Financial Statements and Independent Auditor's Report

"EVOCABANK" CLOSED JOINT STOCK COMPANY

31 December 2020

Contents

Independent auditor's report

To the shareholders of "EVOCABANK" CLOSED JOINT STOCK COMPANY:

Opinion

We have audited the financial statements of "EVOCABANK" 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 financial statements, including a summary of significant accounting policies.

In our opinion, 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 Opinion

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

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.

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	15,052,441	11,967,016
Interest and similar expense	7	(7,400,859)	(5,883,300)
Net interest income		7,651,582	6,083,716
Fee and commission income	8	1,198,488	1,134,552
Fee and commission expense	8	(782,157)	(912,191)
Net fee and commission income		416,331	222,361
Net trading income	9	1,093,127	1,143,296
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		-	1,242,410
Other operating income	10	291,656	181,265
Other operating expenses	11	(480,886)	(465,915)
Operating income		8,971,810	8,407,133
Impairment losses	12	(3,515,440)	(1,998,081)
Personnel expenses	13	(2,369,862)	(2,424,114)
Depreciation of property and equipment and amortization of intangible assets	22	(597,012)	(531,139)
Other general administrative expenses	14	(1,452,617)	(1,206,721)
Profit before income tax		1,036,879	2,247,078
Income tax expense	15	(274,925)	(508,428)
Profit for the year		761,954	1,738,650

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2020	2019
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		2,661,164	-
Income tax relating to items not reclassified		(479,010)	-
Adjustment to revaluation reserves on property and equipment as a result of tax rate changes (note 15)		-	36,306
Net gain relating to items that will not be reclassified subsequently to profit or loss		2,182,154	36,306
Items that will be reclassified subsequently to profit or loss			
Net change in fair value during the year		(370,279)	(813,756)
Changes in allowance for expected credit losses		51,577	(18,550)
Income tax relating to items that will be reclassified		66,650	162,751
Adjustment as a result of tax rate changes (note 15)		-	3,865
Net losses on financial instruments at fair value through other comprehensive income		(252,052)	(665,690)
Other comprehensive income for the year, net of tax		1,930,102	(629,384)
Total comprehensive income for the year		2,692,056	1,109,266

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 73.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	16	37,471,183	26,030,924
Amounts receivable under reverse repurchase agreements	17	18,181,073	16,140,569
Loans and advances to banks	18	1,179,869	1,120,096
Derivative financial assets	19	-	1,280
Investment securities			
-Investment securities at fair value through other comprehensive income	20	14,488,608	1,882,145
-Investment securities at amortised cost	20	-	489,177
-Investment securities at fair value through other comprehensive income pledged under repurchase agreements	20	5,728,670	8,840,490
Loans and advances to customers	21	111,716,348	101,556,815
Property and equipment and intangible assets	22	9,517,804	5,967,151
Deferred income tax assets	15	-	31,283
Current income tax assets		370,530	-
Repossessed assets	23	2,072,059	2,129,642
Other assets	24	694,173	927,935
Total assets		201,420,317	165,117,507
Liabilities and equity			
Liabilities			
Amounts due to banks	25	2,749,926	4,096,505
Payables on repurchase agreements	26	16,524,178	12,713,336
Amounts due to customers	27	124,226,407	100,127,629
Derivative financial liabilities	19	67,344	560
Other borrowings	28	15,739,784	6,097,777
Subordinated debt	29	5,303,185	10,261,764
Current income tax liabilities		-	310,307
Deferred income tax liabilities	15	620,955	-
Other liabilities	30	2,340,136	1,921,441
Total liabilities		167,571,915	135,529,319

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Equity			
Share capital	31	20,000,000	17,950,000
Statutory general reserve		1,000,000	262,075
Other reserves		3,529,008	1,674,927
Retained earnings		9,319,394	9,701,186
Total equity		33,848,402	29,588,188
Total liabilities and equity		201,420,317	165,117,507

The financial statements were approved on 12 April 2021 by:

Karen Yeghiazaryan

Chairman of the Management Board

Emma Janinyan

Chief Accountant/ Member of the Management Board

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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 73.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2020	17,950,000	262,075	186,367	1,488,560	9,701,186	29,588,188
Profit for the year	-	-	-	-	761,954	761,954
Other comprehensive income:						
Revaluation of property and equipment	-	-	-	2,661,164		2,661,164
Adjustment to reserve on amortization of property and equipment	-	-	-	(76,021)	76,021	-
Net change in fair value during the year	-	-	(370,279)	-	-	(370,279)
Net changes in allowance for expected credit losses	-	-	51,577	-	-	51,577
Income tax relating to components of other comprehensive income	-	-	66,650	(479,010)	-	(412,360)
Total comprehensive income for the year	-	-	(252,052)	2,106,133	837,975	2,692,056
Increase in share capital	2,050,000	-	-	-	-	2,050,000
Distribution to reserve	-	737,925	-	-	(737,925)	-
Dividends to shareholders	-	-	-	-	(481,842)	(481,842)
Total transactions with owners	2,050,000	737,925	-	-	(1,219,767)	1,568,158
Balance as of 31 December 2020	20,000,000	1,000,000	(65,685)	3,594,693	9,319,394	33,848,402

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2019	17,950,000	162,075	852,057	1,485,268	8,455,522	28,904,922
Profit for the year	-	-	-	-	1,738,650	1,738,650
Other comprehensive income:						
Adjustment to reserve on amortization of property and equipment	-	-	-	(33,014)	33,014	-
Net change in fair value during the year	-	-	424,894	-	-	424,894
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	-	(1,238,650)	-	-	(1,238,650)
Net changes in allowance for expected credit losses	-	-	(18,550)	-	-	(18,550)
Income tax relating to components of other comprehensive income	-	-	162,751	-	-	-
Adjustment as a result of tax rate change (note 15)	-	-	3,865	36,306	-	-
Total comprehensive income for the year	-	-	(665,690)	3,292	1,771,664	1,109,266
Distribution to reserve	-	100,000	-	-	(100,000)	-
Dividends to shareholders	-	-	-	-	(426,000)	(426,000)
Total transactions with owners	-	100,000	-	-	(526,000)	(426,000)
Balance as of 31 December 2019	17,950,000	262,075	186,367	1,488,560	9,701,186	29,588,188

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 73.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Profit before tax	1,036,879	2,247,078
Adjustments for		
Amortization and depreciation allowances	597,012	531,139
Net income from sale of property and equipment	(340)	(43,924)
Net loss from sale of other assets	4,237	89,598
Impairment charge	3,515,440	1,998,081
Net income from fair value changes of trading liabilities	-	(114,265)
Net (imcome)/loss from revaluation of derivative financial instruments	68,064	(15,136)
Net (imcome)/loss from revaluation of non-trading assets and liabilities	(84,642)	126,727
Other accruals	-	512,362
Loss from revaluation of buildings	5,687	-
Interest receivable	(1,464,315)	(217,632)
Interest payable	94,279	794,681
Interest expenses on lease	53,312	23,575
Cash flows before changes in operating assets and liabilities	3,825,613	5,932,284
(Increase)/decrease in operating assets		
Amounts receivable under reverse repurchase agreements	(1,884,308)	(8,976,927)
Loans and advances to banks	335,870	422,471
Derivative financial assets	-	14,024
Loans and advances to customers	(4,968,176)	(24,521,693)
Repossessed assets	130,215	689,955
Other assets	218,966	(125,330)
Increase/(decrease) in operating liabilities		
Amounts due to banks	(2,203,444)	1,528,114
Payables on repurchase agreements	3,812,311	3,432,640
Amounts due to customers	17,004,658	25,406,057
Derivative financial liabilities	-	(13,040)
Other liabilities	(61,021)	52,300
Net cash flow from operating activities before income tax	16,210,684	3,840,855
Income tax paid	(715,884)	(451,735)
Net cash from operating activities	15,494,800	3,389,120
Cash flows from investing activities		
Purchase of investment securities	(9,128,170)	(2,162,523)
Purchase of property, equipment and intangible assets	(991,119)	(778,924)
Proceeds from sale of property and equipment	2,876	380,813
Net cash used in investing activities	(10,116,413)	(2,560,634)

Statement of cash flows (continued)

In thousand Armenian drams

	2020	2019
Cash flow from financing activities		
Increase in share capital	2,050,000	-
Dividends paid	(426,000)	(426,000)
Other borrowings	8,606,497	2,384,802
Subordinated debt	(5,716,940)	-
Lease liabilities	(125,337)	(73,020)
Net cash from financing activities	4,388,220	1,885,782
Net increase in cash and cash equivalents	9,766,607	2,714,268
Cash and cash equivalents at the beginning of the year	26,030,924	23,088,491
Exchange differences on cash and cash equivalents	1,675,312	230,503
The impact of changes in loss allowance on cash and cash equivalents	(1,660)	(2,338)
Cash and cash equivalents at the end of the year (note 16)	37,471,183	26,030,924

Supplementary information:		
Interest received	13,588,126	11,749,384
Interest paid	(7,253,268)	(5,065,044)

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 73.

Notes to the financial statements

1 Principal activities

"EVOCABANK" CJSC (the “Bank”) is the renamed “Prometey Bank” CJSC is a Closed Join Stock Company, which was incorporated on 01.06.1990. The Bank is regulated by the legislation of RA and conducts its business under license number 27, granted on 02.10.1991 by the Central Bank of Armenia (the “CBA”).

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard payment systems.

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

The head office of the Bank and its 13 branches are located in Yerevan; one branch is located in Gyumri, one branch in Abovyan and another branch is located in Vanadzor.

The number of employees of the Bank as of the reporting period is 354.

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

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 and land, 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 and presentation

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 *(this section has to be customized to each client's financial statements)*.

- *Conceptual Framework for Financial Reporting*
- *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)

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 creditimpaired 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

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

Dividend income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. 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 recorded in the statement of profit or loss and other comprehensive income 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 available for sale 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 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.

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.

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 and advances, 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 at FVTPL:

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

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

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

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 at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

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 (see also 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 at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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 38.1.2.

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 38.1.2.

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- 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 Group 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 , including deposits maturing within 90 days.

Cash and cash equivalents are carried at amortised cost.

4.6 Loans and advances to banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances 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 banks are carried net of any allowance for impairment losses.

4.7 Loans and advances to customers

Loans and advances 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.

4.8 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 at 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 at 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.

4.9 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 "Payables on repurchase agreements" line item.

Securities purchased under agreements to resell ("reverse repo") are recorded as Receivables on reverse repurchase agreements 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.

4.10 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".

4.11 Leases

For any new contracts entered into on or after 1 January 2020, 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 anted 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.

4.12 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Bank's buildings are presented 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. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	40	2.5
Computers and communications	1-8	100-12.5
Vehicles	8	12.5
Other fixed assets	5-8	20-12.5

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

Repairs and maintenance are charged to the 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.

The frequency of revaluation of land and buildings depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the 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.

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

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

4.13 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, during 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.

4.14 Repossessed assets

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

4.15 Grants

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

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank, amounts due to other international and RA 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.

4.17 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.

4.18 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 4.17.

4.19 Equity

Share capital

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

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.

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 assesse 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 35).

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.

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 (refer to note 34).

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 38.1.2), 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 32.

6 Transition disclosure

The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 335,124 thousand were recognised and presented in the statement of financial position within Property and equipment".
- Additional lease liabilities of AMD 335,124 thousand (included in "Other liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Bank's retained earnings.

The following is a reconciliation of total operating lease commitments as of 31 December 2018 to the lease liabilities recognised as of 1 January 2019:

In thousand Armenian drams

Total operating lease commitments as of 31 December 2018	25,903
Reasonable certain to be exercised lease term payments	399,421
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	(5,953)
Operating lease liabilities before discounting	419,371
Discounted using incremental borrowing rate	(84,247)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	335,124

7 Interest and similar income and expense

In thousand Armenian drams	**2020**	**2019**
Loans to customers	12,880,646	10,297,274
Investment securities at FVOCI	1,147,823	927,312
Reverse repurchase transactions	939,179	648,950
Loans and advances to banks	62,059	65,902
Investment securities at amortised cost	19,484	25,918
Other	3,250	1,660
Total interest and similar income	15,052,441	11,967,016
Customer accounts	5,203,247	4,004,293
Repurchase transactions	904,762	699,440
Other borrowings	550,764	324,204
Subordinated debt	441,352	432,321
Debt securities issued	178,282	295,850
Amounts due to banks	69,140	103,617
Interest expenses on lease	53,312	23,575
Total interest and similar expense	7,400,859	5,883,300

8 Fee and commission income and expense

In thousand Armenian drams	2020	2019
Settlement operations/transfers	321,410	514,735
Plastic cards operations	636,731	447,883
Cash operations	92,340	78,561
Guarantees and letters of credit	71,435	45,182
Cash/non-cash currency translation	52,615	26,532
Other fees and commissions	23,957	21,659
Total fee and commission income	1,198,488	1,134,552
Cash/non-cash currency translation	99,871	225,694
Plastic cards operations	538,639	377,883
Settlement operations/transfers	102,581	299,917
Guarantees and letters of credit	4,377	2,913
Other expenses	36,689	5,784
Total fee and commission expense	782,157	912,191

9 Net trading income

In thousand Armenian drams	2020	2019
Net income from trading in foreign currencies	1,163,044	1,009,842
Net income from fair value changes of trading liabilities	-	114,265
Net income/(loss) from revaluation of derivative instruments	(78,486)	15,102
Net income on trading of securities at FVTPL	8,569	4,087
Total net trading income	1,093,127	1,143,296

10 Other operating income

In thousand Armenian drams	2020	2019
Fines and penalties received	151,403	95,373
Net income from foreign currency transactions of non-trading assets and liabilities	84,642	-
Income from grants relating to assets	2,074	2,074
Income from dividends	2,703	1,884
Net income from sale of property and equipment and intangible assets	340	43,924
Other	50,494	38,010
Total other operating income	291,656	181,265

11 Other operating expenses

In thousand Armenian drams	2020	2019
Deposit Guarantee Fund expenses	271,099	158,872
Operating systems usage costs	58,160	-
Card issuance costs	35,153	17,638
Cash collection expenses	25,637	27,101
Loans concession costs	21,580	-
Expenses for the Financial Mediator	17,327	13,365
Loss from revaluation of buildings	5,687	-
Net loss from disposal of other assets	4,237	89,598
Net loss from foreign currency transactions of non-trading assets and liabilities	-	126,727
Other	42,006	32,614
Total other operating income	480,886	465,915

12 Impairment losses/(reversal)

In thousand Armenian drams					2020
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and cash equivalents	16	1,660	-	-	1,660
Amounts receivable under reverse repurchase agreements	17	7,940	-	-	7,940
Loans and advances to banks	18	10,892	-	-	10,892
Investment securities measured at FVOCI	20	51,577	-	-	51,577
Loans and advances to customers	21	39,769	591,521	2,776,194	3,407,484
Other assets	24	19,648	-	-	19,648
Financial guarantees	32	16,239	-	-	16,239
Total impairment losses		147,725	591,521	2,776,194	3,515,440

In thousand Armenian drams					2019
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and cash equivalents	16	2,338	-	-	2,338
Amounts receivable under reverse repurchase agreements	17	(3,733)	-	-	(3,733)
Investment securities measured at FVOCI	20	(18,550)	-	-	(18,550)
Loans and advances to customers	21	(92,854)	299,821	1,820,161	2,027,128
Other assets	24	(10,076)	-	-	(10,076)
Financial guarantees	32	974	-	-	974
Total impairment losses/(reversal)		(121,901)	299,821	1,820,161	1,998,081

13 Personnel expenses

In thousand Armenian drams	2020	2019
Compensations of employees, related taxes included	2,278,235	2,388,112
Personnel training expenses	16,145	7,750
Other staff costs	75,482	28,252
Total personnel expenses	2,369,862	2,424,114

14 Other general administrative expenses

In thousand Armenian drams	2020	2019
Advertising costs	319,317	345,744
Fixed assets repair and maintenance	203,126	124,428
Representative and organizational expenses	148,765	81,304
Tangible assets maintenance	144,058	158,851
Loan repayment costs	129,122	41,065
Taxes, other than income tax, duties	104,864	39,815
Security	87,097	76,592
Office supplies	85,748	64,325
Communications	72,334	122,682
Insurance	57,531	35,702
Consulting and other services	43,547	56,426
Expenses of short term assets leases	36,126	26,845
Other	20,982	32,942
Total other general administrative expense	1,452,617	1,206,721

15 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	-	665,393
Adjustments of income tax of previous years	35,047	4,579
Deferred tax	239,878	(161,544)
Total income tax expense	274,925	508,428

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. The amount of deferred income tax is calculated using the basic 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	1,036,879		2,247,078	
Income tax at the rate of 18% (2019: 20%)	186,638	18	449,416	20
Non-deductible expenses/(non-taxable income)	68,475	6	(14,560)	(1)
Foreign exchange (gains)/losses	(15,235)	(1)	25,345	1
Tax adjustment last year	35,047	3	4,579	-
Impact of tax rate changes	-	-	43,648	2
Total income tax expense	274,925	26	508,428	22

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	01 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	(783)	(7,902)	-	(8,685)	-	(8,685)
Amounts receivable under reverse repurchase agreements	(29,044)	(1,906)	-	(30,950)	-	(30,950)
Loans and advances to banks	(4,581)	5,531	-	950	950	-
Investments in securities	(34,786)	-	66,650	31,864	31,864	-
Loans and advances to customers	321,848	(194,745)	-	127,103	127,103	-
Property, equipment and intangible assets	(316,178)	22,951	(479,010)	(772,237)	-	(772,237)
Other assets	(2,146)	810	-	(1,336)	-	(1,336)
Amounts due to customers	2,605	(7,943)	-	(5,338)	-	(5,338)
Other borrowings	-	174	-	174	174	-
Subordinated debt	-	(52)	-	(52)	-	(52)
Other liabilities	94,348	(73,186)	-	21,162	21,162	-
Tax loss transferred to the next period	-	16,390	-	16,390	16,390	-
Deferred tax asset/(liability)	31,283	(239,878)	(412,360)	(620,955)	197,643	(818,598)

In thousand Armenian drams	01 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	-	(783)	-	(783)	-	(783)
Amounts receivable under reverse repurchase agreements	-	(29,044)	-	(29,044)	-	(29,044)
Loans and advances to banks	1,728	(6,309)	-	(4,581)	-	(4,581)
Investments in securities	(201,402)	-	166,616	(34,786)	-	(34,786)
Loans and advances to customers	233,837	88,011	-	321,848	321,848	-
Property, equipment and intangible assets	(362,447)	9,963	36,306	(316,178)	-	(316,178)
Other assets	(13,543)	11,397	-	(2,146)	-	(2,146)
Amounts due to customers	-	2,605	-	2,605	2,605	-
Other liabilities	8,644	85,704	-	94,348	94,348	-
Deferred tax asset/(liability)	(333,183)	161,544	202,922	31,283	418,801	(387,518)

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2020	31 December 2019
Correspondent account with the CBA	24,196,064	16,746,836
Cash on hand	9,024,169	8,584,553
Correspondent accounts with banks	2,254,538	701,873
Deposits for less than 90 days	2,000,410	-
	37,475,181	26,033,262
Less loss allowance	(3,998)	(2,338)
Total cash and cash equivalents	37,471,183	26,030,924

Correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December 2020 is computed at 2% (31 December 2019: 2%) of certain obligations of the Bank denominated in Armenian drams and 18% (31 December 2019: 18%) of certain obligations of the Bank, denominated in foreign currency. Since June 2019, banks reserve 10% of their foreign currency borrowings in AMD and 8% in foreign currency. These funds amounts to AMD 15,729,522 thousand (31 December 2019: AMD 12,341,352 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. Mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2020 the Bank did not have a correspondent account (31 December 2019: either) 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	2,338	-
Net remeasurement of loss allowance	(2,338)	-
New financial assets provided or acquired	3,998	2,338
Balance as of 31 December	3,998	2,338

17 Amounts receivable under reverse repurchase agreements

In thousand Armenian drams	31 December 2020	31 December 2019
Reverse repurchase agreements with banks	-	959,859
Reverse repurchase agreements with other financial institutions	18,191,040	13,024,251
Reverse repurchase agreements with individuals	-	2,158,486
	18,191,040	16,142,596
Less loss allowance on Receivables on reverse repurchase agreements	(9,967)	(2,027)
Total amounts receivable under reverse repurchase agreements	18,181,073	16,140,569

As of 31 December 2020 the weighted average effective interest rate on reverse repurchase agreements with financial institutions is 6.2 % for agreements in AMD (31 December 2019: 6.2 %) and 2.8 % for agreements in USD, EUR and other freely convertible currencies (31 December 2019: 2.8%).

As of 31 December 2020 there are not reverse repurchase agreements in AMD with individuals (31 December 2019: 7.4 %).

As of 31 December 2020 the Bank had only one contractual party (31 December 2019: one contractual party), the balance of which exceeds 10% of equity: As of 31 December 2020 the net amount of these contracts was AMD 3,607,163 thousand (31 December 2019: AMD 3,115,367 thousand).

An analysis of changes in the ECLs on Amounts receivable under reverse repurchase agreements as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	Total
ECL allowance as at 1 January	2,027	5,760
Net remeasurement of loss allowance	7,940	(3,733)
Balance at 31 December	9,967	2,027

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements 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 and corporate bonds	18,949,307	18,191,040	17,435,753	16,142,596
Total assets pledged and loans under reverse repurchase agreements	18,949,307	18,191,040	17,435,753	16,142,596

As of 31 December 2020 the fair value of securities pledged under repurchase agreements and received by the Bank as collateral under reverse repurchase agreements amounted to AMD 11,639,188 thousand (2019: AMD 4,639,548 thousand).

18 Loans and advances to banks

In thousand Armenian drams	31 December 2020	31 December 2019
Loans to banks	561,477	482,001
Deposited funds with CBA	353,000	253,000
Deposited funds in other banks	275,805	384,772
Regular purchase agreements - spot transactions in foreign currency	479	323
	1,190,761	1,120,096
Loss allowance on loans and advances to banks	(10,892)	-
Total loans and advances to banks	1,179,869	1,120,096

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

Blocked deposits with financial institutions represent a blocked deposit for membership in Master Card payment system (31 December 2019: either).

As of 31 December 2020 the weighted average effective interest rate of loans to banks is 6.8% in US dollar, Euro and other freely convertible currencies (31 December 2019: 6.7%). As of 31 December 2020 the Bank did not have loans in AMD (31 December 2019: either).

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 loans and advances to banks as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	-	-
Net remeasurement of loss allowance	8,916	
Net remeasurement of loss allowance on financial assets provided or acquired	1,976	-
Balance as of 31 December	10,892	-

19 Derivative financial instruments

Currency and interest rate 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
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange forward contracts	768,800	-	67,344
Total derivative financial instruments	768,800	-	67,344

In thousand Armenian drams			31 December 2019
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange forward contracts	768,800	1,280	-
Foreign exchange swap contracts	383,200	-	560
Total derivative financial instruments	1,152,000	1,280	560

20 Investment securities

In thousand Armenian drams	31 December 2020	31 December 2019
Investment securities measured at amortised cost		
RA state bonds measured at amortised cost	-	489,177
		489,177
Investment securities measured at FVOCI		
RA state bonds measured at FVOCI	12,433,482	-
Corporate bonds measured at FVOCI	2,012,301	1,839,320
Shares in RA organizations measured at FVOCI	42,825	42,825
Total investment securities measured at FVOCI	14,488,608	1,882,145
RA state bonds pledged under repurchase agreements measured at FVOCI	5,728,670	8,840,490

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 at 1 January	27,892	46,442
Net remeasurement of loss allowance	30,902	(42,204)
Net remeasurement of loss allowance on new financial assets provided or acquired	20,675	23,654
Balance at 31 December	79,469	27,892

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.

The ECLs relating to RA state bonds at amortised cost are not significant, so they are not disclosed.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2019: either).

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	6.1-9.9	2021-2036	7.4-10.1	2020-2036
RA corporate bonds	4.0-12.8	2021-2023	4.0-13.1	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 state bonds	-	-	5.4	2020

21 Loans and advances 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	23,739,041	(62,948)	23,676,093	16,158,181	(6,292)	16,151,889
Consumer lending	31,097,325	(3,286,193)	27,811,132	29,626,423	(2,198,323)	27,428,100
Overdrafts	2,113,869	(182,115)	1,931,754	2,582,613	(236,174)	2,346,439
	56,950,235	(3,531,256)	53,418,979	48,367,217	(2,440,789)	45,926,428
Commercial lending						
Construction	5,334,522	(120,412)	5,214,110	5,372,689	(45,858)	5,326,831
Industry	11,810,478	(114,000)	11,696,478	10,146,866	(205,045)	9,941,821
Trading	18,293,408	(234,503)	18,058,905	16,222,236	(145,723)	16,076,513
Financial services	3,796,737	(12,574)	3,784,163	5,752,037	(71,042)	5,680,995
Other	19,621,352	(77,639)	19,543,713	18,652,942	(48,715)	18,604,227
	58,856,497	(559,128)	58,297,369	56,146,770	(516,383)	55,630,387
Total	115,806,732	(4,090,384)	111,716,348	104,513,987	(2,957,172)	101,556,815

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.

As of 31 December 2020 the weighted average effective interest rates on loans and advances to customers was 15.7% for loans in AMD (31 December 2019: 17.2%) and 8.7 % for loans in USD, EUR and other freely convertible currencies (31 December 2019: 8.3%).

As of 31 December 2020 the Bank had four borrowers and groups of related parties, whose loan balances exceed 10% of equity. The gross value of these loans as of 31 December 2020 amounts to AMD 20,039,854 thousand (31 December 2019: AMD 21,276,560 thousand, gross loan portfolio provided to four 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 at 1 January	917,571	337,443	1,185,775	2,440,789
Changes due to financial assets recognised in opening balance that have:				
- transfer to 12-month ECL	6,470	(6,470)		-
- transfer to Lifetime ECL not credit-impaired	(37,923)	40,856	(2,933)	-
- transfer to Lifetime ECL credit-impaired	(93,406)	(302,247)	395,653	-
Net remeasurement of loss allowance	(478,073)	393,236	2,083,158	1,998,321
Net remeasurement of loss allowance on new financial assets provided or acquired	401,632	307,843	691,146	1,400,621
Net amounts written off during the year	-	-	(2,308,475)	(2,308,475)
Balance at 31 December	716,271	770,661	2,044,324	3,531,256

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	160,952	-	355,431	516,383
Changes due to financial assets recognised in opening balance that have:				
- transfer to 12-month ECL	-	-	-	-
- transfer to Lifetime ECL not credit-impaired	(126)	171,745	(171,619)	-
- transfer to Lifetime ECL credit-impaired	(204)	-	204	-
Net remeasurement of loss allowance	81,037	(113,593)	1,890	(30,666)
Net remeasurement of loss allowance on new financial assets provided or acquired	35,173	4,035	-	39,208
Net recoveries	-	-	34,203	34,203
Balance at 31 December	276,832	62,187	220,109	559,128

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. Further analysis of economic factors is outlined in note 38.1.2.

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 at 1 January	435,860	176,130	465,942	1,077,932
Changes due to financial assets recognised in opening balance that have:				
- transfer to 12-month ECL	3,130	(3,130)	-	-
- transfer to Lifetime ECL not credit-impaired	(6,734)	10,699	(3,965)	-
- transfer to Lifetime ECL credit-impaired	(39,063)	(148,509)	187,572	-
Net remeasurement of loss allowance	(316,524)	31,018	1,060,395	774,889
Net remeasurement of loss allowance on new financial assets provided or acquired	840,902	271,235	942,327	2,054,464
Net amounts written off during the year	-	-	(1,460,496)	(1,460,496)
Balance at 31 December	917,571	337,443	1,185,775	2,440,789

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	500,718	285,590	528,571	1,314,879
Changes due to financial assets recognised in opening balance that have:				
- transfer to 12-month ECL	277,868	(277,868)	-	-
- transfer to Lifetime ECL not credit-impaired	(34)	34	-	-
- transfer to Lifetime ECL credit-impaired	(368)	(5,324)	5,692	-
Net remeasurement of loss allowance	(693,912)	(2,432)	(213,967)	(910,311)
Net remeasurement of loss allowance on new financial assets provided or acquired	76,680	-	31,406	108,086
Net recoveries	-	-	3,729	3,729
Balance at 31 December	160,952	-	355,431	516,383

As of 31 December 2020, loans to customers in amount of AMD 9,302,316 thousand (31 December 2019: AMD 6,097,777 thousand) serve as collateral for other borrowings.

Maturity analysis of loans and advances to customers are disclosed in note 37.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 38. Information on related parties is disclosed in note 34.

22 Property and equipment and intangible assets

In thousand Armenian drams	Land and buildings	Leasehold improve-ment	Computer equip-ment	Vehicles	Office equipment and other fixed assets	Capital investment in property and equipment	Intangible assets	Right-of-use assets Land and buildings	Total
Cost / revalued amount									
As of 31 December 2018	4,913,013	93,260	1,179,640	158,612	587,206	-	257,089	-	7,188,820
Impact of adopting IFRS 16								335,124	335,124
As of 1 January 2019	4,913,013	93,260	1,179,640	158,612	587,206	-	257,089	335,124	7,523,944
Additions	75,528	584	303,450	59,699	153,259	-	186,404	171,857	950,781
Disposals	(354,668)	-	(273)	(58,876)	(1,836)	-	-	-	(415,653)
Adjustment of right-of-use asset	-	-	-	-	-	-	-	22,787	22,787
As of 31 December 2019	4,633,873	93,844	1,482,817	159,435	738,629	-	443,493	529,768	8,081,859
Additions	16,220	105,199	243,632	175	379,329	60,152	186,412	475,169	1,466,288
Reclassifications	24,058	-	(860,146)	-	860,146	(24,058)	-	-	-
Disposals	-	-	(22,397)	-	(11,862)	-	(2,530)	(78,675)	(115,464)
Revaluation	2,655,477	-	-	-	-	-	-	-	2,655,477
Exclusion of accumulated depreciation	(580,751)	-	-	-	-	-	-	-	(580,751)
Adjustment of right-of-use asset	-	-	-	-	-	-	-	100,331	100,331
As of 31 December 2020	6,748,877	199,043	843,906	159,610	1,966,242	36,094	627,375	1,026,593	11,607,740
Accumulated depreciation									
As of 1 January 2019	433,422	29,852	638,044	85,476	348,268	-	127,271	-	1,662,333
Expenses for the year	127,000	9,320	235,239	13,879	50,028	-	36,488	59,185	531,139
Disposals	(30,707)	-	-	(48,057)	-	-	-	-	(78,764)
As of 31 December 2019	529,715	39,172	873,283	51,298	398,296	-	163,759	59,185	2,114,708
Expenses for the year	174,264	10,590	111,840	17,556	145,872	-	44,889	92,001	597,012
Reclassifications	-	-	(615,516)	-	615,516	-	-	-	-
Disposals	-	-	(22,397)	-	(11,856)	-	-	(6,780)	(41,033)
Exclusion of accumulated depreciation	(580,751)	-	-	-	-	-	-	-	(580,751)
As of 31 December 2020	123,228	49,762	347,210	68,854	1,147,828	-	208,648	144,406	2,089,936
Carrying amount									
As of 31 December 2019	4,104,158	54,672	609,534	108,137	340,333	-	279,734	470,583	5,967,151
As of 31 December 2020	6,625,649	149,281	496,696	90,756	818,414	36,094	418,727	882,187	9,517,804

As of 31 December 2020 intangible assets include investments in digital systems with a carrying amount of AMD 140,890 thousand (2019: AMD 77,400 thousand).

Right-of-use-assets

Right-of-use assets represent the office premises leased by the Bank to operate the branches.

Restrictions on title of fixed assets and intangible assets

As of 31 December 2020 and 31 December 2019, the Bank does not possess any fixed assets and intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2020 the Bank had contractual commitments of making investments in fixed assets and intangible assets at the amount AMD 51,274 thousand (31 December 2019: AMD 104,588 thousand).

Revaluation of assets

The last revaluation of the lands and buildings owned by the Bank was carried out by an independent valuation organization as of June 1, 2020, using a combination of the market, income and cost methods resulting in a revaluation increase of AMD 2,661,164 thousand and a loss of AMD 5,687 thousand. Management has based their estimate on the results of the independent valuation.

The management believes that at 31 December 2020 and 31 December 2019 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of revalued 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
Cost	3,212,057	3,177,402
Accumulated depreciation	(970,179)	(888,562)
Carrying amount	2,241,878	2,288,840

23 Repossessed assets

Details of confiscated assets serving as collateral for loans issued by the Bank as of 31 December 2020 and 31 December 2019 are presented below.

In thousand Armenian drams	31 December 2020	31 December 2019
Real estate	2,072,059	2,129,642
Total repossessed assets	2,072,059	2,129,642

During the year ended 31 December 2020, the Bank repossessed property in terms of collateral for loans to customers in amount of AMD 72,389 thousand. During the year ended 31 December 2019, the Bank did not repossess any asset.

At the date of confiscation, the collateral is measured at the lower of the carrying amount of non-repaid loan liabilities and the fair value of collateral.

It is the Bank’s policy to properly and timely dispose the collateral. The Bank does not principally use non-cash collaterals for carrying out its activity. Assets are measured at the lower of carrying amount and fair value less costs to sell.

24 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Receivables and other proceeds	390,361	544,234
Proceeds on cash transfers	134,624	180,070
Other financial assets	524,985	724,304
Less allowance for assets impairment	(1,370)	(810)
Total other financial assets	523,615	723,494
Prepayments	89,447	79,282
Materials	44,032	54,542
Tax prepayments	21	15,000
Other	37,058	55,617
Total non-financial assets	170,558	204,441
Total other assets	694,173	927,935

An analysis of changes in the ECLs on other assets is as follows:

In thousand Armenian drams	2020	2019
	ECL	ECL
ECL allowance as of 1 January	810	13,263
Net remeasurement of loss allowance	(810)	(13,263)
Net remeasurement of loss allowance on new financial assets provided or acquired	20,458	3,187
Net amounts written off during the year	(19,088)	(2,377)
Balance at 31 December	1,370	810

25 Amounts due to banks

In thousand Armenian drams	31 December 2020	31 December 2019
Loans from banks	2,743,505	4,090,696
Regular purchase agreements - spot transactions in foreign currency	6,421	5,809
Total amounts due to banks	2,749,926	4,096,505

Loans from financial institutions have fixed interest rates.

As of 31 December 2020 the weighted average effective interest rates on amounts due to banks were 5.6% for borrowings in AMD (31 December 2019: 5.6%), and 1.5% for loans in USD, EUR and other freely convertible currencies (31 December 2019: 1.6%).

As of 31 December 2020 the Bank did not have a counterparty bank, the balances of which exceed 10% of equity (31 December 2019: either).

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

26 Payables on repurchase agreements

In thousand Armenian drams	31 December 2020	31 December 2019
Repurchase agreements with the CBA	14,004,213	8,152,510
Repurchase agreements with banks	2,444,342	4,560,826
Repurchase agreements with other financial institutions	75,623	-
Total payables on repurchase agreements	16,524,178	12,713,336

As of 31 December 2020 the weighted average effective interest rates on repurchase agreements in AMD were 5.6% (31 December 2019: 5.8%). There are not agreements in USD, EUR and other freely convertible currencies (31 December 2019: no agreements).

As of 31 December 2020 the Bank did not have a counterparty, the balances of which exceed 10% of equity except for the CBA (31 December 2019: either).

27 Amounts due to customers

In thousand Armenian drams	31 December 2020	31 December 2019
Corporate customers		
Current/Settlement accounts	21,897,534	15,118,166
Time deposits	16,474,112	21,533,410
	38,371,646	36,651,576
Retail customers		
Current/Demand accounts	11,923,935	9,670,241
Time deposits	73,930,826	53,805,812
	85,854,761	63,476,053
Total amounts due to customers	124,226,407	100,127,629

As of 31 December 2020 time deposits of corporate / retail customers are deposits amounting to AMD 10,147,416 thousand (31 December 2019: AMD 8,696,085 thousand) held as security against loans to customers, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

As of 31 December 2020 the weighted average effective interest rates on amounts due to customers was 9.6% for amounts attracted in AMD (31 December 2019: 9.3%) and 4.9 % for amounts attracted in USD, EUR (31 December 2019: 4.9%) and 5.9% for amounts in RUB (31 December 2019: 6.6%)

As of 31 December 2020 the Bank had only three group of related customers (31 December 2019: four), whose accounts balances exceed 10% of equity. The gross value of these balances as of 31 December 2020 amounted to AMD 21,036,636 thousand (31 December 2019: AMD 20,749,760 thousand).

28 Other borrowings

In thousand Armenian drams	31 December 2020	31 December 2019
Borrowings from credit organizations	8,269,508	6,097,777
Borrowings from individuals	6,437,468	-
Borrowings from RA CBA	1,032,808	-
Total other borrowings	15,739,784	6,097,777

As of 31 December 2020 the weighted average effective interest rates on other borrowings in AMD was 5.8% (31 December 2019: 6.4%) and 3.3% for the borrowings in USD, EUR and other free convertible currencies (31 December 2019: nil).

As of 31 December 2020 the Bank had only one financial organization (31 December 2019: one), the balances of which exceed 10% of equity. These loans as of 31 December 2020 amounted to AMD 5,264,283 thousand (31 December 2019: AMD 3,810,471 thousand).

Loans received by individuals are amounts received from a related person of the Bank (refer to note 34).

29 Subordinated debt

In thousand Armenian drams	31 December 2020	31 December 2019
Subordinated debt provided by individuals	5,303,185	4,868,162
Bonds issued	-	5,393,602
Total subordinated debt	5,303,185	10,261,764

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.

During 2016 The Bank has received a subordinated debt in amount of US dollar 10,000 thousand maturing in 2026. The interest rate is 9% (Refer to note 34).

During 2015 10,000 subordinated coupon bonds have been issued with nominal value of Euro 1000, 5.5% of interest rate and maturity up to 2020, which has been repaid in 2020.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2019: either).

30 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Lease liabilities (note 33)	911,903	480,323
Due to personnel	185,249	512,832
Dividend liabilities	481,842	426,000
Amounts payable under state support programs	143,963	-
Accounts payable	375,071	314,584
Total other financial liabilities	2,098,028	1,733,739
Tax payable, other than income tax	181,303	139,488
Grants related to assets	43,558	45,632
ECL allowance on financial guarantees	17,213	974
Other	34	1,608
Total other non-financial liabilities	242,108	187,702
Total other liabilities	2,340,136	1,921,441

Grants related to assets

In thousand Armenian drams	2020	2019
As of 1 January	45,632	47,706
Recognition of income	(2,074)	(2,074)
As of 31 December	43,558	45,632

31 Equity

As of 31 December 2020 the Bank's registered and paid-in charter capital was AMD 20,000,000 thousand. In accordance with the Bank's statues, the share capital consists of 150,000 ordinary shares, all of which have a par value of AMD 100,000 each and 50,000 non-redeemable preference shares, all of which have a par value of AMD 100,000 each.

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

In thousand Armenian drams	31 December 2020		31 December 2019	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
"Prometey City" LLC	-	-	17,196,100	95.8
Mareta Rudik Gevorkyan	19,261,600	96.3	-	-
Other shareholders	738,400	3.7	753,900	4.2
	20,000,000	100	17,950,000	100

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.

The Bank increased its share capital by AMD 2,050,000 thousand, issuing ordinary shares totaling AMD 600,000 thousand and preference shares totaling AMD 1,450,000 thousand. The increase of the share capital of the Bank was carried out by the shareholders in AMD, they have the right to receive dividends and distribute the profit in AMD. In 2019 The Bank's shareholders did not increase their share capital.

During the year ended 31 December 2020 the Bank accrued dividends totaling AMD 481,842 thousand on preferred shares (2019: AMD 426,000 thousand).

Distributable among participants 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 5 % of the Bank’s charter capital reported in statutory books.

32 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 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.

Loan commitments and financial guarantees

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*	5,982,769	6,304,773
Guarantees	3,224,593	2,086,414
Letters of credit	-	159,163
Less loss allowances**	(17,213)	(974)
	3,207,380	2,244,603
Total commitments and contingent liabilities	9,207,362	8,550,350

*An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 21).

**The changes in the ECLs on financial guarantees and letters of credit are presented in other liabilities. An analysis of these changes as follow:

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	974	-
Net remeasurement of loss allowance	2,113	810
Net remeasurement of loss allowance on new guarantees provided	14,126	164
Balance as of 31 December	17,213	974

Information on the Bank's capital commitments is disclosed in note 22.

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.

33 Leases

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Bank classifies its right-of-use assets in a consistent manner to its property, plant and equipment (refer to note 22).

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. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. 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.

Right-of-use assets

The table below describes the nature of the Bank's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use assets leased	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Branches	10	3-10 years	8.2 years	-	-	-	10

Below is presented additional information on right-of-use asset by classes.

In thousand Armenian drams	Balance as of 1 January	Additions	Disposal	Adjustment of right-of-use asset	Depreciation	Balance as of 31 December
Branches	529,768	475,169	(78,675)	100,331	(144,406)	882,187

Lease liabilities

Lease liabilities are presented in the statement of financial position in the line of other liabilities (refer to note 30):

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	480,323	335,124
Additions	475,169	171,857
Termination	(71,895)	-
Accretion of interest	53,312	23,575
Adjustment of right-of-use asset	100,331	22,787
Payments	(125,337)	(73,020)
Total lease liabilities as of 31 December	911,903	480,323

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 6.6-10.42% (2019 6.6-10.35%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2020 refer to note 37.

Lease payments not recognised as a liability

The Bank has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis (refer to note 14).

34 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 participants, members of Bank’s Management as well as other persons and enterprises related with and controlled by them respectively.

The direct significant participant of the bank is Mareta Gevorkyan.

Vazgen Gevorkyan is an indirect participant and ulitimate controlling party in accordance with the requirements of the RA Law on Banks and Banking.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions comprise loans, deposits, etc.

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				
Loans and advances to customers				
Loans outstanding at 1 January	5,068,871	306,582	4,710,887	417,041
Loans issued during the year	57,439	251,902	6,378,148	499,489
Loan repayments during the year	(681,948)	(211,754)	(6,020,164)	(609,948)
Loans outstanding at 31 December	4,444,362	346,730	5,068,871	306,582
Less allowance for loan impairment	(5,407)	(1,350)	(3,141)	(1,235)
Loans outstanding at 31 December	4,438,955	345,380	5,065,730	305,347
Amounts due to customers				
At 1 January	7,572,412	775,913	6,498,711	1,242,044
Received during the year	27,755,568	3,803,512	93,077,784	4,054,292
Repayments during the year	(28,943,006)	(3,065,618)	(92,004,083)	(4,520,423)
At 31 December	6,384,974	1,513,807	7,572,412	775,913
Subordinated debt	5,303,185	-	4,868,162	-
Other borrowings	6,437,468	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	292,500	32,121	370,775	34,063
Impairment losses	(2,266)	(115)	(315)	(295)
Interest expense	(912,719)	(52,215)	(805,041)	(48,417)
Net income/(expense) from revaluation of derivative instruments	(81,376)	-	15,136	-
Other operating income	-	-	3	991
Other operating expenses	(15)	(699)	(37,098)	(1,830)
Commission income and other payments	-	-	1,442	217

The loans issued to parties related with the Bank are repayable over 1-19 years and have effective interest rates of 6-22% (2019: 6-24%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	514,752	969,379
Total key management compensation	514,752	969,379

35 Fair value measurement

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

35.1 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	-	37,471,183	-	37,471,183	37,471,183
Amounts receivable under reverse repurchase agreements	-	18,181,073	-	18,181,073	18,181,073
Loans and advances to banks	-	1,179,869		1,179,869	1,179,869
Loans and advances to customers	-	112,129,324	-	112,129,324	111,716,348
Other assets	-	523,615	-	523,615	523,615
Financial liabilities					
Amounts due to banks	-	2,749,926	-	2,749,926	2,749,926
Payables on repurchase agreements	-	16,524,178	-	16,524,178	16,524,178
Amounts due to customers	-	124,916,931	-	124,916,931	124,226,407
Other borrowings	-	15,739,784	-	15,739,784	15,739,784
Subordinated debt	-	5,303,185	-	5,303,185	5,303,185
Other liabilities	-	2,098,028	-	2,098,028	2,098,028

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	-	26,030,924	-	26,030,924	26,030,924
Amounts receivable under reverse repurchase agreements	-	16,140,569	-	16,140,569	16,140,569
Loans and advances to banks	-	1,120,096	-	1,120,096	1,120,096
Investments securities measured at amortised cost	-	487,396	-	487,396	489,177
Loans and advances to customers	-	101,343,844	-	101,343,844	101,556,815
Other assets	-	723,494	-	723,494	723,494
Financial liabilities					
Amounts due to banks	-	4,096,505	-	4,096,505	4,096,505
Payables on repurchase agreements	-	12,713,336	-	12,713,336	12,713,336
Amounts due to customers	-	100,127,629	-	100,127,629	100,127,629
Other borrowings	-	6,097,777	-	6,097,777	6,097,777
Subordinated debt	-	10,261,764	-	10,261,764	10,261,764
Other liabilities	-	1,733,739	-	1,733,739	1,733,739

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 fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 7.7% to 18% per annum (2019: 5% to18% per annum). îhe fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Amounts 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.

Other borrowings

The fair value of borrowings with fixed and unquoted interest rates is set based on the calculation of future cash flows, which are discounted applying the rates that are offered new debt instruments of similar maturities and terms.

35.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
State and corporate bonds	2,012,301	12,433,482	-	14,445,783
Equity instruments	-	-	42,825	42,825
Securities pledged under repurchase agreements	-	5,728,670	-	5,728,670
Total	2,012,301	18,162,152	42,825	20,217,278
Financial liabilities				
Derivative financial liabilities	-	67,344	-	67,344
Total	-	67,344	-	67,344
Net fair value	2,012,301	18,094,808	42,825	20,149,934

In thousand Armenian drams	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
State and corporate bonds	1,579,102	260,218	-	1,839,320
Equity instruments	-	-	42,825	42,825
Securities pledged under repurchase agreements	-	8,840,490	-	8,840,490
Derivative financial assets	-	1,280	-	1,280
Total	1,579,102	9,101,988	42,825	10,723,915
Financial liabilities				
Derivative financial liabilities	-	560	-	560
Total	-	560	-	560
Net fair value	1,579,102	9,101,428	42,825	10,723,355

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.

35.3 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				
Land and buildings	-	-	6,748,877	6,748,877
Net fair value	-	-	6,748,877	6,748,877

In thousand Armenian drams				31 December 2019
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land and buildings	-	-	4,633,873	4,633,873
Net fair value	-	-	4,638,873	4,638,873

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. 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 at each reporting date.

The land and building were revalued by an independent appraiser on 1 June 2020 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	4,633,873	4,913,013
Purchases	16,220	75,528
Reclassifications	24,058	-
Sales	-	(354,668)
Revaluation	2,655,477	-
Exclusion of accumulated depreciation	(580,751)	-
Net fair value as of 31 December	6,748,877	4,633,873

36 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					
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments in the statement of financial position	Non cash collateral received/ provided	Net
Financial assets						
Reverse repurchase agreements (note 17)	18,181,073	-	18,181,073	-	(18,181,073)	-
Financial liabilities						
Amounts payable under reverse repurchase agreements (note 17, 20, 26)	16,524,178	-	16,524,178	(17,367,858)	-	(843,680)

In thousand Armenian drams						31 December 2019
				Related amounts that are not offset in the statement of financial position		
	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	Financial instruments in the statement of financial position	Non cash collateral received/ provided	Net
Financial assets						
Reverse repurchase agreements (note 17)	16,142,596	-	16,142,596	-	(16,142,596)	-
Financial liabilities						
Amounts payable under reverse repurchase agreements (note 17, 20, 26)	12,713,336	-	12,713,336	(13,480,038)	-	(766,702)

37 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 38.3 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	37,471,183	-	*37,471,183*	-	-	-	37,471,183
Amounts receivable under reverse repurchase agreements	18,181,073	-	*18,181,073*	-	-	-	18,181,073
Loans and advances to banks	655,369	317,990	*973,359*	206,510	-	*206,510*	1,179,869
Investment securities at fair value through other comprehensive income	-	2,623,741	*2,623,741*	8,676,761	3,188,106	*11,864,867*	14,488,608
Investment securities at fair value through other comprehensive income pledged under repurchase agreements	-	402,452	*402,452*	3,652,216	1,674,002	*5,326,218*	5,728,670
Loans and advances to customers	5,777,514	25,304,731	*31,082,245*	55,597,660	25,036,443	*80,634,103*	111,716,348
Other financial assets	523,615	-	*523,615*	-	-	-	523,615
	62,608,754	28,648,914	*91,257,668*	68,133,147	29,898,551	*98,031,698*	189,289,366
Liabilities							
Amounts due to banks	2,749,926	-	*2,749,926*	-	-	-	2,749,926
Payables on repurchase agreements	16,524,178	-	*16,524,178*	-	-	-	16,524,178
Amounts due to customers	38,642,883	48,220,991	*86,863,874*	37,359,175	3,358	*37,362,533*	124,226,407
Derivative financial liabilities	-	34,072	*34,072*	33,272	-	*33,272*	67,344
Other borrowings	62,758	814,282	*877,040*	9,736,880	5,125,864	*14,862,744*	15,739,784
Subordinated debt	23,422	53,863	*77,285*	-	5,225,900	*5,225,900*	5,303,185
Other financial liabilities	695,472	579,084	*1,274,556*	414,626	408,846	*823,472*	2,098,028
	58,698,639	49,702,292	*108,400,931*	47,543,953	10,763,968	*58,307,921*	166,708,852
Net position	3,910,115	(21,053,378)	*(17,143,263)*	20,589,194	19,134,583	*39,723,777*	22,580,514
Accumulated gap	3,910,115	(17,143,263)		3,445,931	22,580,514		

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	26,030,924	-	*26,030,924*	-	-	-	26,030,924
Amounts receivable under reverse repurchase agreements	16,140,569	-	*16,140,569*	-	-	-	16,140,569
Loans and advances to banks	640,400	159,899	*800,299*	319,797	-	*319,797*	1,120,096
Derivative financial assets	-	-	-	1,280	-	*1,280*	1,280
Investment securities at fair value through other comprehensive income	-	163,887	*163,887*	1,718,258	-	*1,718,258*	1,882,145
Investments securities at amortised cost	-	489,177	*489,177*	-	-	-	489,177
Investment securities at fair value through other comprehensive income pledged under repurchase agreements	-	701,732	*701,732*	4,903,299	3,235,459	*8,138,758*	8,840,490
Loans and advances to customers	3,253,900	27,517,748	*30,771,648*	49,038,211	21,746,956	*70,785,167*	101,556,815
Other financial assets	723,494	-	*723,494*	-	-	-	723,494
	46,789,287	29,032,443	*75,821,730*	55,980,845	24,982,415	*80,963,260*	156,784,990
Liabilities							
Amounts due to banks	2,750,595	1,345,910	*4,096,505*	-	-	-	4,096,505
Payables on repurchase agreements	12,713,336	-	*12,713,336*	-	-	-	12,713,336
Amounts due to customers	26,276,927	42,070,782	*68,347,709*	31,777,491	2,429	*31,779,920*	100,127,629
Derivative financial liabilities	-	560	*560*	-	-	-	560
Other borrowings	30,916	249,202	*280,118*	2,076,109	3,741,550	*5,817,659*	6,097,777
Subordinated debt	21,437	5,443,327	*5,464,764*	-	4,797,000	*4,797,000*	10,261,764
Other financial liabilities	822,236	492,389	*1,314,625*	243,830	175,284	*419,114*	1,733,739
	42,615,447	49,602,170	*92,217,617*	34,097,430	8,716,263	*42,813,693*	135,031,310
Net position	4,173,840	(20,569,727)	*(16,395,887)*	21,883,415	16,266,152	*38,149,567*	21,753,680
Accumulated gap	4,173,840	(16,395,887)		5,487,528	21,753,680		

38 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. 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 Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

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

Management Board

The Management Board is responsible for implementation, realization and control of processes, which are connected with risk management.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit

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

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, with additional emphasis on selected industries. 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 Board of the Bank and the Management Board. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place by maturity. The Management receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the members of the Management Board, which includes Bank normative, current balance of the Bank, daily change in income and expenses and changes in off-balance sheet articles.

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.

38.1 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 Directors and Management Board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

38.1.1 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.

In thousand Armenian drams	31 December 2020			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	9,024,169	-	-	9,024,169
Standard	28,451,012	-	-	28,451,012
Gross carrying amount	37,475,181	-	-	37,475,181
Loss allowance	(3,998)	-	-	(3,998)
Net carrying amount	37,471,183	-	-	37,471,183
Amounts receivable under reverse repurchase agreements				
Standard	18,191,040	-	-	18,191,040
Gross carrying amount	18,191,040	-	-	18,191,040
Loss allowance	(9,967)	-	-	(9,967)
Net carrying amount	18,181,073	-	-	18,181,073
Loans and advances to banks				
Standard grade	1,190,761	-	-	1,190,761
Gross carrying amount	1,190,761	-	-	1,190,761
Loss allowance	(10,892)	-	-	(10,892)
Net carrying amount	1,179,869	-	-	1,179,869
Loans to mortgage and consumer loans				
High grade	51,457,933	-	-	51,457,933
Standard grade	716,527	333,979	-	1,050,506
Substandard grade	-	1,175,404	-	1,175,404
Non-performing grade	-	-	3,266,392	3,266,392
Gross carrying amount	52,174,460	1,509,383	3,266,392	56,950,235
Loss allowance	(716,271)	(770,661)	(2,044,324)	(3,531,256)
Net carrying amount	51,458,189	738,722	1,222,068	53,418,979

In thousand Armenian drams				31 December 2020
Rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High grade	56,852,087	-	-	56,852,087
Standard grade	11,191	1,375,049	-	1,386,240
Substandard grade	-	32,000	-	32,000
Non-performing grade	-	-	586,170	586,170
Gross carrying amount	56,863,278	1,407,049	586,170	58,856,497
Loss allowance	(276,832)	(62,187)	(220,109)	(559,128)
Net carrying amount	56,586,446	1,344,862	366,061	58,297,369
Debt investment securities at FVOCI including the pledged securities				
Standard	20,174,453	-	-	20,174,453
Gross carrying amount-fair value	20,174,453	-	-	20,174,453
Loss allowance	(79,469)	-	-	(79,469)
Other financial assets				
Standard	524,985	-	-	524,985
Gross carrying amount	524,985	-	-	524,985
Loss allowance	(1,370)	-	-	(1,370)
Net carrying amount	523,615	-	-	523,615
Loan commitments and financial guarantee				
High	9,207,362	-	-	9,207,362
Gross carrying amount	9,207,362			9,207,362
Loss allowance*	(17,213)	-	-	(17,213)
Net	9,190,149			9,190,149

In thousand Armenian drams				31 December 2019
Rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	8,584,553	-	-	8,584,553
Standard	17,448,709	-	-	17,448,709
Gross carrying amount	26,033,262	-	-	26,033,262
Loss allowance	(2,338)	-	-	(2,338)
Net carrying amount	26,030,924	-	-	26,030,924
Amounts receivable under reverse repurchase agreements				
Standard	16,142,596	-	-	16,142,596
Gross carrying amount	16,142,596	-	-	16,142,596
Loss allowance	(2,027)	-	-	(2,027)
Net carrying amount	16,140,569	-	-	16,140,569

In thousand Armenian drams	31 December 2019			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Standard grade	1,120,096	-	-	1,120,096
Gross carrying amount	1,120,096	-	-	1,120,096
Loss allowance	-	-	-	-
Net carrying amount	1,120,096	-	-	1,120,096
Loans to mortgage and consumer customers				
High grade	45,659,672	-	-	45,659,672
Standard grade	536,983	88,717	-	625,700
Substandard grade	-	520,254	-	520,254
Non-performing grade	-	-	1,561,591	1,561,591
Gross carrying amount	46,196,655	608,971	1,561,591	48,367,217
Loss allowance	(917,571)	(337,443)	(1,185,775)	(2,440,789)
Net carrying amount	45,279,084	271,528	375,816	45,926,428
Loans to commercial customers				
High grade	52,129,962	-	-	52,129,962
Standard grade	12,325	2,320,048	-	2,332,373
Substandard grade	-	54,346	-	54,346
Non-performing grade	-	-	1,630,089	1,630,089
Gross carrying amount	52,142,287	2,374,394	1,630,089	56,146,770
Loss allowance	(160,952)	-	(355,431)	(516,383)
Net carrying amount	51,981,335	2,374,394	1,274,658	55,630,387
Debt instruments measured at amortized cost				
Standard	489,177	-	-	489,177
Gross carrying amount-fair value	489,177	-	-	489,177
Loss allowance	-	-	-	-
Net carrying amount	489,177	-	-	489,177
Debt investment securities at FVOCI including the pledged securities				
Standard	10,679,810	-	-	10,679,810
Gross carrying amount-fair value	10,679,810	-	-	10,679,810
Loss allowance	(27,892)	-	-	(27,892)
Other financial assets				
Standard grade	724,304	-	-	724,304
Gross carrying amount	724,304	-	-	724,304
Loss allowance	(810)	-	-	(810)
Net carrying amount	723,494	-	-	723,494
Loan commitments and financial guarantee				
High grade	8,513,915	-	-	8,513,915
Standard grade	2,367	30,926	-	33,293

In thousand Armenian drams	31 December 2019			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Substandard grade	-	580	-	580
Non-performing grade	-	-	2,562	2,562
Gross carrying amount	8,516,282	31,506	2,562	8,550,350
Loss allowance*	(974)	-	-	(974)
Net	8,515,308	31,506	2,562	8,549,376

* Loss allowances represent the ECL allowances on financial guarantees and letters of credit. ECL allowances on loans and advances include ECL allowances on loan commitments.

38.1.2 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 and advances to customers

The criteria for Loans and advances 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 at 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 at 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 at 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 BB (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 at 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 BB (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 and advances to customers and loan commitments and financial guarantee.

	Grade	2020 12 month PD range	2019 12 month PD range
Loans to mortgage and consumer customers	High,Standard	1.47-62.03%	0.67-6.42%
	Substandard	26.70-62.03%	14.74-68.21%
	Non-Performing	94.98-100%	94.12-100%
Loans to commercial customers	High,Standard	0.43-4.59%	0.47-4.59%
	Substandard	7.23-78.41%	22.51-61.22%
	Non-Performing	76.82-100%	96.03-100%

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

International external rating agency (S&P) rating	Grade	2020 12 month PD	2019 12 month PD
AAA to A-	Hight	0.001-0.040%	0.001-0.040%
BBB+ to B-	Standard	0.059-7.207%	0.052-7.480%
CCC+ to CC	Low	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 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.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

In thousand Armenian drams

	2020	2019
Amortised costs of financial assets modified during the period	54,300	60,031
Net modification loss	(12,690)	(44,908)

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
- Net current transfers from abroad (current US dollar)
- Unemployment
- Bank's non-performing loans to total gross loans
- Trade growth
- Industry growth

- Official exchange rate
- Real estate prices (average price in Yerevan)

38.1.3 Risk concentrations

Geographical sectors

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

Industry sectors

The analysis of loan portfolio by industry sectors is represented in note 21.

38.1.4 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.

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 and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances 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 by collateral is represented as follows:

In thousand Armenian drams	**31 December 2020**	**31 December 2019**
Loans collateralized by real estate	67,045,128	55,472,352
Loans collateralized by movable and other property	1,212,684	3,227,779
Loans collateralized by current and term deposits	5,884,680	6,220,079
Loans collateralized by inventories	3,140,741	3,323,674
Loans collateralized by guarantees	6,899,219	4,655,659
Loans collateralized by gold jewelry and other gold items	1,515,356	1,095,790
Other collateral	235,661	-
Unsecured loans	29,873,263	30,518,654
Total loans and advances to customers (gross)	115,806,732	104,513,987

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.

38.2 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 a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

38.2.1 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. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020. The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI at 31 December 2020 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity displays the sensitivity to non-parallel changes.

In thousand Armenian drams				31 December 2020
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+1	34,750	(579,074)	(544,324)
AMD	(1)	(34,750)	579,074	544,324

In thousand Armenian drams				31 December 2019
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+1	6,715	(363,432)	(356,717)
AMD	(1)	(6,715)	363,432	356,717

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 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 statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income 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
Freely convertible	+5	48,530	+5	75,063
Not freely convertible	+5	187	+5	(2,147)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	14,440,326	21,473,543	1,557,314	37,471,183
Amounts receivable under reverse repurchase agreements	16,832,902	1,348,171	-	18,181,073
Loans and advances to banks	348,877	830,992	-	1,179,869
Investment securities at fair value through other comprehensive income	13,289,320	1,199,288	-	14,488,608
nvestment securities at fair value through other comprehensive income pledged under repurchase agreements	5,728,670	-	-	5,728,670
Loans and advances to customers	43,659,966	68,056,382	-	111,716,348
Other financial assets	104,031	284,806	134,778	523,615
	94,404,092	93,193,182	1,692,092	189,289,366
Liabilities				
Amounts due to banks	2,100,631	649,295	-	2,749,926
Payables on repurchase agreements	16,524,178	-	-	16,524,178
Amounts due to customers	43,578,367	77,762,293	2,885,747	124,226,407
Other borrowings	9,302,316	6,437,468	-	15,739,784
Subordinated debt	-	5,303,185	-	5,303,185
Other financial liabilities	2,061,228	36,328	472	2,098,028
	73,566,720	90,188,569	2,886,219	166,641,508
Regular purchase contracts- effect of spot transactions impact	-	(1,197,872)	1,197,872	-
Effect of derivative financial instruments	768,800	(836,144)	-	(67,344)
Net position as of 31 December 2020	21,606,172	970,597	3,745	22,580,514
Commitments and contingent liabilities as of 31 December 2020	6,395,379	2,794,770	-	9,190,149

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Total financial assets	77,672,593	76,183,479	2,927,638	156,783,710
Total financial liabilities	58,464,717	75,413,762	1,152,271	135,030,750
Regular purchase contracts- effect of spot transactions impact	(64,514)	1,882,822	(1,818,308)	-
Total effect of derivative financial instruments	1,152,000	(1,151,280)	-	720
Net position as of 31 December 2019	20,295,362	1,501,259	(42,941)	21,753,680
Commitments and contingent liabilities As of 31 December 2019	4,865,293	3,684,083	-	8,549,376

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

38.3 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 16). 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.

The indicators as of 31 December is as follows:

	Unaudited	
As of 31 December, these ratios were as follows:	31 December 2020, %	31 December 2019, %
N2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	26.00	21.85
N2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	152.21	142.64

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations. Refer to note 37 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 value**
Non-derivative financial liabilities						
Amounts due to banks	2,753,134	-	-	-	2,753,134	2,749,926
Payables on repurchase agreements	16,544,173	-	-	-	16,544,173	16,524,178
Amounts due to customers	38,747,693	51,201,986	40,359,518	6,421	130,315,618	124,226,407
Other borrowings	77,593	1,455,242	12,094,374	5,842,381	19,469,590	15,739,784
Subordinated debt	25,226	444,302	1,883,643	5,648,554	8,001,725	5,303,185
Other financial liabilities	702,640	652,913	653,412	501,926	2,510,891	2,098,028
Total undiscounted non-derivative financial liabilities	58,850,459	53,754,443	54,990,947	11,999,282	179,595,131	166,641,508
Derivative financial instruments						
Foreign exchange forward contracts						
Inflow	-	384,000	384,800	-	768,800	768,800
Outflow	-	(418,072)	(418,072)	-	(836,144)	(836,144)
Commitments and contingent liabilities	313,820	4,179,474	4,370,072	326,783	9,190,149	9,190,149

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 value**
Non-derivative financial liabilities						
Amounts due to banks	2,750,595	1,345,910	-	-	4,096,505	4,096,505
Payables on repurchase agreements	12,728,924	-	-	-	12,728,924	12,713,336
Amounts due to customers	26,391,515	44,456,097	34,398,502	5,111	105,251,225	100,127,629
Other borrowings	40,801	591,146	3,301,015	4,266,372	8,199,334	6,097,777
Subordinated debt	23,093	6,191,806	1,727,866	5,617,405	13,560,170	10,261,764
Other financial liabilities	828,736	522,362	344,280	209,195	1,904,573	1,733,739
Total undiscounted non-derivative financial liabilities	42,763,664	53,107,321	39,771,663	10,098,083	145,740,731	135,030,750

In thousand Armenian drams	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 value
						31 December 2019
Derivative financial instruments						
Foreign exchange forward contracts						
Inflow	-	383,200	768,800	-	1,152,000	1,152,000
Outflow	-	(383,760)	(767,520)	-	(1,151,280)	(1,151,280)
Commitments and contingent liabilities	103,065	3,188,147	3,675,405	1,582,759	8,549,376	8,549,376

38.4 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.

39 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
	Subordinated debt	Other long-term borrowings	Lease liabilities	Dividend liabilities	Total
As of 1 January 2020	10,261,764	6,097,777	480,323	426,000	17,265,864
Cash-flows	(5,716,940)	8,606,497	(125,337)	(426,000)	2,338,220
Repayments	(5,716,940)	(872,023)	(125,337)	(426,000)	(7,140,300)
Amounts received	-	9,478,520	-	-	9,478,520
Non-cash	758,361	1,035,510	556,917	481,842	2,832,630
Adjustment on lease liabilities	-	-	100,331	-	100,331
Additions on lease liabilities	-	-	475,169	-	475,169
Termination	-	-	(71,895)	-	(71,895)
Foreign exchange loss	758,361	1,000,840	-	-	1,759,201
Accrued and unbilled interests	-	34,670	53,312	-	87,982
Accrued dividend	-	-	-	481,842	481,842
As of 31 December 2020	5,303,185	15,739,784	911,903	481,842	22,436,714

In thousand Armenian drams					2019
	Subordinated debt	Other long-term borrowings	Lease liabilities	Dividend liabilities	Total
As of 1 January 2019	10,466,922	3,707,012	-	426,000	14,599,934
Cash-flows	-	2,384,802	(73,020)	(426,000)	1,885,782
Repayments	-	(602,710)	(73,020)	(426,000)	(1,101,730)
Amounts received	-	2,987,512	-	-	2,987,512
Non-cash	(205,158)	5,963	553,343	426,000	780,148
Transition to IFRS 16	-	-	335,124	-	335,124
Adjustment on lease liabilities	-	-	22,787	-	22,787
Additions on lease liabilities			171,857	-	171,857
Foreign exchange gains	(205,393)	-	-	-	(205,393)
Accrued and unbilled interests	235	5,963	23,575	-	29,773
Accrued dividend	-	-	-	426,000	426,000
As of 31 December 2019	10,261,764	6,097,777	480,323	426,000	17,265,864

40 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%.

The minimal required total capital for banks is determined at AMD 30,000,000 thousand.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation 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.

In thousand Armenian drams	**Unaudited**	
	31 December 2020	**31 December 2019**
Tier 1 capital	29,266,068	26,865,186
Tier 2 capital	8,779,820	6,807,376
Total regulatory capital	38,045,888	33,672,562
Risk-weighted assets	192,308,841	160,474,732
Capital adequacy ratio	19,78%	20.98%

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

41 Events after the reporting period

On 02 March 2021, the Bank issued bonds with a public placement for a total of AMD 500 million and USD 5 million.

On 23 March 2021, the Bank issued the second tranche of bonds with a public placement for a total of AMD 500 million and USD 5 million. The bonds have been fully placed.

The coupon annual yield of the bonds is 10% and 5.5%, the coupon payment frequency is quarterly, the turnover term is 30 months.