Financial Statements and Independent Auditor's Report

“ARMSWISSBANK” CLOSED JOINT STOCK COMPANY

31 December 2020

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To the shareholders of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY

Qualified Opinion

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

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

Basis for Qualified Opinion

Due to circumstances outside of the Bank's control, which are related to the spread of the COVID-19 pandemic, as well as to the involvement of the Republic of Armenia in the hostilities unleashed by the Republic of Azerbaijan, the Bank's management has not been able to fully estimate the impact of these circumstances on the amount of the allowance for the expected credit losses of the loans to customers as of 31 December 2020. In addition, the changes made in the model of the Bank for the calculation of the expected credit losses may not sufficiently reflect the possible consequences of the changes in the current and projected macroeconomic environment in Armenia. We were unable to obtain sufficient appropriate audit evidence on the impact of the changes in the business environment of the Republic of Armenia on the amount of the Bank's allowance for the expected credit losses as of 31 December 2020. Accordingly, due to the uncertainties and the unprecedented situation described above, we were unable to determine the financial impact of these circumstances on the financial statements of the Bank as of and for the year ended 31 December 2020.

Key Audit Matters

Except for the matter described in the *Basis for Qualified Opinion section*, we have determined that there are no other key audit matters that we would like to present in our report.

Other information

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

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

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

As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the impact of the changes in the business environment of the Republic of Armenia on the amount of the Bank's allowance for the expected credit losses as of 31 December 2020.. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Armen Hovhannisyan

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

12 April 2021

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2020	2019
Interest and similar income	7	27,321,456	22,701,678
Interest and similar expense	7	(17,038,412)	(14,143,305)
Net interest income		10,283,044	8,558,373
Fee and commission income	8	335,405	253,808
Fee and commission expense	8	(156,108)	(131,698)
Net fee and commission income		179,297	122,110
Net trading income/(expense)	9	(26,554)	294,804
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		4,838,026	4,272,379
Other income	10	736,970	272,157
Impairment losses	11	(5,737,484)	(768,784)
Staff costs	12	(1,717,430)	(1,366,981)
Depreciation of property and equipment	20	(176,592)	(170,229)
Amortization of intangible assets	21	(22,000)	(16,252)
Other expenses	13	(904,084)	(523,689)
Profit before income tax		7,453,193	10,673,888
Income tax expense	14	(1,427,118)	(2,146,085)
Profit for the year		6,026,075	8,527,803
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Adjustment due to change in tax rate (Note 14)		-	24,593
		-	24,593
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net change in fair value during the year		(3,699,396)	2,150,324
Changes in allowance for expected credit losses		250,006	238,564
Income tax relating to items that will be reclassified		620,890	(430,000)
Adjustment due to change in tax rate (Note 14)		-	274,981
Net gains/(losses) on financial investments at fair value through other comprehensive income		(2,828,500)	2,233,869
Other comprehensive result for the year, net of tax		(2,828,500)	2,258,462
Total comprehensive income for the year		3,197,575	10,786,265

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 74.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	15	27,746,794	24,328,959
Derivative financial assets	16	8,980	-
Amounts due from financial institutions	17	6,824,674	2,072,086
Loans to customers	18	123,498,224	96,611,921
Investment securities			
- Investment securities at fair value through other comprehensive income	19	77,784,974	67,487,498
- Investment securities at amortised cost	19	63,064,705	60,572,411
- Securities pledged under repurchase agreements	19	80,530,321	26,458,580
Prepaid income taxes		281,865	-
Property and equipment	20	1,760,180	1,989,716
Intangible assets	21	83,196	64,153
Repossessed assets	22	2,266,870	1,161,904
Other assets	23	2,288,552	1,402,245
Total assets		386,139,335	282,149,473
Liabilities and equity			
Liabilities			
Amounts due to CBA	24	55,923,236	3,412,007
Derivative financial liabilities	16	168,784	969
Amounts due to financial institutions	25	50,823,392	47,734,267
Amounts due to customers	26	134,700,221	120,840,386
Debt securities issued	27	64,911,905	32,489,020
Subordinated debt	28	13,826,587	13,353,624
Current income tax liabilities		-	1,143,955
Deferred income tax liabilities	14	1,713,682	2,408,573
Other liabilities	29	1,139,243	1,031,962
Total liabilities		323,207,050	222,414,763

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Equity			
Share capital	30	10,000,200	10,000,200
Share premium		6,205,548	6,205,548
Statutory general reserve		25,000,000	20,000,000
Other reserves		9,936,706	12,765,206
Retained earnings		11,789,831	10,763,756
Total equity		62,932,285	59,734,710
Total liabilities and equity		386,139,335	282,149,473

The financial statements were approved on 12 April 2021 by:

ARMSWISSBANK
02574955

Gevorg Machanyan
Chief Executive Officer

Sedrak Baghdasaryan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 74.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property	Retained earnings	Total
Balance as of 1 January 2020	10,000,200	6,205,548	20,000,000	11,630,503	1,134,703	10,763,756	59,734,710
Profit for the year	-	-	-	-	-	6,026,075	6,026,075
Other comprehensive income:							
Net change in fair value of debt instrument at FVOCI	-	-	-	1,086,273	-	-	1,086,273
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	-	-	(4,785,669)	-	-	(4,785,669)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	250,006	-	-	250,006
Income tax relating to components of other comprehensive income	-	-	-	620,890	-	-	620,890
Total comprehensive income for the year	-	-	-	(2,828,500)	-	6,026,075	3,197,575
Distribution to reserve	-	-	5,000,000	-	-	(5,000,000)	-
Total transactions with owners	-	-	5,000,000	-	-	(5,000,000)	-
Balance as of 31 December 2020	10,000,200	6,205,548	25,000,000	8,802,003	1,134,703	11,789,831	62,932,285
Balance as of 1 January 2019	8,752,800	1,347,241	16,000,000	9,396,634	1,110,110	6,235,953	42,842,738
Profit for the year	-	-	-	-	-	8,527,803	8,527,803
Other comprehensive income:							
Net change in fair value of debt instrument at FVOCI	-	-	-	6,535,856	-	-	6,535,856
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	-	-	(4,385,532)	-	-	(4,385,532)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	238,564	-	-	238,564
Income tax relating to components of other comprehensive income	-	-	-	(430,000)	-	-	(430,000)
Adjustment due to change in tax rate	-	-	-	274,981	24,593	-	299,574
Total comprehensive income for the year	-	-	-	2,233,869	24,593	8,527,803	10,786,265
Increase in share capital	1,247,400	4,858,307	-	-	-	-	6,105,707
Distribution to reserve	-	-	4,000,000	-	-	(4,000,000)	-
Total transactions with owners	1,247,400	4,858,307	4,000,000	-	-	(4,000,000)	6,105,707
Balance as of 31 December 2019	10,000,200	6,205,548	20,000,000	11,630,503	1,134,703	10,763,756	59,734,710

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 74.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Profit before tax	7,453,193	10,673,888
Adjustments for		
Impairment charge of financial assets	5,737,484	768,784
Amortization and depreciation allowances	198,592	186,481
Interest receivable	(2,855,171)	(587,715)
Interest payable	345,023	294,175
Property impairment losses	169,795	-
Foreign currency translation net (income)/expense	(701,828)	3,843
Net expense from changes in fair value of derivatives	158,835	-
Cash flows from operating activities before changes in operating assets and liabilities	10,505,923	11,339,456
(Increase)/decrease in operating assets		
Amounts due from financial institutions	(4,602,075)	1,608,520
Loans to customers	(22,239,749)	(24,466,353)
Other assets	(842,549)	(919,581)
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	48,999,992	(17,999,992)
Amounts due to financial institutions	(361,463)	7,700,627
Amounts due to customers	9,391,964	27,264,794
Derivative liabilities	-	969
Other liabilities	58,027	431,186
Net cash flow from operating activities before income tax	40,910,070	4,959,626
Income tax paid	(2,926,939)	(1,556,193)
Net cash from operating activities	37,983,131	3,403,433
Cash flows from investing activities		
Purchase of investment securities	(67,241,263)	(20,623,474)
Purchase of property and equipment	(73,845)	(42,909)
Purchase of intangible assets	(41,043)	(8,929)
Net cash used in investing activities	(67,356,151)	(20,675,312)

Statement of cash flows (continued)

In thousand Armenian drams

	2020	2019
Cash flow from financing activities		
Proceeds from issue of share capital	-	6,105,707
Loans received from the CBA	3,423,162	742,877
Loans received from other financial institutions	494,293	10,925,864
Net increase of debt securities issued	28,098,352	5,567,520
Subordinate debt redeemed	-	105
Payment of lease liabilities	(45,450)	(36,480)
Net cash from financing activities	31,970,357	23,305,593
Net increase in cash and cash equivalents	2,597,337	6,033,714
Cash and cash equivalents at the beginning of the year	24,328,959	18,215,567
ECL on cash	-	(3,744)
Exchange differences on cash and cash equivalents	820,498	83,422
Cash and cash equivalents at the end of the year (note 15)	27,746,794	24,328,959

Supplementary information:

Interest received	24,466,285	22,113,963
Interest paid	(16,693,389)	(13,849,130)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 74.

Notes to the financial statements

1 Principal activities

ARMSWISSBANK CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia in Yerevan. The Bank is regulated by the legislation of RA and conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the “CBA”).

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. Its main office is in Yerevan.

The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

2 Armenian business environment

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

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

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

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

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

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

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

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)
- *IFRS 17 Insurance contracts*
- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Fee and commission income

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

Dividend income

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

Net trading income

Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

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

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

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

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

	31 December 2020	31 December 2019
AMD/1 US Dollar	522.59	479.70
AMD/1 EUR	641.11	537.26

4.3 Taxation

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

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

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

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

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 Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

In making the assessment, the Bank considers:

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 37.1.2.

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

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

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

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

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

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
- the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

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

4.5 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

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

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

4.8 Loans

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

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

4.9 Investment securities

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

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

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

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

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

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

For any new contracts entered into (or changed) on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

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

Measurement and recognition of leases

Bank as a lessee

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

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

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

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

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

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

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

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

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

Bank as a lessor

The Bank's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Bank classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

4.13 Precious metals

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

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

4.14 Property and equipment

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

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 (%)
Building	30	3.3
Computer and communication means	6	16.67
Vehicles	7	14.29
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 and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

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 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 statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

4.15 Intangible assets

Intangible assets include computer software and licences.

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 3-10 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.

4.16 Repossessed assets

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

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

4.17 Borrowings

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

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.18 Financial guarantees and loan commitments

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

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

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

4.19 Provisions

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

4.20 Equity

Share capital

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

Share premium

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

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Fair value reserve for investments securities at FVOCI

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

4.21 Fiduciary activities

The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Commissions received from fiduciary activities are shown in fee and commission income.

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

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

Useful Life of property and equipment

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

Extension options for leases

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

Related party transactions

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

Impairment of financial instruments

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

Tax legislation

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

6 Transition disclosure

6.1 IFRS 16

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

In thousand Armenian drams	1 January 2019
Right-of-use assets – property and equipment	130,759
Deferred tax liability	(26,152)
Lease liabilities	130,759
Deferred tax asset	26,152
Total change in equity due to adopting IFRS 16	-

The following is a reconciliation of total operating lease commitments as of 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised as of 1 January 2019:

Total operating lease commitments disclosed as of 31 December 2018	163,717
Discounted using incremental borrowing rate	(32,958)
Operating lease liabilities	130,759
Reasonably certain extension options	-
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	130,759

7 Interest and similar income and expense

In thousand Armenian drams	2020	2019
Loans to customers	9,374,832	7,834,036
Investment securities at FVOCI	10,039,987	7,364,380
Investment securities at amortised cost	6,922,880	6,913,614
Income from factoring	463,656	316,057
Lease receivables	90,015	29,854
Amounts due from financial institutions	248,289	99,276
Reverse repurchase transactions	172,688	138,122
Income from letters of credit	8,796	3,382
Other interest income	313	2,957
Total interest and similar income	27,321,456	22,701,678
Amounts due to customers	10,528,567	8,455,249
Repurchase transactions	1,654,529	1,741,237
Amounts due to financial institutions	1,515,933	1,502,530
Debt securities issued	3,316,928	2,429,674
Lease liabilities	20,865	13,476
Other interest expenses	1,590	1,139
Total interest and similar expense	17,038,412	14,143,305

8 Fee and commission income and expense

In thousand Armenian drams	2020	2019
Cash operations	37,214	39,949
Wire transfer fees	114,409	103,978
Guarantees and letters of credit	87,281	33,235
Brokerage operations	78,022	59,416
Plastic cards operations	15,443	13,966
Other fees and commissions	3,036	3,264
Total fee and commission income	335,405	253,808
Wire transfer fees	62,955	41,310
Brokerage operations	72,014	61,992
Other fees and commissions	21,139	28,396
Total fee and commission expense	156,108	131,698

9 Net trading income/(expense)

In thousand Armenian drams	2020	2019
Net income/(expense) from derivatives	(670,859)	4,158
Net income from transactions in foreign currencies	644,305	290,646
Total net trading income//(expense)	(26,554)	294,804

10 Other income

In thousand Armenian drams	2020	2019
Net gains from operations with precious metals	-	3,855
Income from sale of repossessed assets	670	12,422
Income from dividends	6,041	5,103
Net gain from foreign currency translation of non-trading assets	701,828	-
Income from financial intermediation	16,693	16,460
Insurance compensation	-	-
Income from allocation of securities	4,051	229,201
Other income	7,687	5,116
Total other income	736,970	272,157

11 Impairment losses/(reversal)

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
2020					
Cash and cash equivalents	15	(5,168)	-	-	(5,168)
Amounts due from financial institutions	17	13,751	-	-	13,751
Loans to customers	18	1,246,940	209,009	4,025,825	5,481,774
Investment securities measured at FVOCI	19	250,006	-	-	250,006
Investment securities measured at amortised cost	19	(3,804)	-	-	(3,804)
Other assets	23	1,524	-	-	1,524
Financial guarantees and loan commitment	31	(599)	-	-	(599)
Total impairment losses		1,502,650	209,009	4,025,825	5,737,484

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
2019					
Cash and cash equivalents	15	3,744	-	-	3,744
Amounts due from financial institutions	17	(19,422)	-	-	(19,422)
Loans to customers	18	(47,249)	516,861	(84,727)	384,885
Investment securities measured at FVOCI	19	238,564	-	-	238,564
Investment securities measured at amortised cost	19	144,109	-	-	144,109
Other assets	23	(7,141)	-	-	(7,141)
Financial guarantees and loan commitment	31	24,045	-	-	24,045
Total impairment losses/(reversal)		336,650	516,861	(84,727)	768,784

12 Staff costs

In thousand Armenian drams	2020	2019
Compensations of employees, related taxes included	1,715,632	1,356,122
Staff training costs	1,149	5,216
Other	649	5,643
Total staff costs	1,717,430	1,366,981

13 Other expenses

In thousand Armenian drams	2020	2019
Net loss from foreign currency translation of non-trading assets	-	3,843
Net losses from operations with precious metals	1,152	-
Communications	69,736	60,480
Fixed and intangible assets maintenance and repair	95,956	109,021
Representative expenses	31,150	49,797
Consulting and other services	24,480	12,789
Taxes, other than income tax, duties	33,870	7,916
Payments to Deposit Guarantee Fund	104,263	64,807
Insurance expenses	36,656	30,930
Business trip expenses	6,490	28,575
Security	9,000	8,560
Fees to financial system mediator	28,313	23,537
Office supplies	13,161	14,949
Loan collection fees	18,509	27,201
Property impairment losses	169,795	-
Loan disbursement expenses (ACRA)	7,802	6,783
Payment system services (ArCa)	38,569	34,423
Advertising costs	4,714	8,761
Charitable donations	187,331	21,840
Other expenses	23,137	9,477
Total other expense	904,084	523,689

14 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	1,578,733	2,263,748
Previous years adjustments	(77,614)	-
Deferred tax	(74,001)	(117,663)
Total income tax expense	1,427,118	2,146,085

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

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

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	7,453,193		10,673,888	
Income tax at the rate of 18% (2019: 20%)	1,341,575	18	2,134,778	20
Non-deductible expenses	5,439	-	9,369	-
Foreign exchange losses	2,490	-	930	-
Privilege for disabled employees	-	-	(7,608)	-
Previous years adjustments	77,614	1	-	-
Effect of changes in income tax rate	-	-	8,616	-
Income tax expense	1,427,118	19	2,146,085	20

Changes in tax rates and factors affecting the future tax charge

As a result of changes in the tax code of the Republic of Armenia in December 2019, a reduction of income tax rate from 20% to 18% is expected to take effect for the periods beginning on 1 January 2020. Accordingly, deferred tax balances as of 31 December 2019 have been recognised at 18%. This change resulted in a loss AMD 8,616 thousand recognised in profit or loss related to the remeasurement of deferred tax assets and gain AMD 299,574 thousand recognised in other comprehensive income related to the remeasurement of deferred tax liabilitie of the Bank during the year ended 31 December 2019.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	1 January 2020	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2020		
				Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(6,616)	6,616	-	-	-	-
Amounts due from financial institutions	7,002	(12,568)	-	(5,566)	-	(5,566)
Loans and advances to customers	133,925	152,259	-	286,184	286,184	-
Investment securities at FV through OCI	(2,411,776)	(32,615)	620,890	(1,823,501)	-	(1,823,501)
Investment securities at amortised cost	36,780	(684)	-	36,096	36,096	-
Property and equipment	(226,455)	(10,777)	-	(237,232)	-	(237,232)
Other assets	1,959	(10,969)	-	(9,010)	-	(9,010)
Other provisions	(25,053)	5,244	-	(19,809)	-	(19,809)
Lease liabilities	19,396	(28,784)	-	(9,388)	-	(9,388)
Other liabilities	62,265	6,279	-	68,544	68,544	-
Deferred tax asset/(liability)	(2,408,573)	74,001	620,890	(1,713,682)	390,824	(2,104,506)

In thousand Armenian drams	1 January 2019	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2019 Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(4,748)	(1,868)	-	(6,616)	-	(6,616)
Amounts due from financial institutions	7,499	(497)	-	7,002	7,002	-
Loans and advances to customers	146,808	(12,883)	-	133,925	133,925	-
Investment securities at FV through OCI	(2,320,401)	63,644	(155,019)	(2,411,776)	-	(2,411,776)
Investment securities at amortised cost	12,045	24,735	-	36,780	36,780	-
Property and equipment	(245,927)	(5,121)	24,593	(226,455)	-	(226,455)
Other assets	11,464	(9,505)	-	1,959	1,959	-
Other provisions	(28,613)	3,560	-	(25,053)	-	(25,053)
Lease liabilities	-	19,396	-	19,396	19,396	-
Other liabilities	26,063	36,202	-	62,265	62,265	-
Deferred tax asset/(liability)	(2,395,810)	117,663	(130,426)	(2,408,573)	261,327	(2,669,900)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2020	31 December 2019
Cash on hand	1,951,867	2,155,378
Correspondent account with the CBA	24,726,715	17,747,800
Correspondent accounts with banks	885,647	3,055,208
Deposits for less than 90 days	182,565	1,375,741
	27,746,794	24,334,127
Less loss allowance	-	(5,168)
Total cash and cash equivalents	27,746,794	24,328,959

As of 31 December 2020 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 2% (2019: 2%) of the Bank obligations denominated in Armenian drams and 18% of the Bank obligations, denominated in foreign currency. Starting from June 2019 the banks are required to maintain10% of amounts attracted in foreign currency as cash deposit with CBA in Armenian drams, and 8% in the foreign currency. These funds amount to AMD 14,025,198 thousand (2019: AMD 13,781,523 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2020 the Bank did not have a correspondent accounts (as of 31 December 2019: either), excluding balance with CBA, the balance of which exceeds 10% of equity.

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

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	5,168	1,424
Net remeasurement of loss allowance	(5,168)	3,744
Balance at 31 December	-	5,168

16 Derivative financial instruments

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

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

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

In thousand Armenian drams	31 December 2020			31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Swaps – foreign currency	2,808,844	-	68,369	561,147	-	969
Securities forward	2,111,914	8,980	100,415	-	-	-
Total derivative financial instruments	4,920,758	8,980	168,784	561,147	-	969

17 Amounts due from financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Loans to banks	317,338	-
Loans to international financial institutions	1,474,747	-
Loans to other financial institutions	877,327	394,144
Deposits in banks	2,005,082	-
Deposited funds in the CBA	310,000	360,000
Deposited funds in banks	145,890	129,336
Deposited funds in other financial institutions	705,056	940,346
Reverse repurchase agreements with credit companies	1,011,058	280,453
Regular purchase agreements - spot transactions in foreign currency	4,405	-
Other amounts	34,065	14,350
	6,884,968	2,118,629
Less loss allowance	(60,294)	(46,543)
Total amounts due from financial institutions	6,824,674	2,072,086

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

Deposited funds with the financial institutions in the amount of AMD 446,851 thousand represent frozen amounts in EBRD for the fulfillment of the obligations for repo agreements (2019: 679,700 thousand represent financial instruments in the Central Depository of Armenia for the fulfillment of the obligations assumed by the market maker contract).

As of 31 December 2020 the Bank does not have funds given to any bank (as of 31 December 2019: either), the balances of which exceed 10% of the Bank's equity.

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

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	46,543	65,965
Net remeasurement of loss allowance	13,751	(19,422)
Balance as of 31 December	60,294	46,543

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2020 are presented as follows:

In thousand Armenian drams	2020		2019	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA State bonds in foreign currency	-	-	281,149	280,453
RA State bonds in local currency	1,045,623	1,011,058	-	-
Total assets pledged and loans under reverse repurchase agreements	1,045,623	1,011,058	281,149	280,453

18 Loans to customers

In thousand Armenian drams	31 December 2020			31 December 2019		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	16,620,599	(567,371)	16,053,228	11,658,499	(189,796)	11,468,703
Consumer lending	2,257,717	(828,107)	1,429,610	2,441,448	(184,821)	2,256,627
Credit cards	426,411	(7,132)	419,279	335,263	(9,974)	325,289
Reverse sale-and-repurchase agreements	130,094	(796)	129,298	2,618,459	(16,312)	2,602,147
	19,434,821	(1,403,406)	18,031,415	17,053,669	(400,903)	16,652,766
Commercial lending						
Trading	19,233,313	(586,593)	18,646,720	14,345,704	(319,655)	14,026,049
Manufacturing	45,884,356	(3,704,208)	42,180,148	32,553,479	(775,779)	31,777,700
Agriculture	13,032,676	(290,892)	12,741,784	10,832,540	(270,499)	10,562,041
Construction	16,072,482	(91,440)	15,981,042	10,382,582	(65,149)	10,317,433
Financial lease receivables	1,669,336	(31,873)	1,637,463	582,406	(12,018)	570,388
Other	14,407,496	(127,844)	14,279,652	12,922,404	(216,860)	12,705,544
	110,299,659	(4,832,850)	105,466,809	81,619,115	(1,659,960)	79,959,155
Total	129,734,480	(6,236,256)	123,498,224	98,672,784	(2,060,863)	96,611,921

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

During the year ended 31 December 2020 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2020 the carrying amount of such assets was AMD 1,121,596 thousand (2019: AMD 492,214 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2020 the weighted average effective interest rate on loans to customers is 10.75% for loans in AMD (2019: 11.77%) and 7.87% for loans in USD, EUR and RUB (2019: 8.59%).

As of 31 December 2020, the Bank had a concentration of loans represented by AMD 43,591,440 thousand due from the ten largest borrowers and parties related with them (including relating parties, see note 33) (33.6% of gross loan portfolio) (2019: AMD 42,108,899 thousand or 42.6%). An allowance of AMD 798,142 thousand (2019: AMD 1,053,196 thousand) was made against these loans.

As of 31 December 2020 the Bank had one borrowers and group of related parties, whose loan balances exceed 10% of equity. The gross value of these loans as of 31 December 2020 amounts to AMD 12,580,695 thousand (31 December 2019: AMD 18,598,822 thousand, gross loan portfolio provided to two borrowers and groups of related parties).

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

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	230,218	161,624	9,061	400,903
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	5,131	(5,131)	-	-
Transfer to Lifetime ECL not credit-impaired	(5,841)	5,841	-	-
Transfer to Lifetime ECL credit-impaired	(259)	(108,846)	109,105	-
Net remeasurement of loss allowance	19,015	95,382	706,773	821,170
New loans originated	259,550	9,540	-	269,090
Net written off during the year	-	-	(87,757)	(87,757)
Balance as of 31 December	507,814	158,410	737,182	1,403,406

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as of 1 January	853,604	770,268	36,088	1,659,960
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	16,977	(16,977)	-	-
Transfer to Lifetime ECL not credit-impaired	(26,590)	26,590	-	-
Transfer to Lifetime ECL credit-impaired	(3,689)	(291,873)	295,562	-
Net remeasurement of loss allowance	(66,401)	(65,125)	2,053,714	1,922,188
New loans originated	1,034,776	169,212	1,265,338	2,469,326
Net written off during the year	-	-	(1,218,624)	(1,218,624)
Balance as of 31 December	1,808,677	592,095	2,432,078	4,832,850

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	87,876	177,502	24,885	290,263
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	42,944	(42,944)	-	-
Transfer to Lifetime ECL not credit-impaired	(2,372)	21,523	(19,151)	-
Transfer to Lifetime ECL credit-impaired	(243)	(7,596)	7,839	-
Net remeasurement of loss allowance	(43,828)	6,153	538,298	500,623
New loans originated	145,841	6,986	-	152,827
Net written off during the year	-	-	(542,810)	(542,810)
Balance as of 31 December	230,218	161,624	9,061	400,903

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as of 1 January	715,265	567,633	47,422	1,330,320
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	295,404	(295,404)	-	-
Transfer to Lifetime ECL not credit-impaired	(4,646)	4,646	-	-
Transfer to Lifetime ECL credit-impaired	(3,157)	(10,329)	13,486	-
Net remeasurement of loss allowance	(753,753)	(236,833)	(624,882)	(1,615,468)
New loans originated	604,491	740,555	1,857	1,346,903
Net recoveries off during the year	-	-	598,205	598,205
Balance as of 31 December	853,604	770,268	36,088	1,659,960

As of 31 December 2020 carrying amount of loans new originated amounted to AMD 56,214,804 thousand (2019: AMD 56,813,690 thousand).

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

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. Fair value of assets pledged and carrying value of loans under reverse repurchase agreements. As of 31 December 2020 are presented as follows:

In thousand Armenian drams	31 December 2020		31 December 2019	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds	119,576	114,406	2,647,911	2,618,459
Foreign corporate shares	25,769	15,688	-	-
Total assets pledged and loans under reverse repurchase agreements	145,345	130,094	2,647,911	2,618,459

In thousand Armenian drams	2020	2019
Gross investment in finance leases, receivable:		
Not later than 1 year	424,986	144,709
Later than 1 year and not later than 5 years	1,426,844	529,525
Later than 5 years	502,846	110,082
	2,354,676	784,316
Unearned future finance income on finance leases	(685,340)	(201,910)
Allowance	(31,873)	(12,018)
Net investment in finance leases	1,637,463	570,388

Implied interest rate of the lease amounts to 12.62% (2019: 11.57%).

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

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

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

The finance lease receivables may be analyzed as follows:

19 Investment securities

In thousand Armenian drams	31 December 2020	31 December 2019
RA state bonds measured at amortised cost	63,265,237	60,772,660
Less loss allowance	(200,532)	(200,249)
Total investment securities at amortised cost	63,064,705	60,572,411
RA state bonds measured at amortised cost pledged under repurchase agreements	-	1,515,274
Less loss allowance	-	(4,087)
Total investment securities at amortised pledged under repurchase agreements	-	1,511,187

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

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	204,336	60,227
Net remeasurement of loss allowance	(3,804)	144,109
Balance as of 31 December	200,532	204,336

In thousand Armenian drams	31 December 2020	31 December 2019
Investment securities measured at FVOCI		
Investment securities measured at FVOCI – RA state bonds	67,642,663	60,821,335
Investment securities measured at FVOCI – Corporate bonds	10,078,161	6,598,488
Investment securities designated as at FVOCI – equity investments	64,150	67,675
Total investment securities measured at FVOCI	77,784,974	67,487,498
RA state bonds measured at FVOCI pledged under repurchase agreements	80,530,321	24,947,393

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

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	353,580	115,016
Net remeasurement of loss allowance	250,006	238,564
Balance as of 31 December	603,586	353,580

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

All debt securities have fixed coupons.

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	Maturity	%	Maturity
RA State bonds	7.12-16.52	2022-2050	7.12-16.62	2021-2047
RA State bonds in foreign currency	3.84-6.86	2025-2029	3.84-6.63	2025-2029
RA corporate bonds	2.25-12.50	2021-2025	4.33-12.50	2020-2022

Investment securities measured at amortised cost upon profitability and maturity terms:

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	Maturity	%	Maturity
RA Government bonds	8.00-10.69	2025-2047	10.63-10.69	2047

The pledged securities are those financial assets pledged under repurchase agreements with other banks with the right to sell or re-pledge by the counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. The total amount of financial assets that have been pledged as collateral for liabilities, as of 31 December 2020 was AMD 80,530,321 thousand (2019: AMD 26,462,667 thousand), refer to notes 24, 25.

20 Property and equipment

In thousand Armenian drams	Buildings	Leasehold improvement	Computer and commu-nication means	Vehicles	Fixtures and fittings	Right-of-use assets Buildings	Total
Cost / revalued amount							
As of 1 January 2019	2,016,722	45,395	244,279	124,115	143,947	-	2,574,458
Impact of adopting IFRS 16 (note 6)	-	-	-	-	-	130,759	130,759
Additions	881	-	31,906	132	9,990	-	42,909
Disposals	-	-	(5,903)	-	(1,628)	-	(7,531)
As of 31 December 2019	2,017,603	45,395	270,282	124,247	152,309	130,759	2,740,595
Additions	-	13,670	46,286	-	13,889	43,006	116,851
Disposals	-	-	(5,579)	-	(13,247)	-	(18,826)
Impairment	(196,341)	-	-	-	-	-	(196,341)
As of 31 December 2020	1,821,262	59,065	310,989	124,247	152,951	173,765	2,642,279
Accumulated depreciation							
As of 1 January 2019	227,250	13,199	164,777	70,004	112,951	-	588,181
Expenses for the year	84,394	6,786	25,217	14,462	10,337	29,033	170,229
Disposals	-	-	(5,903)	-	(1,628)	-	(7,531)
As of 31 December 2019	311,644	19,985	184,091	84,466	121,660	29,033	750,879
Expenses for the year	84,564	9,087	27,915	8,040	10,144	36,842	176,592
Disposals	-	-	(5,579)	-	(13,247)	-	(18,826)
Impairment	(26,546)	-	-	-	-	-	(26,546)
As of 31 December 2020	369,662	29,072	206,427	92,506	118,557	65,875	882,099
Carrying amount							
As of 31 December 2019	1,705,959	25,410	86,191	39,781	30,649	101,726	1,989,716
As of 31 December 2020	1,451,600	29,993	104,562	31,741	34,394	107,890	1,760,180

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser using a combination of the market, income and cost methods. Management have based their estimate of the fair value of the buildings on the results of the independent appraisal.

For the fair value hierarchy of property and equipment see note 33.3.

The management believes that as of 31 December 2020 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of buildings that would have been recognised under the historic cost, the carrying amounts will be presented as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
Historic cost	748,647	748,647
Accumulated amortization	(234,992)	(210,037)
Carrying amount	513,655	538,610

Right-of-use assets

The Bank has leases for the head office. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Lease liabilities are presented in the statement of financial position in the line of other liabilities (refer to note 29):

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. The Bank is prohibited from selling or pledging the underlying leased assets as security. the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Fully depreciated items

As of 31 December 2020 fixed assets included fully depreciated assets in amount of AMD 261,950 thousand (2019: AMD 202,643 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As of 31 December 2020 the Bank had an initial contract for acquisition of a new office building, the contractual amount of a new building is AMD 1,500,000 thousand payables (2019: either). In 2020, the Bank has already paid AMD 1,030,000 thousand as an advance payment (2019: 500,000 thousand) (refer to note 23).
The Bank’s Management has already allocated the necessary resources in respect of this commitment. The Bank’s Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

21 Intangible assets

In thousand Armenian drams	Computer software	Licenses	Total
Cost			
At 1 January 2019	97,087	67,738	164,825
Additions	5,367	3,562	8,929
Disposals	(2,153)	(1,737)	(3,890)
At 31 December 2019	100,301	69,563	169,864
Additions	29,192	11,851	41,043
Disposals	(12,160)	(1,504)	(13,664)
At 31 December 2020	117,333	79,910	197,243
Accumulated amortisation			
At 1 January 2019	80,222	13,126	93,348
Amortisation charge	7,782	8,470	16,252
Disposals	(2,152)	(1,737)	(3,889)
At 31 December 2019	85,852	19,859	105,711
Amortisation charge	12,826	9,174	22,000
Disposals	(12,160)	(1,504)	(13,664)
At 31 December 2020	86,518	27,529	114,047
Carrying amount			
At 31 December 2019	14,449	49,704	64,153
At 31 December 2020	30,815	52,381	83,196

Contractual commitments

As of 31 December 2020 the Bank did not have any contractual commitments (2019: either).

Restrictions on title of intangible assets

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

22 Repossessed assets

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

In thousand Armenian drams	31 December 2020	31 December 2019
Property and land	1,910,001	805,035
Other assets	356,869	356,869
Total repossessed assets	2,266,870	1,161,904

23 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Debtors and other receivables	215,989	98,143
Other financial assets	8,489	5,248
	224,478	103,391
Less loss allowance	-	(3,412)
Total other financial assets	224,478	99,979
Prepayments	1,127,007	1,075,199
Gold in vault	834,280	114,016
Accrued expenses	81,753	101,326
Materials	12,144	9,048
Other assets	8,890	2,677
Total non-financial assets	2,064,074	1,302,266
Total other assets	2,288,552	1,402,245

Prepayments include an advance payment of AMD 1,030,000 thousand (2019: 500,000 thousand) made by the Bank to a related party as a guarantee for construction of Bank's new building with total amount of AMD 1,500,000 thousand (refer to note 20).

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

In thousand Armenian drams	2020	2019
	ECL	ECL
Other financial assets		
ECL allowance as of 1 January	3,412	11,503
Net remeasurement of loss allowance	1,524	(7,141)
Net write-off	(4,936)	(950)
Balance as of 31 December	-	3,412

24 Amounts due to the CBA

In thousand Armenian drams	31 December 2020	31 December 2019
Loans under repurchase agreements	49,014,600	-
GAF loans	6,908,636	3,412,007
	55,923,236	3,412,007

German-Armenian fund loans received within the scope of loan projects of "Lending to Armenia SMEs" and "Development of the renewable energies". The average effective interest rate on these loans is 5.90% (2019: 5.98%). The average effective interest rate on loans under repurchase agreements is 5.59%.

The Bank didn't have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2019: nil).

25 Amounts due to financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Loans from international financial institutions	17,814,397	15,748,747
Loans from financial institutions RA	5,633,386	2,373,648
Deposits from financial institutions	3,015,353	5,162,563
Current accounts of other financial institutions	900,337	814,285
Letter of credit	1,141,872	1,058,545
Correspondent accounts of other banks	23,534	23,987
Loans under repurchase agreements	22,280,410	22,543,366
Other liabilities	14,103	9,126
Total amounts due to financial institutions	50,823,392	47,734,267

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development, responsAibility SICAV (Lux) Financial Inclusion Fund and responsAibility Micro and SME Finance Fund.

Deposits from financial institutions have fixed interest rates. Loans from financial institutions have fixed and floating interest rates.

As of 31 December 2020 the weighted average effective interest rate on amounts due to financial institutions is 6.81% for amounts attracted in AMD (2019: 6.97%) and 3.43% and 3.19% and 6.7% for amounts attracted in USD and EUR and RUR respectively (2019: for USD 4.55% and for EUR 2.39%).

As of 31 December 2020 the Bank had only two financial organization (31 December 2019: two), the balances of which exceed 10% of equity. The gross value of these loans and deposits as of 31 December 2020 amounted to AMD 34,520,267 thousand (31 December 2019: 28,685,212).

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

26 Amounts due to customers

In thousand Armenian drams	31 December 2020	31 December 2019
Government of the RA		
Other liabilities	20,000	20,000
	20,000	20,000
Corporate customers		
Current/Settlement accounts	13,596,404	14,519,266
Time deposits	82,215,419	71,061,788
	95,811,823	85,581,054
Retail customers		
Current/Demand accounts	13,857,381	13,645,105
Time deposits	25,011,017	21,594,227
	38,868,398	35,239,332
Total amounts due to customers	134,700,221	120,840,386

All customer deposits carry fixed interest rates.

RA government amounts represent loans received within the scope of “Accrediting economic stability” program.

As of 31 December 2020 included in amounts due to customers are deposits amounting to AMD 14,106,500 thousand (2019: AMD 9,713,755 thousand) held as security against letters of credit issued, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

As of 31 December 2020 the Bank had two group of related customers (including relating parties, see note 32) (31 December 2019: three), whose accounts and deposit balances exceed 10% of equity. The gross value of these balances as of 31 December 2020 amounted to AMD 104,963,288 thousand (31 December 2019: AMD 97,624,271 thousand).

As of 31 December 2020 the weighted average effective interest rates on amounts due to customers was 10.95% for amounts attracted in AMD (2019: 11.46%) and 4.85% and 3.96% for amounts attracted in USD and EUR respectively (2019: 4.92% and 2.57%).

27 Debt securities issued

In thousand Armenian drams	31 December 2020	31 December 2019
Non-current bonds	64,911,905	32,489,020
Total debt securities issued	64,911,905	32,489,020

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

As of 31 December 2019 the Bank had three group of related customers (including relating parties, refer to note 32) (31 December 2019: one), whose bond balances exceed 10% of equity. The gross value of these balances as of 31 December 2020 amounted to AMD 46,395,209 thousand (31 December 2019: AMD 17,449,085 thousand).

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

Type of bonds	Date of issue	Currency	Face value by currency	Quantity	%	Maturity of bonds	Total face value by currency
AMSWISB26ER6	15.06.17	AMD	50,000	40,000	12.75	15.06.2021	2,000,000,000
AMSWISB27ER4	24.05.18	AMD	50,000	120,000	11.50	24.05.2023	6,000,000,000
AMSWISB25ER8	15.06.17	EUR	100	100,000	5.00	15.06.2023	10,000,000
AMSWISB24ER1	15.06.17	USD	100	100,000	6.75	15.06.2024	10,000,000
AMSWISB29ER0	22.11.18	USD	100	100,000	6.00	22.11.2024	10,000,000
AMSWISB28ER2	24.05.18	USD	100	60,000	6.50	24.05.2025	6,000,000
AMSWISB2AER6	02.05.19	USD	100	50,000	6.50	02.05.2025	5,000,000
AMSWISB2BER4	02.05.19	EUR	100	30,000	4.00	02.05.2023	3,000,000
AMSWISB2CER2	01.06.20	AMD	50,000	200,000	9.00	01.06.2025	10,000,000,000
AMSWISB2DER0	01.06.20	USD	100	100,000	6.00	01.06.2026	10,000,000
AMSWISB2EER8	01.06.20	EUR	100	100,000	3.50	01.06.2025	10,000,000
AMSWISB2FER5	28.09.20	AMD	50,000	200,000	8.50	28.09.2026	10,000,000,000

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

The bonds issued by the Bank are listed in the Armenian Securities Exchange.

28 Subordinated debt

In thousand Armenian drams	31 December 2020	31 December 2019
Subordinated debt provided by legal entities	13,826,587	13,353,624
Total subordinated debt	13,826,587	13,353,624

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

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

Subordinate debt represents amounts of the Banks' related parties (refer to note 33).

The balance of subordinated debt obtained from legal entities as of 31 December 2020 is as follows:

31 December 2020				
Year of provision	Currency	%	Maturity, year	Amount, thousand Armenian drams
2015	US dollar	3	9	2,613,809
2016	US dollar	8	7	2,624,977
2016	Armenian dram	14	7	8,064,438
2016	US dollar	3	7	523,363
Total subordinated liabilities				13,826,587

29 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Accounts payables	228,730	284,879
Lease liabilities	126,176	107,755
Due to personnel	382,738	342,998
Total other financial liabilities	737,644	735,632
Tax payable, other than income tax	279,567	224,911
Received advance payments	30,034	38,107
Provisions*	29,195	29,794
Other	62,803	3,518
Total other non-financial liabilities	401,599	296,330
Total other liabilities	1,139,243	1,031,962

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

Lease liabilities

The Bank has leases for the head office. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are presented in the statement of financial position in the line of property and equipment (refer to note 20):

Leases of property generally have a lease term ranging from 0.6 years to 2.6 years. Lease payments are generally fixed.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

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

In thousand Armenian drams	31 December 2020	31 December 2019
As of 1 January (2019: effect of adoption of IFRS 16)	107,755	130,759
Additions	43,006	-
Accretion of interest	20,865	13,476
Payments	(45,450)	(36,480)
Total lease liabilities as of 31 December	126,176	107,755

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 11.1% (2019: 11.2%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2020 (refer to note 35).

30 Equity

As of 31 December 2020 the Bank's registered and paid-in share capital was AMD 10,000,200 thousand. In accordance with the Bank's statues, the share capital consists of 16,667 ordinary shares, all of which have a par value of AMD 600 thousand each.

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

In thousand Armenian drams	31 December 2020	
	Paid-in share capital	% of total paid-in capital
"HVS Holding" S.a.r.l.	8,752,800	87.53
"FMTM Distribution" LTD	1,247,400	12.47
	10,000,200	100

In 2019 the Bank increased its share capital by AMD 1,247,400 thousand.

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

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

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

31 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Therefore, the Bank has not made any respective provision related to such tax and legal matters.

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2020	31 December 2019
Undrawn loan commitments	4,144,978	3,857,459
Guarantees	4,123,067	1,829,400
Unused part of factoring limit	4,691,236	3,593,149
Total commitments and contingent liabilities	12,959,281	9,280,008

An analysis of changes in the ECLs on financial guarantee as follow: An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (note 18).

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
Financial guarantees		
ECL allowance as of 1 January	29,794	5,749
Net remeasurement of loss allowance	(599)	24,045
Balance as of 31 December	29,195	29,794

Information on the Bank's capital commitments is disclosed in notes 20 and 21.

Insurance

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

32 Transactions with related parties

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

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

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

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

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Cash and cash equivalents				
At 1 January	2,004,164	-	-	-
Increase	546,838	-	4,082,332	-
Decrease	(2,481,002)	-	(2,078,168)	-
Cash and cash equivalents outstanding at 31 December gross	70,000		2,004,164	
Less: allowance for impairment	-		(380)	
At 31 December	70,000	-	2,003,784	-
Amounts due from financial institutions				
At 1 January	-	-	-	-
Increase	2,162,452	-	-	-
Decrease	(157,370)	-	-	-
Amounts due from financial institutions outstanding at 31 December gross	2,005,082		-	
Less: allowance for impairment	(18,306)		-	
At 31 December	1,986,776	-	-	-
Loans to customers				
Loans outstanding at 1 January gross	9,586,904	768,122	7,184,937	455,371
Loans issued during the year	7,055,700	601,587	12,309,967	504,659
Loan repayments during the year	(4,061,909)	(270,234)	(9,908,000)	(191,908)
Loans outstanding at 31 December gross	12,580,695	1,099,475	9,586,904	768,122
Less: allowance for loan impairment	(289,643)	(183,437)	(356,702)	(44,423)
Loans outstanding at 31 December	12,291,052	916,038	9,230,202	723,699

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Amounts due to financial institutions				
At 1 January	8,246	-	-	-
Increase	226,908	-	2,642,656	-
Decrease	(225,606)	-	(2,634,410)	-
At 31 December	9,548	-	8,246	-
Amounts due to customers				
Deposits at 1 January	67,653,561	221,567	52,224,433	134,235
Deposits received during the year	109,995,187	13,205,772	76,723,876	8,030,350
Deposits repaid during the year	(93,418,295)	(13,187,021)	(61,294,748)	(7,943,018)
Deposits at 31 December	84,230,453	240,318	67,653,561	221,567
Debt securities issued				
At January 1	12,575,995	683,304	11,980,249	521,321
Increase	25,663,238	633,985	3,253,743	323,847
Decrease	(4,353,851)	(183,605)	(2,657,997)	(161,865)
At December 31	33,885,382	1,133,684	12,575,995	683,304
Subordinated debt				
At December 31	13,826,587	-	13,353,624	-
Undrawn loan commitments	128,828	34,283	172,053	20,491
Statement of profit or loss and other comprehensive income				
Interest income on cash and cash equivalents	-	-	4,164	-
Interest income on amounts due from financial institutions	157,527	-	-	-
Interest income on loans to customers	821,007	60,917	667,833	44,050
Interest expense on amounts due to customers	(7,824,969)	(6,017)	(5,806,536)	(4,173)
Interest expense on debt securities issued	(1,703,607)	(63,733)	(1,005,526)	(47,297)
Interest expense on subordinated debt	(1,410,110)	-	(1,463,475)	-
Impairment (losses)/reversal	49,133	(139,014)	(284,853)	(39,869)

The loans issued to directors and other key management personnel during the year are repayable over 2021-2034 years and have weighted average interest rate of 7.22% (2019: 7.18%).

At 31 December 2020 62.5% of amounts (2019: 55.9%) due to customers represent current and term deposits attracted from the shareholder (from the ultimate controlling party of the Bank Vardan Sirmakes) and his related parties, annual interest expenses paid with regard to this amounts form 74.3% of total interest expenses from deposits (2019: 68.7%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	624,376	376,907
Total key management compensation	624,376	376,907

33 Fair value measurement

The Bank's Board determines the policies and procedures for both recurring fair value measurement, such as unquoted securities measured at fair value through OCI, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External appraisals are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external appraisals 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 Bank'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 Bank's external appraisals, 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 are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

33.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	27,746,794	-	27,746,794	27,746,794
Amounts due from financial institutions	-	6,824,674	-	6,824,674	6,824,674
Loans to customers	-	123,498,224	-	123,498,224	123,498,224
Investments securities measured at amortised cost (including securities pledged under repurchase agreements)	-	76,751,222	-	76,751,222	63,064,705
Other assets	-	224,478	-	224,478	224,478

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial liabilities					
Amounts due to the CBA	-	55,923,236	-	55,923,236	55,923,236
Amounts due to financial institutions	-	50,823,392	-	50,823,392	50,823,392
Amounts due to customers	-	134,700,221	-	134,700,221	134,700,221
Debt securities issued	-	65,993,662	-	65,993,662	64,911,905
Subordinated debt	-	13,826,587	-	13,826,587	13,826,587
Other financial liabilities	-	737,644	-	737,644	737,644

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	24,328,959	-	24,328,959	24,328,959
Amounts due from financial institutions	-	2,072,086	-	2,072,086	2,072,086
Loans to customers	-	96,605,703	-	96,605,703	96,611,921
Investments securities measured at amortised cost (including securities pledged under repurchase agreements)	-	70,669,202	-	70,669,202	62,083,598
Other assets	-	99,979	-	99,979	99,979
Financial liabilities					
Amounts due to the CBA	-	3,412,007	-	3,412,007	3,412,007
Amounts due to financial institutions	-	47,734,267	-	47,734,267	47,734,267
Amounts due to customers	-	120,840,386	-	120,840,386	120,840,386
Debt securities issued	-	32,489,020	-	32,489,020	32,489,020
Subordinated debt	-	13,353,624	-	13,353,624	13,353,624
Other financial liabilities	-	735,632	-	735,632	735,632

Amounts due from and to financial institutions

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

Loans to customers

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 4% to 18% per annum (2019: 4% to 21% per annum).

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

Investment securities measured at amortised cost

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

Due to financial institutions and customers

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

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**31 December 2020**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities				
Bonds	8,872,948	149,378,197	-	158,251,145
Equity investments	28,075	36,075	-	64,150
Derivative financial assets	-	8,980	-	8,980
Derivative financial liabilities	-	(168,784)	-	(168,784)
Total	8,901,023	149,254,468	-	158,155,491

In thousand Armenian drams				**31 December 2019**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities				
Bonds	5,356,507	87,010,709	-	92,367,216
Equity investments	35,957	31,718	-	67,675
Derivative financial liabilities	-	(969)	-	(969)
Total	5,392,464	87,041,458	-	92,433,922

There have been no transfers between levels 1 and 2 in the reporting period.

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

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Armenia.

Unquoted debt securities

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

Unquoted equity investments

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

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

Normally, the derivatives entered into by the Bank are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

33.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2020
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Property and equipment				
Buildings	-	*1,821,262*	-	*1,821,262*
Total	-	1,821,262	-	1,821,262

In thousand Armenian drams				31 December 2019
	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Property and equipment				
Buildings	-	*2,017,603*	-	*2,017,603*
Total	-	2,017,603	-	2,017,603

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

The appraisal was carried out using a comparative *approach* that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The building were revalued by an independent appraiser on 08 February 2016 using a combination of the market, income and cost methods.

Fair value measurements in Level 3

The Bank's non-financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

An analysis of financial assets within this level is represented as follows:

In thousand Armenian drams	2020	2019
Non-financial assets		
As of 1 January	2,017,603	2,016,722
Purchases	-	881
Impairment	(196,341)	-
Net fair value as of 31 December	1,821,262	2,017,603

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2020					
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position: Financial instruments	Related amounts that are not offset in the statement of financial position: Non Cash collateral received/provided	Net
Financial assets						
Reversal and repurchase agreements (Note 17, 18)	1,141,152	-	1,141,152	-	1,141,152	-
Financial liabilities						
Loans under repurchase agreements (Note 24, 25)	71,295,010	-	71,295,010	(80,530,321)	-	(9,235,311)

In thousand Armenian drams	31 December 2019					
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position: Financial instruments	Related amounts that are not offset in the statement of financial position: Non Cash collateral received/provided	Net
Financial assets						
Reversal and repurchase agreements (Note 17, 18)	2,898,912	-	2,898,912	-	2,898,912	-
Financial liabilities						
Loans under repurchase agreements (Note 25)	22,543,366	-	22,543,366	(26,462,667)	-	(3,919,301)

35 Maturity analysis of assets and liabilities

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

In thousand Armenian drams							31 December 2020
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	27,746,794	-	*27,746,794*	-	-	-	27,746,794
Derivative financial assets	14	171	*185*	712	8,083	*8,795*	8,980
Amounts due from financial institutions	1,984,131	4,444,545	*6,428,676*	395,998	-	*395,998*	6,824,674
Loans to customers	3,905,883	39,076,774	*42,982,657*	59,104,405	21,411,162	*80,515,567*	123,498,224
Investment securities							
- Investment securities at fair value through other comprehensive income	65,310	6,874,070	*6,939,380*	7,944,726	62,900,868	*70,845,594*	77,784,974
- Investments securities at amortised cost	-	2,054,480	*2,054,480*	996,580	60,013,645	*61,010,225*	63,064,705
- Securities pledged under repurchase agreements	75,407,917	5,122,404	*80,530,321*	-	-	-	80,530,321
Other financial assets	224,478	-	*224,478*	-	-	-	224,478
	109,334,527	57,572,444	*166,906,971*	68,442,421	144,333,758	*212,776,179*	379,683,150
Liabilities							
Amounts due to the CBA	49,604,562	632,828	*50,237,390*	3,880,252	1,805,594	*5,685,846*	55,923,236
Derivative financial liabilities	68,651	8,008	*76,659*	33,354	58,771	*92,125*	168,784
Amounts due to financial institutions	20,878,095	21,925,921	*42,804,016*	7,550,087	469,289	*8,019,376*	50,823,392
Amounts due to customers	41,446,841	21,079,217	*62,526,058*	68,588,321	3,585,842	*72,174,163*	134,700,221
Debt securities issued	-	2,740,185	*2,740,185*	46,945,820	15,225,900	*62,171,720*	64,911,905
Subordinated debt	78,097	-	*78,097*	13,748,490	-	*13,748,490*	13,826,587
Lease liabilities	3,645	42,238	*45,883*	80,293	-	*80,293*	126,176
Other financial liabilities (except Lease liabilities)	611,468	-	*611,468*	-	-	-	611,468
	112,691,359	46,428,397	*159,119,756*	140,826,617	21,145,396	*161,972,013*	321,091,769
Net position	(3,356,832)	11,144,047	7,787,215	(72,384,196)	123,188,362	*50,804,166*	58,591,381
Accumulated gap	(3,356,832)	7,787,215		(64,596,981)	58,591,381		

In thousand Armenian drams	31 December 2019						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	24,328,959	-	*24,328,959*	-	-	-	24,328,959
Amounts due from financial institutions	1,845,186	162,994	*2,008,180*	63,906	-	*63,906*	2,072,086
Loans to customers	3,465,151	25,363,454	*28,828,605*	53,181,189	14,602,127	*67,783,316*	96,611,921
Investment securities							
- Investment securities at fair value through other comprehensive income	24,037	320,752	*344,789*	7,203,456	59,939,253	*67,142,709*	67,487,498
- Investments securities at amortised cost	-	1,811,203	*1,811,203*	-	58,761,208	*58,761,208*	60,572,411
- Securities pledged under repurchase agreements	20,489,632	5,968,948	*26,458,580*	-	-	-	26,458,580
Other financial assets	99,979	-	*99,979*	-	-	-	99,979
	50,252,944	33,627,351	*83,880,295*	60,448,551	133,302,588	*193,751,139*	277,631,434
Liabilities							
Amounts due to the CBA	302,714	270,898	*573,612*	2,006,735	831,660	*2,838,395*	3,412,007
Derivative financial liabilities	-	969	*969*	-	-	-	969
Amounts due to financial institutions	21,875,201	16,274,798	*38,149,999*	9,077,800	506,468	*9,584,268*	47,734,267
Amounts due to customers	28,990,383	14,051,517	*43,041,900*	58,364,721	19,433,765	*77,798,486*	120,840,386
Debt securities issued	36,864	2,597,076	*2,633,940*	24,578,380	5,276,700	*29,855,080*	32,489,020
Subordinated debt	76,924	-	*76,924*	13,276,700	-	*13,276,700*	13,353,624
Lease liabilities	2,012	23,633	*25,645*	82,110	-	*82,110*	107,755
Other financial liabilities (except Lease liabilities)	552,873	75,004	*627,877*	-	-	-	627,877
	51,836,971	33,293,895	*85,130,866*	107,386,446	26,048,593	*133,435,039*	218,565,905
Net position	(1,584,027)	333,456	*(1,250,571)*	(46,937,895)	107,253,995	*60,316,100*	59,065,529
Accumulated gap	(1,584,027)	(1,250,571)		(48,188,466)	59,065,529		

36 Risk management

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

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

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

Risk management structure

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

Board of the Bank

The Board of the Bank is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management

The Management has the responsibility to monitor the overall risk process.

Credit Committee

The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

Risk Management Department

The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank's risk limits.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank's activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

36.1 Credit risk

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

36.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 36.1.2.

In thousand Armenian drams				**31 December 2020**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Standard	27,746,794	-	-	27,746,794
Gross carrying amount	27,746,794	-	-	27,746,794
Loss allowance	-	-	-	-
Net carrying amount	27,746,794	-	-	27,746,794
Amounts due from banks and financial institutions				
Standard	6,884,968	-	-	6,884,968
Gross carrying amount	6,884,968	-	-	6,884,968
Loss allowance	(60,294)	-	-	(60,294)
Net carrying amount	6,824,674	-	-	6,824,674
Loans to mortgage and consumer customers				
High grade	17,940,675	-	-	17,940,675
Standard grade	-	666,010	-	666,010
Substandard grade	-	33,522	-	33,522
Non-performing grade	-	-	794,614	794,614
Gross carrying amount	17,940,675	699,532	794,614	19,434,821
Loss allowance	(507,814)	(158,410)	(737,182)	(1,403,406)
Net carrying amount	17,432,861	541,122	57,432	18,031,415

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High grade	96,520,169	-	-	96,520,169
Standard grade	-	7,688,754	-	7,688,754
Substandard grade	-	117,993	-	117,993
Non-performing grade	-	-	5,972,743	5,972,743
Gross carrying amount	96,520,169	7,806,747	5,972,743	110,299,659
Loss allowance	(1,808,677)	(592,095)	(2,432,078)	(4,832,850)
Net carrying amount	94,711,492	7,214,652	3,540,665	105,466,809
Debt investment securities at amortised cost				
Standard grade	63,265,237	-	-	63,265,237
Gross carrying amount	63,265,237	-	-	63,265,237
Loss allowance	(200,532)	-	-	(200,532)
Net carrying amount	63,064,705	-	-	63,064,705
Debt investment securities at FVOCI including the pledged securities				
Standard	158,251,145	-	-	158,251,145
Carrying amount-fair value	158,251,145	-	-	158,251,145
Loss allowance	(603,586)	-	-	(603,586)
Other financial assets				
Standard grade	224,478	-	-	224,478
Gross carrying amount	224,478	-	-	224,478
Loss allowance	-	-	-	-
Net carrying amount	224,478	-	-	224,478
Loan commitments and financial guarantee				
Standard grade	12,959,281	-	-	12,959,281
	12,959,281	-	-	12,959,281
Loss allowance*	(29,195)	-	-	(29,195)

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Standard	24,334,127	-	-	24,334,127
Gross carrying amount	24,334,127	-	-	24,334,127
Loss allowance	(5,168)	-	-	(5,168)
Net carrying amount	24,328,959	-	-	24,328,959

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Amounts due from banks and financial institutions				
Standard	2,118,629	-	-	2,118,629
Gross carrying amount	2,118,629	-	-	2,118,629
Loss allowance	(46,543)	-	-	(46,543)
Net carrying amount	2,072,086	-	-	2,072,086
Loans to mortgage and consumer customers				
High grade	15,821,815	-	-	15,821,815
Standard grade	-	1,181,180	-	1,181,180
Non-performing grade	-	-	50,674	50,674
Gross carrying amount	15,821,815	1,181,180	50,674	17,053,669
Loss allowance	(230,218)	(161,624)	(9,061)	(400,903)
Net carrying amount	15,591,597	1,019,556	41,613	16,652,766
Loans to commercial customers				
High grade	75,102,887	-	-	75,102,887
Standard grade	-	6,167,837	-	6,167,837
Substandard grade	-	194,909	-	194,909
Non-performing grade	-	-	153,482	153,482
Gross carrying amount	75,102,887	6,362,746	153,482	81,619,115
Loss allowance	(853,604)	(770,268)	(36,088)	(1,659,960)
Net carrying amount	74,249,283	5,592,478	117,394	79,959,155
Debt investment securities at amortised cost including the pledged securities				
Standard grade	62,287,934	-	-	62,287,934
Gross carrying amount	62,287,934	-	-	62,287,934
Loss allowance	(204,336)	-	-	(204,336)
Net carrying amount	62,083,598	-	-	62,083,598
Debt investment securities at FVOCI including the pledged securities				
Standard	92,367,216	-	-	92,367,216
Carrying amount-fair value	92,367,216	-	-	92,367,216
Loss allowance	(353,580)	-	-	(353,580)
Other financial assets				
Standard grade	103,391	-	-	103,391
Gross carrying amount	103,391	-	-	103,391
Loss allowance	(3,412)	-	-	(3,412)
Net carrying amount	99,979	-	-	99,979

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee				
Standard grade	9,280,008	-	-	9,280,008
	9,280,008	-	-	9,280,008
Loss allowance*	(29,794)	-	-	(29,794)

*The ECL allowance disclosed in loan commitments and financial guarantees of the above table applies only to the guarantees provided. The ECL allowance on loans includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

36.1.2 Impairment assessment

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

Significant increase in credit risk

At each reporting date, the Bank assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Bank use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans to customers

The criteria for Loans to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by the Bank to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans to customers and loan commitments and financial guarantee.

		2020	2019
	Grade	12 month PD range	12 month PD range
Loans to mortgage and consumer customers	High	0.30-8.87%	3.14-10.04%
	Standard	17.94-36.15%	21.87-52.07%
	Substandard	17.94-36.15%	21.87-52.07%
	Non-Performing	98.36-100%	97.86-100%
Loans to commercial customers	High	0.75-5.54%	0.25-5.50%
	Standard	0.38-83.62%	3.51-85.75%
	Substandard	0.38-83.62%	3.51-85.75%
	Non-Performing	96.64-100%	76.63-100%

The table below shows the mapping of Bank's grading system and external ratings of the counterparties.

		2020	2019
International external rating agency (S&P) rating	Grade	12 month PD range	12 month PD range
AAA to A-	High	0.001-0.040%	0.001-0.040%
BBB+ to B-	Standard	0.059-7.207%	0.052-7.480%
CCC+ to CC	Substandard	12.834-23.604%	13.385-29.130%
D	Non-Performing	100%	100%

Collective or individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

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

The Bank considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower’s future ability to generate stable and sufficient cash flows,
- the borrower’s overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Bank’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank’s criterion for ‘cure’ for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank’s policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing

- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth

- Real estate prices (average price in Yerevan)

36.1.3 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

36.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Bank did not hold any financial instruments for which no loss allowance is recognised because of collateral.

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

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

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

In thousand Armenian drams	31 December 2020	31 December 2019
Loans collateralized by real estate	68,598,628	47,695,035
Loans collateralized by movable property	13,634,964	3,770,991
Loans collateralized by guarantees of RA Government	10,348,387	10,440,915
Loans collateralized by guarantees of other organizations	9,990,875	19,661,656
Loans collateralized by cash	7,437,933	3,906,869
Loans collateralized by shares of other companies and investment securities	10,265,675	7,285,768
Other collateral	9,458,018	5,911,550
Total loans to customers (gross)	129,734,480	98,672,784

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

36.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

36.2.1 Market risk – Non-trading

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. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2020. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, and swaps designated as cash flow hedges, as of 31 December 2020 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams				2020
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+0.5	(15,236)	(5,501,265)	(5,516,501)
USD	+0.5	(33,924)	(358,883)	(392,807)
RUB	+0.5	(4,819)	-	(4,819)
AMD	- 0.5	15,236	5,919,978	5,935,214
USD	- 0.5	33,924	369,389	403,313
RUB	- 0.5	4,819	-	4,819

In thousand Armenian drams				2019
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+0.5	(21,370)	(2,785,996)	(2,807,366)
USD	+0.5	(25,071)	(359,402)	(384,473)
AMD	- 0.5	21,370	2,984,906	3,006,276
USD	- 0.5	25,071	371,129	396,200

Currency risk

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

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

In thousand Armenian drams	31 December 2020		31 December 2019	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	266,271	5	(101,953)
EUR	3	(23,276)	3	(8,987)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	12,354,384	15,116,347	276,063	27,746,794
Amounts due from financial institutions	5,486,180	1,286,376	52,118	6,824,674
Loans to customers	40,287,495	81,027,969	2,182,760	123,498,224
Investment securities				
- Investment securities at fair value through other comprehensive income	65,705,628	12,079,346	-	77,784,974
- Investments securities at amortised cost	63,064,705	-	-	63,064,705
- Securities pledged under repurchase agreements	68,033,281	12,497,040	-	80,530,321
Other assets	224,478	-	-	224,478
	255,156,151	122,007,078	2,510,941	379,674,170
Liabilities				
Amounts due to the CBA	55,923,236	-	-	55,923,236
Amounts due to financial institutions	23,821,829	24,978,730	2,022,833	50,823,392
Amounts due to customers	84,017,923	50,191,058	491,240	134,700,221
Debt securities issued	28,567,415	36,344,490	-	64,911,905
Subordinated debt	8,064,438	5,762,149	-	13,826,587
Lease liabilities	126,176	-	-	126,176
Other liabilities	592,163	19,305	-	611,468
	201,113,180	117,295,732	2,514,073	320,922,985
Total effect of derivative financial instruments	2,808,844	(2,877,213)	-	(68,369)
Net position as of 31 December 2020	56,851,815	1,834,133	(3,132)	58,682,816
Commitments and contingent liabilities as of 31 December 2020	9,348,462	3,610,819	-	12,959,281

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Total financial assets	172,128,280	103,970,401	1,532,753	277,631,434
Total financial liabilities	110,726,921	106,311,395	1,526,620	218,564,936
Total effect of derivative financial instruments	561,147	(562,116)	-	(969)
Net position as of 31 December 2019	61,962,506	(2,903,110)	6,133	59,065,529
Commitments and contingent liabilities As of 31 December 2019	5,941,225	3,338,783	-	9,280,008

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

36.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. Refer to note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

	Unaudited	
As of 31 December, these ratios were as follows:	2020, %	2019, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	52.94	57.83
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	533.46	568.53

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities as of 31 December 2019 based on contractual undiscounted repayment obligations. Refer to note 36 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						31 December 2020
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Amounts due to the CBA	49,611,216	818,916	4,764,846	2,069,451	57,264,429	55,923,236
Amounts due to financial institutions	20,887,387	22,551,714	8,272,152	532,596	52,243,849	50,823,392
Amounts due to customers	41,680,757	23,747,170	77,131,781	3,713,547	146,273,255	134,700,221
Debt securities issued	-	4,453,435	57,372,851	21,468,670	83,294,956	64,911,905
Subordinated debt	124,822	-	16,928,654	-	17,053,476	13,826,587
Lease liabilities	4,552	49,817	81,956	-	136,325	126,176
Other financial liabilities (except Lease liabilities)	611,468	-	-	-	611,468	611,468
Total undiscounted non-derivative financial liabilities	112,920,202	51,621,052	164,552,240	27,784,264	356,877,758	320,922,985
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	2,807,373	1,471	-	-	2,808,844	-
Outflow	(2,875,669)	(1,545)	-	-	(2,877,214)	(68,369)
RA state bonds forward contracts						
Outflow	(339)	(7,763)	(32,640)	(51,763)	(92,505)	(100,415)
Commitments and contingent liabilities	9,062,184	2,850,554	1,046,543	-	12,959,281	12,959,281

In thousand Armenian drams						31 December 2019
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Amounts due to the CBA	306,269	360,134	2,469,660	963,289	4,099,352	3,412,007
Amounts due to financial institutions	21,891,029	16,623,055	10,458,133	736,458	49,708,675	47,734,267
Amounts due to customers	28,991,763	14,360,686	69,656,767	26,705,155	139,714,371	120,840,386
Debt securities issued	51,945	3,500,118	30,566,891	6,992,567	41,111,521	32,489,020
Subordinated debt	119,095	1,359,885	16,432,666	-	17,911,646	13,353,624
Lease liabilities	3,040	33,440	90,756	-	127,236	107,755
Other financial liabilities (except Lease liabilities)	552,873	75,004	-	-	627,877	627,877
Total undiscounted non-derivative financial liabilities	51,916,014	36,312,322	129,674,873	35,397,469	253,300,678	218,564,936
Commitments and contingent liabilities	9,280,008	-	-	-	9,280,008	-

36.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

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

37 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams						2020
	Amounts due to the CBA	Loans from international financial institutions	Debt securities issued	Subordi-nated debt	Lease liabilities	Total
As of 1 January 2020	3,412,007	15,748,747	32,489,020	13,353,624	107,755	65,111,153
Cash-flows	*3,423,162*	*494,293*	*28,098,352*	*-*	*(45,450)*	*31,970,357*
Repayments	(776,136)	(10,503,903)	(2,461,565)	-	(45,450)	(13,787,054)
Proceeds	4,199,298	10,998,196	30,559,917	-	-	45,757,411
Non-cash	*73,467*	*1,571,357*	*4,324,533*	*472,963*	*63,871*	*6,506,191*
Foreign exchange gain/loss	-	1,571,357	4,008,743	471,780	-	6,051,880
Lease adjustment	-	-	-	-	43,006	43,006
Accrued interest	73,467	-	315,790	1,183	20,865	411,305
As of 31 December 2020	6,908,636	17,814,397	64,911,905	13,826,587	126,176	103,587,701

In thousand Armenian drams						2019
	Amounts due to the CBA	Loans from international financial institutions	Debt securities issued	Subordi-nated debt	Lease liabilities	Total
As of 1 January 2019	2,653,438	4,732,024	27,173,064	13,398,279	-	47,956,805
Impact of adopting IFRS 16 (note 6)	-	-	-	-	130,759	130,759
Cash-flows	*742,877*	*10,925,864*	*5,567,520*	*105*	*(36,480)*	*17,199,886*
Repayments	(429,494)	(6,332,572)	(9,392,254)	105	(36,480)	(16,190,695)
Proceeds	1,172,371	17,258,436	14,959,774	-	-	33,390,581
Non-cash	*15,692*	*90,859*	*(251,564)*	*(44,760)*	*13,476*	*(176,297)*
Foreign exchange gain/loss	-	(26,581)	(297,939)	(44,760)	-	(369,280)
Accrued interest	15,692	117,440	46,375	-	13,476	192,983
As of 31 December 2019	3,412,007	15,748,747	32,489,020	13,353,624	107,755	65,111,153

38 Capital adequacy

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

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

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

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

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

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

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

	Unaudited	
In thousand Armenian drams	31 December 2020	31 December 2019
Tier 1 capital	54,796,362	42,337,304
Tier 2 capital	15,874,930	12,701,191
Total regulatory capital	70,671,292	55,038,495
Risk-weighted assets	413,789,383	275,836,967
Capital adequacy ratio	17.08%	19.95%

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

As of 1 January 2017 and after that period the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand.

Agreed-upon procedures

“ARMSWISSBANK” CLOSED JOINT STOCK COMPANY

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To the management of “ARMSWISSBANK” CLOSED JOINT STOCK COMPANY:

As of 31 May 2021 we have performed the procedures agreed with you and enumerated below with respect to the study of the basis of the qualified audit opinion on the financial statements of “ARMSWISSBANK” CLOSED JOINT STOCK COMPANY (Bank) for the year ended 31 December 2020 expressed by us on 12 April 2021. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the validity of the basis of the qualified audit opinion as of 31 May 2021 and are summarized as follows:

1 We checked the balance of problem loans as of 31 May 2021, which was the basis for the qualified opinion on the financial statements for the year ended 31 December 2020.

2 We examined the legality and completeness of the documents that are the basis for loan repayment and the actions performed.

3 We compared the expenses forming the expected credit losses as of 31 December 2020 and the losses formed after repayment of these loans.

We report our findings below:

(a) With respect to item 1 we found that the balance of problem loans, which was the basis for the qualified opinion on the financial statements for the year ended 31 December 2020 is nil in the Bank's balance sheet as of 31 May 2021.

(b) With respect to item 2 we found that the above-mentioned problem loans were repaid on 25 May 2021 under the cession agreements of the right to claim.

(c) With respect to item 3 we found that the Bank's loss as of 31 May 2021 as a result of the concession of problem loans, which was the basis for the qualified opinion on the financial statements for the year ended 31 December 2020, has not exceeded the expenses on the allowances for possible losses on these loans.

Summarizing the implemented works, we found that the basis for the qualified opinion on the financial statements of the Bank for the year ended 31 December 2020 expressed by us on 12 April 2021 are no longer valid.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the financial statements of the Bank as of 31 May 2021.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the items specified above and does not extend to any financial statements of the Bank, taken as a whole.

Armen Hovhannisyan
Chief Executive officer / Engagement Partner

09 July 2021