

"EVOCABANK" CLOSED JOINT STOCK COMPANY

Interim Financial Statements for the nine-month period ended

30 September 2019

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Interim statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Interest and similar income	7	8,674,542	6,400,502	3,070,398	2,365,792
Interest and similar expense	7	(4,259,463)	(3,082,770)	(1,533,690)	(1,142,974)
Net interest income		4,415,079	3,317,732	1,536,708	1,222,818
Fee and commission income	8	771,163	460,865	317,413	158,724
Fee and commission expense	8	(615,089)	(443,306)	(267,956)	(164,294)
Net fee and commission income		156,074	17,559	49,457	(5,570)
Net trading income	9	795,337	586,360	400,406	242,751
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		626,287	60,662	523,441	9,518
Other income	10	135,906	99,199	30,094	(334,937)
Impairment losses	11	(1,110,099)	(613,856)	(360,363)	(20,679)
Staff costs	12	(1,482,903)	(987,368)	(691,902)	(326,495)
Depreciation of property and equipment and amortization of intangible assets	20	(386,537)	(254,824)	(146,563)	(86,957)
Other expenses	13	(1,148,482)	(1,042,818)	(414,105)	(427,362)
Profit before income tax		2,000,662	1,182,646	927,173	273,087
Income tax expense	14	(398,509)	(206,215)	(197,607)	(150,897)
Profit for the period		1,602,153	976,431	729,566	122,190
Other comprehensive income:					
<i>Items that will be reclassified subsequently to profit or loss</i>					
<i>Movement in fair value reserve (debt instruments)</i>					
Net change in fair value during the period		49,568	38,970	196,722	3,931
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments measured at FVOCI		(624,792)	(60,428)	(525,062)	(8,789)
Changes in allowance for expected credit losses		5,540	-	5,540	-
Income tax related to the above		115,045	4,291	65,668	971
Net losses on financial investments at fair value through other comprehensive income		(454,639)	(17,167)	(257,132)	(3,887)
Change in PPE revaluation reserve		-	(7,702)	-	-
Income tax related to the above		-	1,540	-	-
Net change in PPE revaluation reserve		-	(6,162)	-	-
Total other comprehensive loss for the period, net of tax		(454,639)	(23,329)	(257,132)	(3,887)
Total comprehensive loss for the period		1,147,514	953,102	472,434	118,303

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 October 2019.

Karen Yeghiazaryan
Chairman of Management Board




Emma Janinyan
Chief Accountant, Member of Management Board



EVOCABANK CLOSED JOINT STOCK COMPANY
Interim Financial Statements for the nine-month period ended
30 September 2019

Interim statement of financial position

In thousand Armenian drams

	Notes	30 September 2019	31 December 2018 (audited)
Assets			
Cash and cash equivalents	15	20,234,305	23,088,491
Amounts due from financial institutions	16	15,854,781	12,890,453
Derivative financial assets	17	9,672	168
Investment securities	18		
- Investment securities at fair value through other comprehensive income		3,454,206	1,754,501
- Investment securities at amortised cost		478,959	496,231
- Investment securities at FVOCI pledged under repurchase agreements		6,384,394	7,608,062
Loans and advances to customers	19	87,394,230	75,424,473
Property, equipment and intangible assets	20	6,067,874	5,526,487
Repossessed assets	21	2,714,498	2,909,195
Other assets	22	622,170	599,656
Total assets		143,215,089	130,297,717
Liabilities and equity			
<i>Liabilities</i>			
Amounts due to financial institutions	23	24,963,327	23,517,126
Financial liabilities held for trading	24	-	2,080,577
Amounts due to customers	25	76,926,495	63,933,542
Derivative financial liabilities	17	-	13,600
Subordinated liabilities	26	10,047,473	10,466,922
Current income tax liabilities		173,521	92,070
Deferred income tax liabilities	14	196,453	333,183
Other liabilities	27	855,384	955,775
Total liabilities		113,162,653	101,392,795
<i>Equity</i>			
Share capital	28	17,950,000	17,950,000
Statutory general reserve		262,075	162,075
Other reserves		1,864,137	2,337,325
Retained earnings		9,976,224	8,455,522
Total equity		30,052,436	28,904,922
Total liabilities and equity		143,215,089	130,297,717

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Interim statement of changes in equity

In thousand Armenian drams

	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of PPE	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 period	-	-	-	-	1,602,153	1,602,153
<i>Other comprehensive income:</i>	-	-	-	-	-	-
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(18,549)	18,549	-
Net change in fair value of debt instrument at FVOCI	-	-	49,568	-	-	49,568
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	(624,792)	-	-	(624,792)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	5,540	-	-	5,540
Income tax relating to components of other comprehensive income	-	-	115,045	-	-	115,045
Total comprehensive income for the period	-	-	(454,639)	(18,549)	1,620,702	1,147,514
Distribution to reserve	-	100,000	-	-	(100,000)	-
Total transactions with owners	-	100,000	-	-	(100,000)	-
Balance as of 30 September 2019	17,950,000	262,075	397,418	1,466,719	9,976,224	30,052,436
Balance as of 1 January 2018	17,950,000	52,075	822,964	1,550,810	8,021,952	28,397,801
Profit for the period	-	-	-	-	976,431	976,431
<i>Other comprehensive income:</i>	-	-	-	-	-	-
Adjustment to revaluation reserve of PPE	-	-	-	(6,162)	-	(6,162)
Net change in fair value of debt instrument at FVOCI	-	-	38,970	-	-	38,970
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	(60,428)	-	-	(60,428)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	4,291	-	-	4,291
Total comprehensive income for the period	-	-	(17,167)	(6,162)	976,431	953,102
Distribution to reserve	-	110,000	-	-	(110,000)	-
Total transactions with owners	-	110,000	-	-	(110,000)	-
Balance as of 30 September 2018	17,950,000	162,075	805,797	1,544,648	8,888,383	29,350,903

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"EVOCABANK" CLOSED JOINT STOCK COMPANY
Interim Financial Statements for the nine-month period ended
30 September 2019

Interim statement of cash flows

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
<i>Cash flows from operating activities</i>		
Profit before tax	2,000,662	1,182,646
<i>Adjustments for</i>		
Amortization and depreciation allowances	386,537	254,824
Net gains from sale of property and equipment	(1,139)	(2,161)
Net losses on disposal of other assets	(2,754)	31,790
Impairment losses	1,110,099	613,856
Interest expense on lease liabilities	16,726	-
Net losses from fair value changes of trading liabilities	(114,265)	-
Net gains from revaluation of derivative financial instruments	(24,088)	(5,936)
Net losses from revaluation of non-trading assets and liabilities	82,941	73,871
Interest receivable	(58,744)	65,165
Interest payable	512,967	378,910
<i>Cash flows from operating activities before changes in operating assets and liabilities</i>	3,908,942	2,592,965
<i>(Increase)/decrease in operating assets</i>		
Amounts due from other financial institutions	(3,198,272)	(5,826,733)
Derivative financial assets	14,584	5,936
Loans and advances to customers	(14,386,876)	(16,848,897)
Repossessed assets	197,451	109,247
Other assets	(29,059)	(47,712)
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to financial institutions	(1,924,824)	8,800,427
Amounts due to customers	13,759,116	8,375,589
Derivative financial liabilities	(13,600)	(10,128)
Other liabilities	(335,581)	(224,570)
Net cash flow from operating activities before income tax	(2,008,119)	(3,073,876)
Income tax paid	(338,744)	(260,911)
Net cash used in operating activities	(2,346,863)	(3,334,787)
<i>Cash flows from investing activities</i>		
(Purchase)/sale of investment securities	(878,333)	1,048,889
Purchase of property, equipment and intangible assets	(576,281)	(306,737)
Sale of property and equipment	6,549	5,286
Net cash (used in)/from investing activities	(1,448,065)	747,438

Interim statement of cash flows (continued)

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
<i>Cash flow from financing activities</i>		
Loans from financial institutions	1,058,404	1,962,358
Lease liabilities	(52,740)	-
Other long term loans	-	(26,000)
Net cash from financing activities	1,005,664	1,936,358
Net decrease in cash and cash equivalents	(2,789,264)	(650,991)
Cash and cash equivalents at the beginning of the period	23,088,491	18,812,252
Exchange differences on cash and cash equivalents	(64,484)	(140,496)
Effect of changes in ECL on cash and cash equivalents	(438)	-
Cash and cash equivalents at the end of the period (note 15)	20,234,305	18,020,765
 Supplementary information:		
Interest received	8,733,286	6,335,337
Interest paid	(3,746,496)	(2,703,860)

The accompanying notes are an integral part of these interim financial statements.

The interim financial statements were approved by the management on 15 October 2019.

Karen Yeghiazaryan
Chairman of Management Board



Emma Janinyan
Chief Accountant, Member of Management Board

PUBLISHED REPORT ON GENERAL ECONOMIC PRUDENTIALS

(quarterly)

Bank's name: "EVOCABANK" CJSC

Date: 01/07/2019 – 30/09/2019

(thousand AMD)

Prudentials	Actual estimated size of prudential for the Bank	Permissible limit on prudential defined by CBA	Number of breaches during the accountable period
1	2	3	4
Minimal amount of the Bank's charter capital	17,950,000	50,000	No Breach
Minimum amount of general (private) capital	32,602,353	30,000,000	No Breach
N1 Minimal ratio of the total capital to the risk-weighted assets	23.04%	12%	No Breach
N21 Minimal ratio of the highly liquid assets to the total assets	24.33%	15%	No Breach
N211 Minimal ratio of the highly liquid assets expressed by the Bank's first group currency to the total assets expressed by the Bank's first group currency	22.23%	4%	No Breach
N212 Standard of total liquidity for the Bank's second group currency, USD and euro	x	4%	No Breach
N22 Minimal ratio of the Bank's highly liquid assets to the callable liabilities	158.04%	60%	No Breach
N221 Minimal ratio of the highly liquid assets expressed by the Bank's first group currency to the callable liabilities expressed by the Bank's first group currency	96.94%	10%	No Breach
N222 Standard of current liquidity for the Bank's second group currency, USD and euro	x	10%	No Breach
N31 Maximal ratio of one borrower's risk	17.13%	20%	No Breach
N32 Maximal ratio of all big borrowers' risk	78.78%	500%	No Breach
N41 Maximal ratio of one borrower's risk related with the Bank	0.80%	5%	No Breach
N42 Maximal ratio of all big borrowers' risk related with the Bank	3.59%	20%	No Breach
Minimal ratio of mandatory reserves allocated in the RA Central Bank:			
in AMD	x	2%	No Breach
in USD	x	14% in AMD 4% in USD	No Breach
in EURO	x	14% in AMD 4% EURO	No Breach
Other currencies	x	14% in AMD 4% in USD	No Breach
Maximum ratio of the currency position and the Bank's total capital	3.27%	10%	No Breach
Maximum ratio of each currency position and the Bank's total capital, acc. to each currency:			
in USD	3.00%	7%	No Breach
in EURO	0.14%	7%	No Breach
in RUR	x	7%	No Breach
Other currencies	x	x	No Breach

Approval Date 15.10.2019

Karen Yeghiazaryan
Chairman of Management Board

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Notes to the interim financial statements

1 Principal activities

"EVOCABANK" CJSC (the "Bank") is the renamed "Prometey Bank" CJSC is a Closed Joint 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 11 branches are located in Yerevan; one branch is located in Gyumri, one branch in Abovyan and another branch is located in Vanadzor.

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

2 Armenian business environment

Armenia continues to undergo political and economic changes. The stability and development of the Armenian economy largely depends on these changes, as well as developments in the Eurasian Economic Union with which the integration of the Armenian economy continues.

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

3 Basis of preparation

3.1 Statement of compliance

The interim 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 interim 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 interim 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 land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank has initially adopted IFRS 16 *Leases* from 1 January 2019. A number of other new amendments and interpretations to standards are effective from 1 January 2019 but they do not have a material effect on the Bank's interim financial statements.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Bank, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Bank has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Bank now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

As a lessee

The Bank leases many assets, including mainly properties. As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Bank has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank presents right-of-use assets in 'property and equipment'. The carrying amounts of right-of-use assets are as below.

	<u>Buildings</u>
Balance at 1 January 2019	363,429
Balance at 30 September 2019	313,867

The Bank presents lease liabilities in 'other liabilities' in the interim statement of financial position.

Transition

Previously, the Bank classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Bank applied this approach to all leases.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

As a lessor

The Bank does not lease out any investment property, including right-of-use assets. The accounting policies applicable to the Bank as a lessor are not different from those under IAS 17 and the Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impact on financial statements is presented in note 6.

3.5 Standards and interpretations not yet applied by the Bank

At the date of authorization of these interim 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 interim financial statements from these Amendments, they are presented below.

- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective from 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective from 1 January 2020),
- Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"- Interest Rate Benchmark Reform (effective from 1 January 2020),
- Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective from 1 January 2020).

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the interim 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 is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

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 FVOCI 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 (applicable for the financial statements as of 31 December 2018). Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI are included in the fair value reserve in equity.

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

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
AMD/1 US Dollar	475.97	483.75
AMD/1 EUR	519.81	553.65

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 interim 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

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 interim 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
- 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.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade.

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 35.1.2.

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 35.1.2.

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 Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
 - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

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

4.5 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Loans and advances

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 amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.10 Leases

Operating - Bank as lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined 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 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.

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.

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

Operating - Bank as lessee - Policy applicable before 1 January 2018

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

4.11 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. Bank’s buildings and land are presented at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at 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:

	<u>Useful life (years)</u>	<u>Rate (%)</u>
Buildings	40	2.5
Computers	1-5	100-20
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 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.

4.12 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 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.

4.13 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.

4.14 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.

4.15 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.

4.16 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 and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

Liabilities arising from financial guarantees are included within provisions.

4.17 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.

4.18 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 interim 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 interim 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 interim financial statements are presented below:

Business models and SPPI

The Bank assesses of the business model within which the assets are held and assesses 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).

Impairment of financial instruments

The Bank assesses 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 35.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Lease liabilities

The Bank determines whether or not a contract contains a lease, estimates the lease term and calculates the appropriate discount rate to use (refer to note 4.11).

6 Transition disclosure

The following set out the impact of adopting IFRS 16 on the interim financial statements:

i. Impacts on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings. The impact on transition is summarised below.

	<u>1 January 2019</u>
Right-of-use assets presented in property and equipment	363,429
Lease liabilities presented in other liabilities	363,429

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6.62%.

	<u>1 January 2019</u>
Operating lease commitments as at 31 December 2018 as disclosed in the interim financial statements of the Bank	25,903
Remeasurement of previously disclosed lease commitments	370,894
Discounting effect using the incremental borrowing rate at 1 January 2019	(39,321)
Recognition exemption for leases of low-value assets, for leases with less than 12 month lease term at transition and other contracts	5,953
Lease liabilities recognised at 1 January 2019	363,429

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Bank recognised AMD 363,429 thousand of right-of-use assets and AMD 363,429 thousand of lease liabilities as at 1 January 2019. Also in relation to those leases under IFRS 16, the Bank recognised depreciation and interest costs, instead of operating lease expense. During the nine months ended 30 September 2019, the Bank recognised AMD 43,186 of depreciation charges and AMD 16,726 thousand of interest costs from these leases.

7 Interest and similar income and expense

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Loans to customers	7,247,676	5,021,946	2,574,946	1,861,049
Investment securities at FVOCI	702,473	814,988	228,500	290,280
Reverse repurchase transactions	403,707	299,758	154,266	113,639
Amounts due from financial institutions	300,240	244,177	105,209	94,182
Investment securities at amortised cost	19,488	19,633	6,519	6,642
Other	958	-	958	-
Total interest and similar income	8,674,542	6,400,502	3,070,398	2,365,792
Customer accounts	2,162,929	1,598,447	804,616	575,752
Financial institutions accounts	988,462	656,678	359,858	281,353
Repurchase transactions	544,708	266,023	182,235	98,656
Subordinated debt	324,056	324,643	108,037	109,478
Debt securities issued	222,582	236,979	73,425	77,735
Interest expense on lease liabilities	16,726	-	5,519	-
Total interest and similar expense	4,259,463	3,082,770	1,533,690	1,142,974

8 Fee and commission income and expense

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Settlement operations/transfers	370,153	232,426	159,439	74,900
Plastic cards operations	295,018	156,071	117,930	62,105
Cash operations	53,531	37,240	21,442	10,887
Other fees and commissions	52,461	35,128	18,602	10,832
Total fee and commission income	771,163	460,865	317,413	158,724
Settlement operations/transfers	229,221	117,397	91,240	44,187
Plastic cards operations	223,510	146,572	100,491	57,757
Cash/non-cash currency translation	145,590	148,947	72,920	50,559
Correspondent accounts maintenance	13,264	25,761	2,742	8,765
Other expenses	3,504	4,629	563	3,026
Total fee and commission expense	615,089	443,306	267,956	164,294

9 Net trading income

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Gains less losses from trading in foreign currencies	653,633	576,138	282,014	243,597
Fair value changes of trading liabilities	114,265	-	114,265	-
Net gains/(losses) from revaluation of derivative instruments	24,088	5,936	2,840	(1,504)
Gains less losses from foreign exchange translation of trading assets	3,382	4,296	1,287	658
Net losses from disposal of derivative instruments	(31)	(10)	-	-
Total net trading income	795,337	586,360	400,406	242,751

10 Other income

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Fines and penalties received	78,029	45,836	25,601	23,589
Income from issue of guarantees and letters of credit	32,702	32,633	12,237	10,033
Gains from grants relating to assets	1,384	1,383	346	50,125
Income from dividends	1,884	1,713	1,884	1,713
Net gain from disposal of other assets	2,754	-	754	-
Net gain on disposal of property, equipment and intangible assets	1,139	5,286	(14,425)	(375,213)
Other	18,014	12,348	3,697	(45,184)
Total other income	135,906	99,199	30,094	(334,937)

11 Impairment losses

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Cash and cash equivalents	438	-	(986)	-
Amounts due from financial institutions	91,488	113,229	61,355	(21,431)
Loans and advances to customers	1,013,204	478,447	271,412	91,399
Investment securities measured at FVOCI	5,540	44,665	23,893	(24,940)
Other assets	(571)	(27,225)	4,689	(29,089)
Other liabilities	-	4,740	-	4,740
Total impairment losses	1,110,099	613,856	360,363	20,679

12 Staff costs

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Compensations of employees, related taxes included	1,465,761	972,211	683,367	322,651
Staff training expenses	4,177	6,056	889	1,552
Other staff costs	12,965	9,101	7,646	2,292
Total staff costs	1,482,903	987,368	691,902	326,495

13 Other expenses

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Advertising costs	250,085	161,832	99,822	50,582
Repair and maintenance expenses of tangible assets	130,533	88,591	48,561	30,579
Deposit guarantee fund expenses	116,513	96,083	38,708	26,867
Communications	101,132	100,944	31,335	29,261
Foreign currency translation net losses of non-trading assets and liabilities	82,941	73,871	38,946	58,220
Maintenance expenses of intangible assets	75,933	61,411	21,992	21,770
Security	56,745	53,595	18,855	17,865
Taxes, other than income tax, duties	55,765	53,019	15,847	25,002
Office supplies	52,571	44,822	19,539	11,644
Consulting and other services	43,416	46,936	20,711	22,256
Representative and organizational expenses	38,534	58,402	12,814	25,475
Cash collection expenses	25,758	16,755	12,427	5,641
Operating lease	20,718	64,802	6,361	21,548
Business trip expenses	13,480	15,359	2,195	1,774
Financial system mediator expenses	10,024	7,958	3,341	2,682
Net loss from disposal of other assets	-	31,790	-	31,790
Net loss on disposal of property, equipment and Intangible assets	-	3,125	(343)	-
Other expenses	74,334	63,523	22,994	44,406
Total other expense	1,148,482	1,042,818	414,105	427,362

14 Income tax expense

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018	Three-Month Period Ended 30 September 2019	Three-Month Period Ended 30 September 2018
Current tax expense	420,194	334,291	223,183	142,380
Deferred tax	(21,685)	(128,076)	(25,576)	8,517
Total income tax expense	398,509	206,215	197,607	150,897

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Effective rate (%)	Nine-Month Period Ended 30 September 2018	Effective rate (%)
Profit before tax	2,000,662		1,182,646	
Income tax at the rate of 20%	400,132	20	236,529	20
Non-taxable income	(13,394)	(1)	(45,088)	(4)
Foreign exchange losses	11,771	1	14,774	1
Income tax expense	398,509	20	206,215	17

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	30 September 2019		
				Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	-	88		88	-	-
Amounts due from financial institutions	1,728	4,667	-	6,395	6,395	-
Investments in securities	(201,402)	0	115,045	(86,357)	-	(86,357)
Loans and advances to customers	233,837	33,799	-	267,636	267,636	-
Property and equipment	(362,447)	(4,233)	-	(366,680)	-	(366,680)
Other assets	(13,543)	(9,502)	-	(23,045)	-	(23,045)
Other liabilities	8,644	(3,134)	-	5,510	5,510	-
Deferred tax asset/(liability)	(333,183)	21,685	115,045	(196,453)	279,541	(476,082)

In thousand Armenian drams	2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018		
					Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	(6,921)	11,820	(3,171)	-	1,728	1,728	-
Investments in securities	(205,739)	-	-	4,337	(201,402)	-	(201,402)
Loans and advances to customers	(90,189)	301,523	22,503	-	233,837	233,837	-
Property and equipment	(380,079)	-	17,632	-	(362,447)	-	(362,447)
Other assets	(15,029)	(2,058)	3,544	-	(13,543)	-	(13,543)
Other liabilities	8,558	-	86	-	8,644	8,644	-
Deferred tax asset/(liability)	(689,399)	311,285	40,594	4,337	(333,183)	244,209	(577,392)

15 Cash and cash equivalents

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Cash on hand	9,201,189	9,227,728
Correspondent accounts with banks	6,869,036	603,559
Correspondent account with the CBA	4,164,518	13,257,204
	20,234,743	23,088,491
Less loss allowance on cash and cash equivalents	(438)	-
Total cash and cash equivalents	20,234,305	23,088,491

Correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 30 September 2019 is computed at 2% (31 December 2018: 2%) of certain obligations of the Bank denominated in Armenian drams and 18% (31 December 2018: 18%) of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 10,899,804 thousand (31 December 2018: AMD 9,421,720 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 2018 the Bank has one Bank except for the CBA (31 December 2018: no bank except for CBA), whose balances exceed 10% of equity. The gross value of these balances as of 30 September 2019 is AMD 5,964,914 thousand.

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

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
At 1 January	-	-
New financial assets originated or purchased	438	-
Balance at 30 September	438	-

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 30 September 2019, 31 December 2018 and 30 September 2018.

16 Amounts due from financial institutions

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Reverse repurchase agreements	10,505,724	7,058,330
Loans to financial institutions	4,900,363	4,088,008
Deposited funds in other banks and financial institutions	374,197	133,425
Other proceeds from financial institutions	130,765	201,928
Deposited funds with CBA	101,500	721,500
Regular way purchase agreements – foreign exchange spot transactions	1,198	-
Loans to banks	-	754,740
	16,013,747	12,957,931
Less loss allowance on amounts due from other financial institutions	(158,966)	(67,478)
Total amounts due from other financial institutions	15,854,781	12,890,453

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 2018: either).

As of 30 September 2019 the Bank has one counterparty (31 December 2018: no counterparty), whose balances exceed 10% of equity. The gross value of these balances as of 30 September 2019 is AMD 4,019,364 thousand.

As of 30 September 2019 the weighted average effective interest rates on reverse repurchase agreements is 6.1% for AMD agreements (31 December 2018: 6.6%), and 3.0% for agreements in USD, EUR and other freely convertible currencies (31 December 2018: no agreements in foreign currencies).

As of 30 September 2019 the weighted average effective interest rates on loans to financial institutions is 8.1% for AMD agreements (31 December 2018: 8.0%), and 8.3% for agreements in USD, EUR and other freely convertible currencies (31 December 2018: 8.3%).

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

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
At 1 January	67,478	-
Net remeasurement of loss allowance	42,118	39,208
New financial assets originated or purchased	49,370	74,021
Balance at 30 September	158,966	113,229

Amounts due from financial institutions are fully in Stage 1 and measured at amortised cost as at 30 September 2019, 31 December 2018 and 30 September 2018.

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

In thousand Armenian drams	30 September 2019		31 December 2018 (audited)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state securities	11,229,307	10,505,724	7,450,774	7,058,330
Total assets pledged and loans under reverse repurchase agreements	11,229,307	10,505,724	7,450,774	7,058,330

As of 31 December 2018 the Bank has securities acquired under repurchase agreements amounts to AMD 2,080,577 thousand and their liability is accounted in "Trading liabilities" on the face of the statement of financial position) which were resold to third parties.

17 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 fulfill 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	30 September 2019		
	Notional amount	Fair value of assets	Fair value of liabilities
<i>Foreign exchange contracts</i>			
Foreign exchange forward contracts	1,152,000	9,672	-
Total derivative financial instruments	1,152,000	9,672	-

In thousand Armenian drams	31 December 2018 (audited)		
	Notional amount	Fair value of assets	Fair value of liabilities
<i>Foreign exchange contracts</i>			
Foreign exchange swap contracts	357,807	168	-
Foreign exchange forward contracts	1,176,593	-	13,600
Total derivative financial instruments	1,534,400	168	13,600

18 Investment securities

In thousand Armenian drams	30 September 2019	31 December 2018 (audited)
	<i>Investment securities at amortised cost</i>	
RA state bonds at amortised cost	478,959	496,231
	478,959	496,231
<i>Investment securities measured at FVOCI</i>		
RA state bonds measured at FVOCI	1,779,277	287,411
Corporate bonds measured at FVOCI	1,632,104	1,424,265
Shares in RA organizations measured at FVOCI	42,825	42,825
Total investment securities measured at FVOCI	3,454,206	1,754,501
Debt investment securities measured at FVOCI pledged under repurchase agreements	6,384,394	7,608,062

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	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
At 1 January	46,442	-
Net remeasurement of loss allowance	(27,657)	43,094
New financial assets originated or purchased	33,197	1,571
Balance at 30 September	51,982	44,665

Investment securities are fully in Stage 1 as at 30 September 2019, 31 December 2018 and 30 September 2018.

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 investment securities at amortised cost rounds to zero, that's why it's not disclosed here.

All debt securities have fixed coupons.

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

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

In thousand Armenian drams

	30 September 2019		31 December 2018 (audited)	
	%	Maturity	%	Maturity
Government bonds	7.4-15.6	2020-2036	7.2-16.4	2019-2036
Corporate bonds	7.7-13.1	2019-2022	10.2-13.2	2019-2022

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

In thousand Armenian drams

	30 September 2019		31 December 2018 (audited)	
	%	Maturity	%	Maturity
RA state bonds	5.4	2020	5.4	2020

19 Loans and advances to customers

In thousand Armenian drams

	30 September 2019			31 December 2018 (audited)		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
<i>Mortgage and consumer lending</i>						
Mortgage	14,287,201	(22,915)	14,264,286	8,958,472	(16,353)	8,942,119
Consumer lending	23,913,252	(1,548,599)	22,364,653	16,519,614	(995,724)	15,523,890
Overdrafts	3,028,464	(282,549)	2,745,915	1,552,954	(65,855)	1,487,099
<i>Reverse repurchase agreements</i>	1,222,975	-	1,222,975	91,763	(104)	91,659
<i>Commercial lending</i>						
Construction	5,272,860	(92,315)	5,180,545	5,413,220	(86,918)	5,326,302
Industry	9,546,273	(86,873)	9,459,400	12,817,884	(320,614)	12,497,270
Trading	14,478,513	(157,005)	14,321,508	14,079,991	(228,047)	13,851,944
Other	18,092,130	(257,182)	17,834,948	18,322,228	(618,038)	17,704,190
Total	89,841,668	(2,447,438)	87,394,230	77,756,126	(2,331,653)	75,424,473

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 30 September 2019 the weighted average effective interest rates on loans and advances to customers was 17.5% for loans in AMD (31 December 2018: 13.8%) and 8.5 % for loans in USD, EUR and other freely convertible currencies (31 December 2018: 8.82%).

As of 30 September 2019 the weighted average effective interest rates on reverse repurchase agreements with customers was 7.1% (31 December 2018: 7.5%). All agreements are denominated in AMD.

As of 30 September 2019 the Bank has four borrowers and groups of related parties (31 December 2018: five), whose loan balances exceed 10% of equity. The gross value of these loans as of 30 September 2019 amounts to AMD 16,983,493 thousand (31 December 2018: AMD 20,649,984 thousand).

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 30 September 2019 and 31 December 2018 are presented as follows:

In thousand Armenian drams

	30 September 2019		31 December 2018 (audited)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds	1,337,073	1,222,975	94,417	91,763
Total securities and loans under reverse repurchase agreements	1,337,073	1,222,975	94,417	91,763

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

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019			Nine-Month Period Ended 30 September 2018	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	
<i>Mortgage and consumer lending</i>					
ECL allowance as at 1 January 2018	435,964	176,130	465,942	1,078,036	116,620
Changes due to financial assets recognised in opening balance that have:					
Transfer to 12-month ECL	3,144	(3,144)	-	-	-
Transfer to Lifetime ECL not credit-impaired	(6,919)	11,331	(4,412)	-	-
Transfer to Lifetime ECL credit-impaired	(31,475)	(155,150)	186,625	-	-
Net remeasurement of loss allowance	(289,255)	74,863	790,600	576,208	118,885
New financial assets originated or purchased	459,937	271,438	425,098	1,156,473	487,278
Recoveries	-	-	109,857	109,857	83,833
Amounts written off during the year	-	-	(1,066,511)	(1,066,511)	(76,703)
Balance at 30 September	571,396	375,468	907,199	1,854,063	729,913

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019			Nine-Month Period Ended 30 September 2018	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	
<i>Commercial lending</i>					
ECL allowance as at 1 January 2018	439,456	285,590	528,571	1,253,617	2,349,216
Changes due to financial assets recognised in opening balance that have:					
Transfer to 12-month ECL	178,396	(178,396)	-	-	-
Transfer to Lifetime ECL not credit-impaired	(374)	374	-	-	-
Transfer to Lifetime ECL credit-impaired	-	(5,324)	5,324	-	-
Net remeasurement of loss allowance	(394,892)	(68,171)	(322,776)	(785,839)	(397,607)
New financial assets originated or purchased	55,471	-	10,891	66,362	269,891
Recoveries	-	-	154,010	154,010	41,631
Amounts written off during the year	-	-	(94,775)	(94,775)	(624,202)
Balance at 30 September	278,057	34,073	281,245	593,375	1,638,929

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in note 35.1.2

As of 30 September 2019, loans to customers in amount of AMD 5,477,857 thousand (31 December 2018: AMD 3,917,976 thousand) serve as collateral for loans due to financial institutions.

Maturity analysis of loans and advances to customers are disclosed in note 33.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 34. Information on related parties is disclosed in note 30.

20 Property and equipment

In thousand Armenian
drams

	Land and buildings	Right-of- use assets	Leasehold improve- ments	Computer equip- ment	Vehicles	Office equip- ment	Capital investments on property and equipment	Intangible assets	Total
<i>Cost</i>									
At 1 January 2018 (audited)	4,913,013	-	101,504	970,840	139,849	550,845	-	210,132	6,886,183
Additions	-	-	22,544	151,175	18,334	62,047	-	44,910	299,010
Disposals	-	-	(14,604)	-	-	(120)	-	(3,005)	(17,729)
At 30 September 2018	4,913,013	-	109,444	1,122,015	158,183	612,772	-	252,037	7,167,464
At 1 January 2019	4,913,013	-	93,260	1,179,640	158,612	587,206	-	257,089	7,188,820
Adjustment on transition to IFRS 16	-	363,429	-	-	-	-	-	-	363,429
Additions	-	-	-	294,379	42,194	65,597	67,276	106,835	576,281
Disposals	-	-	-	-	(53,469)	-	-	-	(53,469)
Adjustment to ROU assets	-	(6,376)	-	-	-	-	-	-	(6,376)
At 30 September 2019	4,913,013	357,053	93,260	1,474,019	147,337	652,803	67,276	363,924	8,068,685
<i>Accumulated depreciation</i>									
At 1 January 2018 (audited)	265,231	-	58,319	478,260	69,247	343,801	-	115,369	1,330,227
Charge for the year	56,955	-	7,448	126,373	13,010	34,560	-	16,483	254,829
Disposals	-	-	(14,604)	-	-	-	-	-	(14,604)
At 30 September 2018	322,186	-	51,163	604,633	82,257	378,361	-	131,852	1,570,452
At 1 January 2019 (audited)	433,422	-	29,852	638,044	85,476	348,268	-	127,271	1,662,333
Charge for the year	87,855	43,186	7,011	178,158	9,864	36,091	-	24,372	386,537
Disposals	-	-	-	-	(48,059)	-	-	-	(48,059)
At 30 September 2019	521,277	43,186	36,863	816,202	47,281	384,359	-	151,643	2,000,811
<i>Carrying amount</i>									
At 30 September 2018	4,590,827	-	58,281	517,382	75,926	234,411	-	120,185	5,597,012
At 1 January 2019	4,479,591	363,429	63,408	541,596	73,136	238,938	-	129,818	5,889,916
At 30 September 2019	4,391,736	313,867	56,397	657,817	100,056	268,444	67,276	212,281	6,067,874

Right-of-use assets

Right-of-use assets represents office building areas leased by the bank for branch operations.

Restrictions on title of fixed assets and intangible assets

As of 30 September 2019 and 31 December 2018, 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 30 September 2019 the Bank had contractual commitments of making investments in fixed assets and intangible assets at the amount AMD 102,800 thousand (31 December 2018: AMD 8,880 thousand)

Revaluation of assets

The lands and buildings owned by the Bank were revaluated by an independent appraiser on 19 December 2014 using a combination of the market, income and cost methods resulting in a revaluation of AMD 2,022,783 thousand. Management have based their estimate on the results of the independent appraisal.

The management believes that at 30 September 2019 and 31 December 2018 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

	30 September 2019	31 December 2018 (audited)
Cost	3,456,542	3,456,542
Accumulated depreciation	(898,213)	(833,539)
Carrying amount	2,558,329	2,623,003

21 Repossessed assets

Details of confiscated assets serving as collateral for loans issued by the Bank at 30 September 2019 and 31 December are presented below.

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Real estate	2,689,598	2,881,904
Vehicles	-	2,391
Other assets	24,900	24,900
Total repossessed assets	2,714,498	2,909,195

During the period ended 30 September 2019, no assets were obtained by taking possession of collateral for loans to customers by the Bank.

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.

22 Other assets

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Receivables and other proceeds	354,090	263,835
Proceeds on cash transfers	70,467	114,075
Other financial assets	424,557	377,910
Less allowance for assets impairment	(10,260)	(12,703)
Total other financial assets	414,297	365,207
Prepayments	95,944	132,597
Materials	49,537	55,354
Tax prepayments	15,000	-
Other	47,392	46,498
Total non-financial assets	207,873	234,449
Total other assets	622,170	599,656

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

In thousand Armenian drams	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
At 1 January	12,703	22,839
Net remeasurement of loss allowance	(12,703)	(27,225)
New financial assets originated or purchased	12,132	1,752
Net amounts written off	(1,872)	4,386
Balance at 30 September	10,260	1,752

Other financial assets are fully in Stage 1 and measured at amortised cost as at 30 September 2019, 31 December 2018 and 30 September 2018.

23 Amounts due to financial institutions

In thousand Armenian drams	30 September 2019	31 December 2018 (audited)
Deposits from financial institutions	11,605,838	10,187,058
Loans from banks and other financial institutions	6,919,498	5,862,367
Repurchase agreements with banks	4,114,451	1,226,003
Repurchase agreements with the CBA	2,006,379	6,089,068
Current accounts of banks and other financial institutions	317,079	152,630
Regular way purchase agreements – foreign exchange spot transactions	82	-
Total amounts due to financial institutions	24,963,327	23,517,126

Loans from financial institutions have fixed interest rates.

As of 30 September 2019 the weighted average effective interest rates on amounts due to financial institutions were 7.0% for borrowings in AMD (31 December 2018: 7.4%), as of 30 September 2019 there are no funds received denominated in foreign currencies (31 December 2018: 5.82%).

As of 30 September 2019 the Bank had four borrowers (31 December 2018: two), whose deposit, repurchase agreements and loan balances exceed 10% of equity. The total amount of such loans as of 30 September 2019 was AMD 20,638,783 thousand (31 December 2018: AMD 10,972,132 thousand)

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2018: either).

24 Trading financial liabilities

In thousand Armenian drams	30 September 2019	31 December 2018 (audited)
Securities from financial institutions (note 16)	-	2,080,577
Total trading financial liabilities	-	2,080,577

25 Amounts due to customers

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
<i>Legal entities</i>		
Current/Settlement accounts	12,974,914	9,370,775
Time deposits	8,631,055	5,052,238
	21,605,969	14,423,013
<i>Individuals</i>		
Current/Settlement accounts	8,163,657	10,300,367
Time deposits	47,156,869	39,210,162
	55,320,526	49,510,529
Total amounts due to customers	76,926,495	63,933,542

As of 30 September 2019 time deposits of legal entities / individuals are deposits amounting to AMD 8,066,911 thousand (31 December 2018: AMD 6,579,069 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 30 September 2019 the Bank had four group of related customers (31 December 2018: one), amounts due to customers balances with whom exceed 10% of equity. The gross value of these balances as of 31 December 2018 amounted to AMD 22,787,657 thousand (31 December 2018: AMD 9,193,928 thousand).

As of 31 December 2018 the weighted average effective interest rates on amounts due to customers was 10% for deposits in AMD (31 December 2018: 10%), 5.0% for deposits in USD, EUR (31 December 2018: 5.23%) and 6.5% for deposits in RUB (31 December 2018: 6.4%).

26 Subordinated debt

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Bonds issued	5,217,638	5,558,132
Subordinated debt from individuals	4,829,835	4,908,790
Total subordinated debt	10,047,473	10,466,922

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 30).

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.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2018: nil).

27 Other liabilities

In thousand Armenian drams

	30 September 2019	31 December 2018 (audited)
Lease liabilities	321,039	-
Dividend liabilities	-	426,000
Accounts payables	303,012	165,740
Due to personnel	93,656	93,517
Total other financial liabilities	717,707	685,257
Tax payable, other than income tax	75,692	215,266
Grants related to assets	46,322	47,706
Other	15,663	7,546
Total other non-financial liabilities	137,677	270,518
Total other liabilities	855,384	955,775

Grants related to assets

In thousand Armenian drams

	Nine-Month Period Ended 30 September 2019	Nine-Month Period Ended 30 September 2018
At 1 January	47,706	49,780
Recognition of income	(1,384)	(1,383)
At 30 September	46,322	48,397

28 Equity

As at 30 September 2019 and 31 December 2018 the Bank's registered and paid-in charter capital was AMD 17,950,000 thousand. In accordance with the Bank's statutes, the share capital consists of 144,000 ordinary shares, all of which have a par value of AMD 100,000 each and 35,500 non-redeemable preference shares, all of which have a par value of AMD 100,000 each.

The respective shareholdings as of 30 September 2019 and 31 December 2018 may be specified as follows:

In thousand Armenian drams

	30 September 2019		31 December 2018 (audited)	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
"Prometey City" LLC	17,196,100	95.80	17,196,100	95.80
Other shareholders	753,900	4.20	753,900	4.20
	17,950,000	100	17,950,000	100

As at 30 September 2019 and 31 December 2018, 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.

In 2019 the shareholders of the Bank has not increased its share capital (2018: either).

As at 30 September 2019 no dividends were accrued on preferred shares (31 December 2018: 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.

29 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 interim 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 30 September 2019 and 31 December the nominal or contract amounts were:

<i>In thousand Armenian drams</i>	30 September 2019	31 December 2018 (audited)
Undrawn loan commitments	4,949,302	3,376,304
Guarantees	2,219,074	1,872,576
Letter of credit	153,994	-
Total commitments and contingent liabilities	7,322,370	5,248,880

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

The ECL relating to financial guarantees rounds to zero, that's why it's not disclosed here.

30 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 interim 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 ultimate participant of the Bank is Vazgen Gevorgyan, who is related with other shareholders of the Bank.

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

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

In thousand Armenian drams

	30 September 2019		31 December 2018 (audited)	
	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
<i>Statement of financial position</i>				
<i>Loans and advances to customers</i>	5,230,065	298,121	4,708,061	416,101
<i>Amounts due to customers</i>	7,425,471	441,900	6,498,711	1,242,044
<i>Subordinated debt</i>	4,829,835	-	4,908,789	-

Statement of profit or loss and other comprehensive income

	30 September 2019		30 September 2018	
Interest income on loans	326,028	41,429	169,301	30,598
Interest expense on deposits	(277,009)	(8,393)	(166,235)	(5,303)
Interest expense on subordinated debt	(546,638)	-	(561,622)	-
Net gains from derivative instruments	24,088	-	5,936	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams

	30 September 2019	30 September 2018
Salaries and bonuses	552,950	199,760
Total key management compensation	552,950	199,760

31 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).

32.1 Financial instruments that are not measured at fair value

As at 30 September 2019 and 31 December 2018 the estimated fair values of all financial instruments approximate their carrying amounts.

33.2 Financial instruments that are measured at fair value

The table below analyses financial instruments measured at fair value at 30 September 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

In thousand Armenian drams

	30 September 2019			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Financial and non-financial bonds	-	3,411,381	-	3,411,381
Equity instruments	-	42,825	-	42,825
Securities pledged under repurchase agreements	-	6,384,394	-	6,384,394
Derivative financial assets	-	9,672	-	9,672
Total	-	9,848,272	-	9,848,272

There are no financial liabilities measured at fair value as at 30 September 2019.

In thousand Armenian drams

	31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Financial and non-financial bonds	990,003	721,673	-	1,711,676
Equity instruments	-	42,825	-	42,825
Securities pledged under repurchase agreements	-	7,608,062	-	7,608,062
Derivative financial assets	-	168	-	168
Total	990,003	8,372,728	-	9,362,731
<i>Financial liabilities</i>				
Trading financial liabilities	-	2,080,577	-	2,080,577
Derivative financial liabilities	-	13,600	-	13,600
Total	-	2,094,177	-	2,094,177
Net fair value	990,003	6,278,551	-	7,268,554

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.

32 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

	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the statement of financial position	Net amount of financial liabilities in the statement of financial position	30 September 2019		
				Related amounts that are not offset in the statement of financial position		
				Financial instruments in the statement of financial position	Cash collateral received	Net
<i>Financial assets</i>						
Reverse repurchase agreements (note 16, 19)	11,728,699	-	11,728,699	11,728,699	-	-
<i>Financial liabilities</i>						
Repurchase agreements (note 18, 23)	6,120,830	-	6,120,830	6,120,830	-	-

In thousand Armenian drams

	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the statement of financial position	Net amount of financial liabilities in the statement of financial position	31 December 2018 (audited)		
				Related amounts that are not offset in the statement of financial position		
				Financial instruments in the statement of financial position	Cash collateral received	Net
<i>Financial assets</i>						
Reverse repurchase agreements (note 16, 19)	7,150,093	-	7,150,093	7,150,093	-	-
<i>Financial liabilities</i>						
Repurchase agreements (note 18, 23)	7,315,071	-	7,315,071	7,608,062	-	(292,991)

33 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 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams

30 September 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	20,234,305	-	20,234,305	-	-	-	20,234,305
Amounts due from financial institutions	11,144,595	4,369,645	15,514,240	340,541	-	340,541	15,854,781
Derivative financial assets	-	2,424	2,424	7,248	-	7,248	9,672
Loans and advances to customers	4,109,505	21,978,267	26,087,772	43,701,517	17,604,941	61,306,458	87,394,230
Investment securities							
- Investment securities at fair value through other comprehensive income including pledged securities	423,834	696,358	1,120,192	6,040,759	2,677,649	8,718,408	9,838,600
- Investments securities at amortised cost	-	478,959	478,959	-	-	-	478,959
Other assets	414,297	-	414,297	-	-	-	414,297
	36,326,536	27,525,653	63,852,189	50,090,065	20,282,590	70,372,655	134,224,844
Liabilities							
Amounts due to financial institutions	5,865,819	11,872,152	17,737,971	3,854,344	3,371,012	7,225,356	24,963,327
Amounts due to customers	24,812,431	26,279,922	51,092,353	25,830,349	3,793	25,834,142	76,926,495
Subordinated debt	-	3,208,533	3,208,533	2,079,240	4,759,700	6,838,940	10,047,473
Other liabilities	392,680	55,361	448,041	184,420	85,246	269,666	717,707
	31,070,930	41,415,968	72,486,898	31,948,353	8,219,751	40,168,104	112,655,002
Net position	5,255,606	(13,890,315)	(8,634,709)	18,141,712	12,062,839	30,204,551	21,569,842
Accumulated gap	5,255,606	(8,634,709)		9,507,003	21,569,842		

In thousand Armenian drams

31 December 2018 (audited)

	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	23,088,491	-	23,088,491	-	-	-	23,088,491

In thousand Armenian drams

31 December 2018 (audited)

	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
Amounts due from financial institutions	8,093,830	4,257,371	12,351,201	539,252	-	539,252	12,890,453
Derivative financial assets	168	-	168	-	-	-	168
Loans and advances to customers	1,853,446	18,893,273	20,746,719	40,183,526	14,494,228	54,677,754	75,424,473
Investment securities							
- Investment securities at fair value through other comprehensive income	58,912	1,110,589	1,169,501	585,000	-	585,000	1,754,501
- Investments securities at amortised cost	5,024	7,457	12,481	483,750	-	483,750	496,231
- Securities pledged under repurchase agreements	565,720	342,342	908,062	4,900,000	1,800,000	6,700,000	7,608,062
Other assets	363,311	1,896	365,207	-	-	-	365,207
	34,028,902	24,612,928	58,641,830	46,691,528	16,294,228	62,985,756	121,627,586
<i>Liabilities</i>							
Amounts due to financial institutions	8,888,241	6,924,948	15,813,189	5,606,381	2,097,556	7,703,937	23,517,126
Trading financial liabilities	2,080,577	-	2,080,577	-	-	-	2,080,577
Amounts due to customers	21,007,767	23,862,223	44,869,990	19,063,126	426	19,063,552	63,933,542
Derivative financial liabilities	-	4,600	4,600	9,000	-	9,000	13,600
Subordinated debt	21,610	71,312	92,922	5,536,500	4,837,500	10,374,000	10,466,922
Other liabilities	679,257	6,000	685,257	-	-	-	685,257
	32,677,452	30,869,083	63,546,535	30,215,007	6,935,482	37,150,489	100,697,024
Net position	1,351,450	(6,256,155)	(4,904,705)	16,476,521	9,358,746	25,835,267	20,930,562
Accumulated gap	1,351,450	(4,904,705)		11,571,816	20,930,562		

34 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.

34.1 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.

35.1.1 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		30 September 2019		
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Cash and cash equivalents</i>				
High	20,234,743	-	-	20,234,743
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	20,234,743	-	-	20,234,743
Loss allowance	(438)	-	-	(438)
Net carrying amount	20,234,305	-	-	20,234,305
<i>Amounts due from banks and other financial institutions</i>				
High	16,013,747	-	-	16,013,747
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	16,013,747	-	-	16,013,747
Loss allowance	(158,966)	-	-	(158,966)
Net carrying amount	15,854,781	-	-	15,854,781
<i>Loans and advances to mortgage and consumer customers</i>				
High grade	39,815,891	-	-	39,815,891
Standard grade	685,986	72,876	-	758,862
Substandard grade	-	472,277	-	472,277
Non-performing grade	-	-	1,404,862	1,404,862
Gross carrying amount	40,501,877	545,153	1,404,862	42,451,892
Loss allowance	(571,396)	(375,468)	(907,199)	(1,854,063)
Net carrying amount	39,930,481	169,685	497,663	40,597,829
<i>Loans and advances to commercial customers</i>				
High grade	42,109,039	-	-	42,109,039
Standard grade	10,252	3,455,973	-	3,466,225
Substandard grade	-	61,568	-	61,568
Non-performing grade	-	-	1,752,944	1,752,944
Gross carrying amount	42,119,291	3,517,541	1,752,944	47,389,776
Loss allowance	(278,057)	(34,073)	(281,245)	(593,375)
Net carrying amount	41,841,234	3,483,468	1,471,699	46,796,401

In thousand Armenian drams

30 September 2019

Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Debt investment securities at amortised cost</i>				
High	478,959	-	-	478,959
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	478,959	-	-	478,959
Loss allowance	-	-	-	-
Net carrying amount	478,959	-	-	478,959
<i>Debt investment securities at FVOCI including the pledged securities</i>				
High	9,838,600	-	-	9,838,600
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount-fair value	9,838,600	-	-	9,838,600
<i>Other financial assets</i>				
High	424,557	-	-	424,557
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	424,557	-	-	424,557
Loss allowance	(10,260)	-	-	(10,260)
Net carrying amount	414,297	-	-	414,297
<i>Loan commitments and financial guarantee</i>				
High grade	7,207,037	-	-	7,207,037
Standard grade	3,913	108,408	-	112,321
Substandard grade	-	1,170	-	1,170
Non-performing grade	-	-	1,842	1,842
	7,210,950	109,578	1,842	7,322,370

In thousand Armenian drams

31 December 2018 (audited)

Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Cash and cash equivalents</i>				
High	23,088,491	-	-	23,088,491
Standard	-	-	-	-
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	23,088,491	-	-	23,088,491
Loss allowance	-	-	-	-
Net carrying amount	23,088,491	-	-	23,088,491
<i>Amounts due from banks and other financial institutions</i>				
High	-	-	-	-
Standard	12,957,931	-	-	12,957,931
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	12,957,931	-	-	12,957,931
Loss allowance	(67,478)	-	-	(67,478)
Net carrying amount	12,890,453	-	-	12,890,453
<i>Loans and advances to mortgage and consumer customers</i>				
High grade	25,866,739	-	-	25,866,739
Standard grade	215,239	41,576	-	256,815
Substandard grade	-	232,512	-	232,512
Non-performing grade	-	-	766,737	766,737
Gross carrying amount	26,081,978	274,088	766,737	27,122,803
Loss allowance	(435,964)	(176,130)	(465,942)	(1,078,036)
Net carrying amount	25,646,014	97,958	300,795	26,044,767
<i>Loans and advances to commercial customers</i>				
High grade	43,901,441	-	-	43,901,441
Standard grade	18,047	1,452,448	-	1,470,495
Substandard grade	-	37,450	-	37,450
Non-performing grade	-	-	5,223,937	5,223,937
Gross carrying amount	43,919,488	1,489,898	5,223,937	50,633,323
Loss allowance	(439,456)	(285,590)	(528,571)	(1,253,617)
Net carrying amount	43,480,032	1,204,308	4,695,366	49,379,706

In thousand Armenian drams

31 December 2018 (audited)

Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Debt investment securities at amortised cost</i>				
High	-	-	-	-
Standard	496,231	-	-	496,231
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	496,231	-	-	496,231
Loss allowance	-	-	-	-
Net carrying amount	496,231	-	-	496,231
<i>Debt investment securities at FVOCI including the pledged securities</i>				
High	-	-	-	-
Standard	9,362,563	-	-	9,362,563
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount-fair value	9,362,563	-	-	9,362,563
<i>Other financial assets</i>				
High	-	-	-	-
Standard	377,910	-	-	377,910
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	377,910	-	-	377,910
Loss allowance	(12,703)	-	-	(12,703)
Net carrying amount	365,207	-	-	365,207
<i>Loan commitments and financial guarantee</i>				
High grade	5,205,679	-	-	5,205,679
Standard grade	3,434	39,081	-	42,515
Substandard grade	-	364	-	364
Non-performing grade	-	-	322	322
	5,209,113	39,445	322	5,248,880

Credit exposures arising from derivative transactions refer to note 17.

35.1.2 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 forbore performing loan or forbore 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 unlikelihood 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 B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was 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 B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

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

Credit risk grades

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

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 unlikelihood 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 forbore 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 forbore 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 forbore 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 forbore 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 forbore 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 forbore performing exposures (excluding any grace period). Once an asset has been classified as forbore performing exposures, it will remain forbore for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forbore 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 forbore contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

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

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

- GDP growth
- Net current transfers from abroad (current US dollar)
- Unemployment
- Bank's nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

35.1.3 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 19.

35.1.4 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 of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams

	<u>30 September 2019</u>	<u>31 December 2018 (audited)</u>
Real estate	53,517,009	40,735,716
Movable property and other fixed assets	3,928,142	5,690,036
Current accounts and deposits	8,531,521	9,415,984
Guarantees	2,010,201	4,791,195
Precious metals, gold	1,038,377	1,016,118
RA state bonds	1,222,975	91,790
Other	-	5,824,229
Unsecured	19,593,443	10,191,058
Total loans and advances, gross	<u>77,756,126</u>	<u>77,756,126</u>

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.

35.2 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.

35.2.1 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 30 September 2019 and 31 December 2018. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets at 30 September 2019 and 31 December 2018 for the effects of the assumed changes in interest rates.

In thousand Armenian drams	Change in basis points	Sensitivity of net interest income	31 December 2018 (audited)	
			30 September 2019	
Currency			Sensitivity of equity	Sensitivity of equity
AMD	+1	-	(303,987)	(265,378)
AMD	(1)	-	303,987	289,301

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 30 September 2019 and 31 December 2018 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	30 September 2019		31 December 2018 (audited)	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
Freely convertible currencies	+5	17,459	+5	93,538
Non-freely convertible currencies	+5	22,625	+5	(8,615)

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

In thousand Armenian drams	30 September 2019			
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	3,210,541	15,600,660	1,423,104	20,234,305
Amounts due from financial institutions	14,025,407	1,755,842	73,532	15,854,781
Investment securities	9,124,572	1,192,987	-	10,317,559
Loans to customers	37,479,527	49,766,713	147,990	87,394,230
Other assets	182,035	190,266	41,996	414,297
Total	64,022,082	68,506,468	1,686,622	134,215,172
Liabilities				
Amounts due to financial institutions	24,749,866	209,793	3,668	24,963,327
Amounts due to customers	19,219,570	56,634,148	1,072,777	76,926,495
Subordinated debt	-	10,047,473	-	10,047,473
Other liabilities	436,476	123,553	157,678	717,707
Total	44,405,912	67,014,967	1,234,123	112,655,002
Total effect of derivative financial instruments				
Net position as of 30 September 2019	20,768,170	349,173	452,499	21,569,842
Commitments and contingent liabilities as of 30 September 2019	3,840,818	3,460,039	21,513	7,322,370

In thousand Armenian drams

	31 December 2018 (audited)			
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
<i>Assets</i>				
Cash and cash equivalents	10,653,274	11,674,161	761,056	23,088,491
Amounts due from financial institutions	11,320,681	1,479,967	89,805	12,890,453
Investment securities	9,362,563	496,231	-	9,858,794
Loans to customers	24,319,225	50,851,289	253,959	75,424,473
Other assets	58,746	238,993	67,468	365,207
Total	55,714,489	64,740,641	1,172,288	121,627,418
<i>Liabilities</i>				
Amounts due to financial institutions	23,323,266	193,337	523	23,517,126
Trading financial liabilities	2,080,577	-	-	2,080,577
Amounts due to customers	11,952,492	50,995,032	986,018	63,933,542
Subordinated debt	-	10,466,922	-	10,466,922
Other liabilities	660,462	24,563	232	685,257
Total	38,016,797	61,679,854	986,773	100,683,424
Total effect of derivative financial instruments	1,534,400	(1,190,025)	(357,807)	(13,432)
Net position as of 31 December 2018	19,232,092	1,870,762	(172,292)	20,930,562
Commitments and contingent liabilities as of 31 December 2018	2,845,790	2,399,893	3,197	5,248,880

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

35.3 Liquidity risk

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

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

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

The indicators as of 30 September 2019 and 31 December 2018 are as follows:

	<u>30 September 2019, %</u>	<u>31 December 2018, %</u>
N2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	24.33	22.93
N2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	158.04	139.67

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 30 September 2019 and 31 December 2018 based on contractual undiscounted repayment obligations. Refer to note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the 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

30 September 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
<i>Non-derivative financial liabilities</i>						
Amounts due to financial institutions	5,895,723	12,596,076	5,257,537	3,836,360	27,585,696	24,963,327
Amounts due to customers	24,818,528	27,194,924	28,897,655	6,603	80,917,710	76,926,495
Subordinated debt	-	3,568,132	3,793,436	5,681,230	13,042,798	10,047,473
Other liabilities	393,437	63,144	208,600	91,089	756,270	717,707
Total undiscounted non-derivative financial liabilities	31,107,688	43,422,276	38,157,228	9,615,282	122,302,474	112,655,002
<i>Derivative financial instruments</i>						
<i>Foreign exchange forward contracts</i>						
Inflow	-	383,200	768,800	-	1,152,000	1,152,000
Outflow	-	(380,776)	(761,552)	-	(1,142,328)	(1,142,328)
Commitments and contingent liabilities	4,949,302	632,505	1,740,563	-	7,322,370	7,322,370

In thousand Armenian drams

31 December 2018 (audited)

	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
<i>Non-derivative financial liabilities</i>						
Amounts due to financial institutions	8,895,684	7,528,321	8,203,894	3,651,468	28,279,367	23,517,126
Trading financial liabilities	2,080,577	-	-	-	2,080,577	2,080,577
Amounts due to customers	21,010,940	24,730,161	22,011,266	520	67,752,887	63,933,542
Subordinated debt	23,282	433,711	7,280,215	6,537,765	14,274,973	10,466,922
Other liabilities	679,257	6,000	-	-	685,257	685,257
Total undiscounted non-derivative financial liabilities	32,689,740	32,698,193	37,495,375	10,189,753	113,073,061	100,683,424

Derivative financial instruments

In thousand Armenian drams

31 December 2018 (audited)

	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
<i>Foreign exchange forward contracts</i>						
Inflow	-	382,400	1,152,000	-	1,534,400	1,534,400
Outflow	-	(387,000)	(1,161,000)	-	(1,548,000)	(1,548,000)
<i>Foreign exchange swap contracts</i>						
Inflow	357,975	-	-	-	357,975	357,975
Outflow	(357,807)	-	-	-	(357,807)	(357,807)
Commitments and contingent liabilities	3,437,851	89,354	1,721,675	-	5,248,880	5,248,880

35.4 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.

35 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

30 September 2019

	Loans from financial institutions	Subordinated debt	Lease liabilities	Total
As of 1 January 2019	5,862,367	10,466,922	-	16,329,289
Cash-flows	1,058,404	-	(52,740)	1,005,664
Repayments	(62,082,704)	-	(52,740)	(62,135,444)
Amounts received	63,141,108	-	-	63,141,108
Non-cash	(1,273)	(419,449)	373,779	(46,943)
Transition to IFRS 16	-	-	363,429	363,429
Adjustment to lease liabilities	-	-	(6,376)	(6,376)
Foreign exchange gains	-	(418,476)	-	(418,476)
Accrued interest	(1,273)	(973)	16,726	14,480
As of 30 September 2019	6,919,498	10,047,473	321,039	17,288,010

In thousand Armenian drams

30 September 2018

	Loans from financial institutions	Subordinated debt	Other long term loans	Total
As of 1 January 2018	4,446,962	10,735,989	26,719	15,209,670
Cash-flows	1,962,358	-	(26,000)	1,936,358
Repayments	(64,526,261)	-	(26,000)	(64,552,261)
Amounts received	66,488,619	-	-	66,488,619
Non-cash	(23,526)	(220,947)	(719)	(245,192)
Foreign exchange gains	54,071	(221,007)	-	(166,936)
Accrued interest	(77,597)	60	(719)	(78,256)
As of 30 September 2018	6,385,794	10,515,042	-	16,900,836

36 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, policies and processes from the previous years.

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

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

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 30 September 2019 and 31 December 2018 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.

The Bank has complied with all externally imposed capital requirements through the period. With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2004 the Board of RA the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2018.

In thousand Armenian drams	30 September 2019	31 December 2018
Tier 1 capital	25,357,377	24,492,648
Tier 2 capital	7,244,977	8,718,464
Total regulatory capital	32,602,353	33,211,112
Risk-weighted assets	141,520,016	122,913,072
Capital adequacy ratio	23.04%	27.02%