)	–	(879,659)
Investment securities at FVOCI	(384,764)	233,643	(13,615)	(164,736)	4,758	245,370	85,392
Property, plant and equipment	(181,314)	60,293	(122,110)	(243,131)	31,721	-	(211,410)
Other impairment and provisions	8,414	(20,623)	–	(12,209)	-	–	(12,209)
Amounts due to customers	(4,721)	(412)	–	(5,133)			
Net deferred tax liabilities	**(938,233)**	**126,037**	**(135,725)**	**(947,921)**	**(149,114)**	**245,370**	**(851,666)**

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**

(thousands of Armenian drams)

20. Other borrowed funds (continued)

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 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 loans

Subordinated loans consisted of the following:

	31 December 2020	***31 December 2019***
Subordinated debt provided by related party	366,606	5,806,646
Subordinated loans	**366,606**	**5,806,646**

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

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

22. Commitments and contingencies

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

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	230,631	53,620

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

Undrawn loan commitments	***Stage 1***	***Total***
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

Letters of credit	***Stage 1***	***Total***
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	21,815	21,815

Financial guarantees	***Stage 1***	***Total***
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

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

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2019	**13,783**	**13,783**
New exposures	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

Letters of credit	***Stage 1***	***Total***

(thousands of Armenian drams)

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**

Financial guarantees	*Stage 1*	*Total*
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 statues, 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:

	31 December 2020		*31 December 2019*	
	Paid-in share capital	*% of total paid-in capital*	*Paid-in share capital*	*% of total paid-in capital*
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**

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

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

(thousands of Armenian drams)

created in accordance with the Bank's statutes.

24. Net interest income

Net interest income comprises:

	01/10/2020-31/12/2020	*01/01/2020-31/12/2020*	*01/10/2019-31/12/2019*	*01/01/2019-31/12/2019*
Financial assets measured at amortized cost				
Loans to customers	5,769,498	23,296,412	5,898,507	22,085,890
Amounts due from banks	15,735	49,569	12,287	37,229
Investment securities	6,215	26,154	12,424	81,958
Cash equivalents	411	4,788	3,765	22,386
Other interest income	86	1,600	1,457	7,542
Financial assets measured at fair value through other comprehensive income				
Debt securities at FVOCI	619,410	2,063,732	362,729	1,730,979
Interest revenue calculated using effective interest rate	**6,411,355**	**25,442,255**	**6,291,169**	**23,965,984**
Trading securities	43,192	107,629	46,330	112,090
Finance leases	13,125	54,076	8,621	15,307
Other interest revenue	**56,317**	**161,705**	**54,951**	**127,397**
Total interest revenue	**6,467,672**	**25,603,960**	**6,346,120**	**24,093,381**
Amounts due to customers	2,023,168	8,442,496	1,998,781	7,803,953
Other borrowed funds	379,040	1,495,390	337,913	1,240,662
Debt securities issued	318,667	1,243,286	292,821	1,091,421
Subordinated loans	6,255	144,088	103,271	409,689
Amounts due to banks	22,160	51,523	109,980	368,417
Lease liabilities	46,355	197,049	96,031	226,447
Interest expense	**2,795,645**	**11,573,832**	**2,938,797**	**11,140,589**
Net interest income	**3,672,027**	**14,030,128**	**3,407,323**	**12,952,792**

25. Credit loss expense and other impairment and provisions

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	1,780			**1,780**
Amounts due from banks	8	(5,321)			**(5,321)**
Loans and advances to customers	9	1,160,616	849,866	4,163,978	**6,174,461**
Debt securities measured at amortised cost	10	101			**101**
Debt securities measured at FVOCI	10	26,332			**26,332**
Other financial assets	14	8,418	(14)	8,991	**17,395**
Financial guarantees	22	89,577			**89,577**
Loan commitments	22	5,937			**5,937**
Letters of credit	22	80,968			**80,968**
Total credit loss expense		**1,368,408**	**849,852**	**4,172,969**	**6,391,230**

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions (continued)

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:

	01/10/2020-31/12/2020	*01/01/2020-31/12/2020*	*01/10/2019-31/12/2019*	*01/01/2019-31/12/2019*
Plastic cards operations	466,831	1,597,673	399,076	1,358,041
Wire transfer fees	181,116	608,846	209,150	757,501
Settlement operation	56,362	215,441	78,751	262,020
Fees and commission income from loans	77,084	215,899	92,574	337,616
Guarantees and letters of credit	33,600	77,849	13,943	56,861
Other	86,269	386,575	119,534	422,034
Fee and commission income	**901,262**	**3,102,283**	**913,029**	**3,194,074**
Plastic cards operations	292,175	986,342	216,126	703,333
Wire transfer fees	38,920	150,087	49,947	183,081
Settlement operations	31,016	82,649	16,695	60,706
Guarantees and letters of credit	14,362	37,000	2,417	7,756
Other expenses	21,143	76,596	18,770	66,057
Fee and commission expense	**397,616**	**1,332,674**	**303,955**	**1,020,933**
Net fee and commission income	**503,646**	**1,769,609**	**609,074**	**2,173,141**

27. Net trading income

	01/10/2020-31/12/2020	*01/01/2020-31/12/2020*	*01/10/2019-31/12/2019*	*01/01/2019-31/12/2019*
Net gains from foreign currency transactions	577,235	1,750,875	382,186	1,304,345
Net (loss)/gain on derivative financial instruments	(328,847)	(601,591)	(104,413)	(277,424)
Net gain from trading securities	(102,858)	(36,914)	27,512	66,529
Total net trading income	**145,530**	**1,112,370**	**305,285**	**1,093,450**

(thousands of Armenian drams)

28. Other income

	01/10/2020-31/12/2020	01/01/2020-31/12/2020	01/10/2019-31/12/2019	01/01/2019-31/12/2019
Fines and penalties received	163,070	663,810	174,325	463,951
Income from cash collection services	7,774	34,346	10,845	41,477
Net income from operations with precious metals	70,770	264,095	30,815	253,892
Dividend income	-	17,887	-	3,149
Income from grants	606	2,424	606	2,424
Other income	90,859	202,797	264,292	485,839
Total other income	**333,079**	**1,185,359**	**480,883**	**1,250,732**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	01/10/2020-31/12/2020	01/01/2020-31/12/2020	01/10/2019-31/12/2019	01/01/2019-31/12/2019
Salaries	683,324	4,903,318	1,535,663	5,434,453
Other expenses	25,788	135,058	47,032	106,545
Personnel expenses	**709,112**	**5,038,376**	**1,582,695**	**5,540,998**
Advertising costs	273,377	579,740	155,786	512,842
Insurance of deposits	64,868	284,414	65,409	250,727
Expenses related to Armenian Card payment system	57,130	210,242	68,003	233,708
Security	60,708	241,346	57,454	215,074
Software maintenance expenses	132,862	470,452	109,032	440,520
Fixed assets maintenance	38,268	143,464	49,337	156,248
Communications	45,883	186,057	38,530	144,731
Consulting and other service	18,447	92,130	22,466	100,993
Insurance expenses	39,010	108,658	30,234	112,778
Utility expenses	23,233	98,882	23,059	104,302
Taxes, other than income tax, duties	86,149	240,177	92,097	185,243
Business trip expenses	2,066	10,073	12,199	40,696
Office supplies	10,197	44,401	11,238	44,394
Financial system mediator	8,039	32,157	7,012	28,050
Penalties paid	1,131	5,596	42,729	84,423
Other operating expenses	81809	247,918	14113	211259
Other expenses	98,282	363,255	115,022	387,266
Other operating expenses	**1,041,459**	**3,358,962**	**913,720**	**3,253,254**

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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management division

The main functions of the risk management division are:

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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

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

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

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

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

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

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

Excessive risk concentrations

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

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

Credit risk

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

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

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

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

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

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

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

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

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

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

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

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

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

Exposure at default

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Loss given default

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

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

- Overdue days of the borrower in other financial institutions in Armenia;
- Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

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

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions).

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

31 December 2020	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	848,294	22,622,108	–	–	**23,470,402**
Amounts due from banks	8	Stage 1	449,416	16,297,688	–	–	**16,747,104**
Loans and advances to customers	9						
-SME loans		Stage 1	257,472	31,745,396	-	-	**32,002,868**
		Stage 2	-	-	2,746,628	-	**2,746,628**
		Stage 3	-	-	-	4,979,763	**4,979,763**
					-	-	
- Large business loans		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 loans		Stage 1	1,319,711	34,824,573	-	-	**36,144,285**
		Stage 2	-	-	1,897,404	-	**1,897,404**
		Stage 3	-	-	-	2,747,795	**2,747,795**
- Mortgage loans		Stage 1	–	47,030,476	-	-	**47,030,476**
		Stage 2	–	-	886,264	-	**886,264**
		Stage 3	–	-	-	1,809,282	**1,809,282**
				-	-	-	-
- Gold loans		Stage 1	–	18,636,695	-	-	**18,636,695**
		Stage 2	–	-	309,970	-	**309,970**
		Stage 3	–	-	-	227,022	**227,022**
Debt investment securities	10						
- Measured at FVOCI		Stage 1	–	36,391,654	–	–	**36,391,654**
- Measured at amortised cost		Stage 1	–	2,344,643	–	–	**2,344,643**
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			**34,707,786**	**280,344,195**	**8,652,033**	**15,127,353**	**338,831,367**

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 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	9						
-SME loans		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**

(thousands of Armenian drams)

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**

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.

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	30,426,216	2,845,568	71,199	**33,342,983**
Trading securities	879,049			**879,049**
Amounts due from banks	15,804,751	48	934,241	**16,739,040**
Loans and advances to customers	196,898,673	32,214,727	203,737	**229,317,136**
Investment securities	35,543,053	-	5,333	**35,548,386**
Investment securities pledged under repurchase agreements	3,182,001	-	-	**3,182,001**
Other financial assets	472,443	64	316,799	**789,306**
	283,206,186	**35,060,407**	**1,531,308**	**319,797,901**
Liabilities				
Amounts due to banks	4,129,012	51,475	2,262,026	**6,442,513**
Derivative financial liabilities	38,588	-	3,076	**41,664**
Amounts due to customers	165,341,833	51,836,601	10,794,639	**227,973,073**
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	-	93,869	**908,271**
	210,883,905	**56,625,703**	**15,029,993**	**282,539,602**
Net assets/(liabilities)	**72,322,281**	**(21,565,296)**	**(13,498,685)**	**37,258,299**

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**

(thousands of Armenian drams)

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**

30. Risk management (continued)

Credit risk (continued)

Other non-OECD counties 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	*31.12..2020, %*	*31.12.2019, %*
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	4,105,237	0	2,274,548	0	78,389	**6,458,174**
Derivative liabilities	41,664					**41,664**
Amounts due to customers	98,178,864	22,700,144	74,418,832	34,238,977	1,540,787	**231,077,603**
Other borrowed funds	222,726	682,322	4,081,823	13,714,901	10,571,027	**29,272,800**
Debt securities issued	0	0	12,392,363	10,263,501	0	**22,655,864**

(thousands of Armenian drams)

Lease liabilities	40,055	80,110	327,837	1,238,325	828,695	**2,515,022**
Subordinated debt	0	794	24,765	392,823	0	**418,382**
Total undiscounted financial liabilities	**102,588,547**	**23,463,369**	**93,520,168**	**59,848,527**	**13,018,899**	**292,439,510**
Commitments and contingent liabilities	21,431,400	**–**	**–**	**–**	**–**	21,431,400

	31 December 2019					
	Demand and less than 1 month	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Financial liabilities						
Amounts due to banks	4,589,797	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**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

Currency	*Increase in basis points 31 December 2020*	*Sensitivity of net interest income 31 December 2020*	*Sensitivity of equity 31 December 2020*
AMD	1.00%	(23,858)	(1,186,838)
USD	0.35%	-	(14,595)
EUR	0.15%	-	(1,575)

Currency	*Decrease in basis points 31 December 2020*	*Sensitivity of net interest income 31 December 2020*	*Sensitivity of equity 31 December 2020*
AMD	1.00%	23,858	1,186,838
USD	0.35%	-	14,595
EUR	0.15%	-	1,575

(thousands of Armenian drams)

30. Risk management (continued)

Market risk (continued)

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

Currency	*Decrease in basis points 31 December 2019*	*Sensitivity of net interest income 31 December 2019*	*Sensitivity of equity 31 December 2019*
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.

	31 December 2020		*31 December 2019*	
Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
USD	3.0%	(90,211)	3.0%	(52,993)
USD	(3.0%)	90,211	(3.0%)	52,993
EUR	6.5%	(23,415)	6.5%	3,426
EUR	(6.5%)	23,415	(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	–	–	209,162,945	209,162,945	229,317,136
Cash and cash equivalents	33,342,983	–	–	33,342,983	33,342,983
Amounts due from banks	–	–	16,739,040	16,739,040	16,739,040
Investment securities at amortised cost	–	1,803,810	–	1,803,810	1,823,058
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	–	–	6,442,513	6,442,513	6,442,513
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).

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.

(thousands of Armenian drams)

(thousands of Armenian drams)

31. Fair value measurements (continued)

Financial instruments that are measured at fair value

	31 December 2020		
	Level 1	***Level 2***	***Total***
Financial assets			
Trading securities	–	879,049	**879,049**
Investment securities at FVOCI	–	33,644,744	**33,644,744**
Investment securities at FVOCI pledged under repurchase agreements		2,666,326	**2,666,326**
Total	**–**	**37,190,119**	**37,190,119**
Financial liabilities			
Derivative financial liabilities	–	41,664	**41,664**
Total	**–**	**41,664**	**41,664**
Net fair value	**–**	**37,148,455**	**37,148,455**

	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.

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.

(thousands of Armenian drams)

32. Transferred financial assets and assets held or pledged as collateral (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

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:

31 December 2020	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
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)**	**–**

31 December 2019	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
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	33,342,983	0	**33,342,983**	43,540,737	–	**43,540,737**
Trading securities	7,450	871,599	**879,048**	369,970	276,517	**646,487**
Amounts due from banks	13,682,731	3,056,309	**16,739,040**	19,089,874	1,459,381	**20,549,255**
Loans and advances to customers	88,805,675	140,511,461	**229,317,136**	74,908,492	151,536,499	**226,444,991**
Investment securities pledged under repurchase agreements	552,526	2,629,475	**3,182,001**	0	0	**0**
Investment securities	5,350,489	30,197,897	**35,548,386**	1,918,772	18,407,446	**20,326,218**
Property, plant and equipment	361,404	8,243,708	**8,605,113**	–	9,479,389	**9,479,389**
Intangible assets	0	330,808	**330,808**	–	337,260	**337,260**
Repossessed assets	1,693,043	0	**1,693,043**	2,023,928	–	**2,023,928**
Prepayments on profit tax	206,037	0	**206,037**			
Other assets	2,052,429	41,166	**2,093,595**	2,245,113	35,147	**2,280,260**
Total	146,054,767	185,882,423	331,937,191	144,096,886	181,531,639	325,628,525
Liabilities						
Amounts due to banks	6,364,124	78,389	**6,442,513**	6,841,519	71,955	**6,913,474**
Derivative liabilities	41,664	0	**41,664**	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	11,688,266	9,838,850	**21,527,116**	241,488	19,678,800	**19,920,288**
Lease liabilities	446,933	1,314,956	**1,761,889**	351,902	1,714,661	**2,066,563**
Current income tax liabilities	0	0	**0**	644,892	–	**644,892**
Deferred income tax liabilities	0	851,666	**851,666**	–	947,921	**947,921**
Other liabilities	1,114,692	18,740	**1,133,432**	1,638,611	21,164	**1,659,775**
Provisions on commitments and contingencies	230,632	0	**230,632**	53,620	–	**53,620**
Subordinated debt	794	365,813	**366,607**	2,276	5,804,370	**5,806,646**
Total	217,750,027	66,097,034	283,847,062	189,497,153	91,890,064	281,387,217
Net position	(71,695,260)	119,785,389	48,090,129	(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.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

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

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								
	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	33,342,983	0	0	33,342,983	0	0	0	0	33,342,983
Trading securities	580,170	0	7,450	587,620	0	291,429	291,429	0	879,049
Amounts due from banks	1,696,078	0	5,038	1,701,116	418,041	0	418,041	14,619,883	16,739,040
Loans and advances to customers	16,208,770	28,462,239	44,134,666	88,805,675	84,624,783	55,886,678	140,511,461	0	229,317,136
Investment securities pledged under repurchase agreements	417,497	0	135,029	552,526	2,629,475	0	2,629,475	0	3,182,001
Investment securities	30,398,251	75,759	1,326,102	31,800,111	3,613,445	54,275	3,667,720	80,555	35,548,387
Property, plant and equipment	30,328	62,657	268,419	361,404	923,396	270,269	1,193,665	7,050,043	8,605,112
Intangible assets	0	0	0	0	0	0	0	330,808	330,808
Repossessed assets	0	0	1,693,043	1,693,043	0	0	0	0	1,693,043
Prepayments on profit tax	0	0	206,037	206,037	0	0	0	0	206,037
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	84,291,505	28,755,347	48,056,092	161,102,944	92,240,677	56,510,415	148,751,092	22,083,154	331,937,191
Liabilities									
Amounts due to banks	4,105,237	0	2,258,887	6,364,124	0	0	0	78,389	6,442,513
Derivative liabilities	41,664	0	0	41,664	0	0	0	0	41,664
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	0	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	0	23,518,467
Debt securities issued	0	0	11,688,266	11,688,266	9,838,850	0	9,838,850	0	21,527,116
Lease liabilities	40,055	80,110	326,768	446,933	1,092,547	222,410	1,314,956	0	1,761,889
Deferred tax liabilities	0	0	0	0	851,666	0	851,666	0	851,666
Other liabilities	203,386	70,674	840,632	1,114,692	0	18,740	18,740	0	1,133,432
Provisions on commitments and contingencies	230,632	0	0	230,632	0	0	0	0	230,632
Subordinated debt	0	794	0	794	365,813	0	365,813	0	366,607
Total liabilities	102,998,471	23,398,747	91,352,809	217,750,027	55,098,180	10,920,464	66,018,645	78,389	283,847,062
Net position	(18,706,967)	5,356,600	(43,296,717)	(56,647,083)	37,142,497	45,589,950	82,732,447	22,004,765	48,090,129
Accumulated gap	(18,706,967)	(13,350,367)	(56,647,083)		-19,504,586	26,085,365			

(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	2	5,873	**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**
Repossessed 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**	**15,669,708**	**56,403,769**	**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)**	**849,617**	**(22,121,571)**	**(39,895,058)**	**17,897,915**	**46,157,386**	**64,055,301**	**20,081,065**	**44,241,308**
Accumulated gap	**(18,623,104)**	**(17,773,487)**	**(39,895,058)**		**(21,997,143)**	**24,160,243**			

(thousands of Armenian drams)

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:

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	20,831,700	922,720	111,602	20,793,012	675,549
Loan repayments during reporting period	(2,461)	(16,054,463)	(993,508)	(118,914)	(8,929,021)	(740,547)
Loans outstanding at the end of the reporting period, gross	**128**	**38,478,528**	**464,980**	**24**	**33,701,291**	**535,768**
Less: allowance for loan impairment	(2)	(84,325)	(5,019)	(0)	(24,671)	(503)
Loans outstanding at the end of the reporting period, net	126	38,394,203	459,961	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	148,154,657	5,453,553	1,489,880	610,641,018	3,180,100
Deposits repaid during reporting period	(923,719)	(150,034,620)	(4,433,805)	(1,021,212)	(598,431,902)	(3,458,254)
Deposits at the end of the reporting period	273,832	56,348,509	1,305,738	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	19,808	687	93	34,874	852
Other income	657	85,387	2,154	1,855	85,874	748
Interest expense	(6,378)	(2,043,079)	(74,167)	(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		3,069,135	4,985,907	-	25,551	8,080,593
Redemption		(3,069,135)	(2,872,654)	(5,599,452)	(527,273)	(12,068,514)
Foreign currency translation		1,603,675	237,131	163,093	-	2,003,899
Other		3,154	(9,323)	(3,680)	197,049	187,200
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 being a non-cash movement. 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, polices and processes from the previous years.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of 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 requirements set by the Central Bank of Armenia, , as at 31 December 2020 and December 31 2019:

	31 December 2020	*31 December 2019*
Tier 1 capital	39,218,686	33,084,864
Tier 2 capital	3,579,303	7,248,251
Total capital	42,797,989	40,333,115
Risk-weighted assets	300,002,675	276,192,405
Capital adequacy ratio N1.1	13.07%	x
Capital adequacy ratio N1.2	14.27%	14.60%

(thousands of Armenian drams)

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.