

"EVOCABANK" CLOSED JOINT STOCK COMPANY

Interim Financial Statements for the period ended

31/03/2020

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Interim statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Interest and similar income	6	3,663,713	2,699,829
Interest and similar expense	6	(1,712,384)	(1,303,335)
Net interest income		1,951,329	1,396,494
Fee and commission income	7	257,508	212,785
Fee and commission expense	7	(197,947)	(149,733)
Net fee and commission income		59,561	63,052
Net trading income	8	191,524	141,443
Other operating income	9	147,937	60,529
Other operating expenses	10	(108,179)	(42,455)
Operating income		2,242,172	1,619,063
Impairment losses	11	(596,245)	(443,459)
Staff costs	12	(457,500)	(393,077)
Depreciation of property and equipment and amortization of intangible assets	21	(130,653)	(106,115)
Other general administrative expenses	13	(376,221)	(258,502)
Profit before income tax		681,553	417,910
Income tax expense	14	(124,757)	(80,808)
Profit for the period		556,796	337,102
Other comprehensive income			
<i>Items that will not 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		48,687	(109,000)
Changes in allowance for expected credit losses		21,824	-
Income tax related to the above		(8,764)	21,800
Net income/(loss) on financial investments at fair value through other comprehensive income		61,747	(87,200)
Total other comprehensive income/(loss) for the period, net of tax		61,747	(87,200)
Total comprehensive income for the period		618,543	249,902

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

The interim financial statements were approved by the management on 20 April 2020

Karen Yeghiazaryan

Chairman of Management Board




Emma Janinyan

Chief Accountant, Member of Management Board



Interim statement of financial position

In thousand Armenian drams

			31 December 2019
	Notes	31 March 2020	(audited)
Assets			
Cash and cash equivalents	15	16,000,427	26,030,924
Amounts receivable under reverse repurchase agreements	16	10,117,203	16,140,569
Loans and advances to banks	17	1,466,333	1,120,096
Derivative financial assets	18	-	1,280
Investment securities	19		
- Investment securities at fair value through other comprehensive income		8,259,026	1,882,145
- Investment securities at amortised cost		506,111	489,177
- Investment securities at FVOCI pledged under repurchase agreements		2,739,203	8,840,490
Loans and advances to customers	20	113,089,310	101,556,815
Property, equipment and intangible assets	21	5,910,353	5,967,151
Deferred income tax asset	14	-	31,283
Reposessed assets	22	2,243,932	2,129,642
Other assets	23	520,840	927,935
Total assets		160,852,738	165,117,507
Liabilities and equity			
Liabilities			
Deposits and balances from banks	24	2,785,407	4,096,505
Amounts payable under repurchase agreements	25	3,178,935	12,713,336
Amounts due to customers	26	105,719,593	100,127,629
Derivative financial liabilities	18	58,728	560
Other borrowings	27	6,430,673	6,097,777
Subordinated liabilities	28	10,671,956	10,261,764
Current income tax liabilities		227,554	310,307
Deferred income tax liabilities	14	102,238	-
Other liabilities	29	1,470,923	1,921,441
Total liabilities		130,646,007	135,529,319
Equity			
Share capital	30	17,950,000	17,950,000
Statutory general reserve		262,075	262,075
Revaluation reserve		1,480,108	1,488,560
Fair value reserve		248,114	186,367
Retained earnings		10,266,434	9,701,186
Total equity		30,206,731	29,588,188
Total liabilities and equity		160,852,738	165,117,507

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Chairman of Management Board




Emma Janinyan

Chief Accountant, Member of Management Board



Interim statement of changes in equity

In thousand Armenian drams

	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve	Fair value reserve	Total
Balance as of 1 January 2020	17,950,000	262,075	186,367	1,488,560	9,701,186	29,588,188
Profit for the period	-	-	-	-	556,796	556,796
<i>Other comprehensive income</i>						
Adjustment to reserve on amortization or disposal of property and equipment	-	-	-	(8,452)	8,452	-
Net change in fair value during the period	-	-	48,687	-	-	48,687
Changes in allowance for expected credit losses	-	-	21,824	-	-	21,824
Income tax related to the above	-	-	(8,764)	-	-	(8,764)
Total comprehensive income for the period	-	-	61,747	(8,452)	565,248	618,543
Balance as of 31 March 2020	17,950,000	262,075	248,114	1,480,108	10,266,434	30,206,731
Balance as of 1 January 2019	17,950,000	162,075	805,615	1,485,267	8,939,193	29,342,150
Profit for the period	-	-	-	-	337,102	337,102
<i>Other comprehensive income</i>						
Net change in fair value during the period	-	-	(109,000)	-	-	(109,000)
Income tax related to the above	-	-	21,800	-	-	21,800
Total comprehensive income for the period	-	-	(87,200)	-	337,102	249,902
Balance as of 31 March 2019	17,950,000	162,075	718,415	1,485,267	9,276,295	29,592,052

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Emma Janinyan

Chief Accountant, Member of Management Board



Interim statement of cash flows

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
<i>Cash flows from operating activities</i>		
Profit before tax	681,553	417,910
<i>Adjustments for</i>		
Amortization and depreciation allowances	130,653	106,115
Net losses on disposal of other assets	2,984	343
Impairment losses	596,245	443,459
Interest expense on lease liabilities	9,524	15,413
Net losses from revaluation of derivative financial instruments	59,448	8,608
Net gains from revaluation of non-trading assets and liabilities	(101,539)	(22,473)
Interest receivable	(168,282)	(206,786)
Interest payable	1,135,376	278,193
Cash flows from operating activities before changes in operating assets and liabilities	2,345,962	1,040,782
<i>(Increase)/decrease in operating assets</i>		
Amounts receivable under reverse repurchase agreements	6,084,006	(418,394)
Loans and advances to banks	(322,189)	1,421,843
Derivative financial assets	(58,168)	(8,608)
Loans and advances to customers	(9,322,515)	(6,639,669)
Reposessed assets	(54,944)	33,081
Other assets	393,045	274,192
<i>Increase/(decrease) in operating liabilities</i>		
Deposits and balances from banks	(1,357,092)	18,719
Amounts payable under repurchase agreements	(9,530,303)	5,396,828
Amounts due to customers	1,573,656	(1,240,650)
Derivative financial liabilities	58,168	8,608
Other liabilities	(397,186)	(296,074)
Net cash flow used in operating activities before income tax	(10,587,560)	(409,342)
Income tax paid	(82,753)	(72,202)
Net cash flow used in operating activities	(10,670,313)	(481,544)
<i>Cash flows from investing activities</i>		
Sale of investment securities	11,234	36,701
Purchase of property, equipment and intangible assets	(73,855)	(373,610)
Net cash flow used in investing activities	(62,621)	(336,909)
<i>Cash flow from financing activities</i>		
Other borrowings	326,911	305,584
Lease liabilities	(25,080)	(16,980)
Net cash flow from financing activities	301,831	288,604
Net decrease in cash and cash equivalents	(10,431,103)	(529,849)
Cash and cash equivalents at the beginning of the period	26,030,924	23,088,491
Exchange differences on cash and cash equivalents	400,630	179,337
Effect of changes in ECL on cash and cash equivalents	(24)	(1,359)
Cash and cash equivalents at the end of the period (note 15)	16,000,427	22,736,620
<i>Supplementary information:</i>		
Interest received	3,495,431	2,493,043
Interest paid	(567,484)	(1,009,729)

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The interim financial statements were approved by the management on 20 April 2020

Karen Yeghiazaryan



Chairman of Management Board



Emma Janinyan



Chief Accountant, Member of Management Board

Report on general economic prudentials(quarterly)

01/01/20-31/03/20

In thousand Armenian drmas

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 core capital	17,950,000	50,000	No Breach
Minimum amount of total capital	32,094,102	30,000,000	No Breach
N1 ¹ Minimal ratio of the core capital to the risk-weighted assets	15.67%	10%	No Breach
N1 ² Minimal ratio of the total capital to the risk-weighted assets	18.81%	12%	No Breach
N2 ¹ Minimal ratio of the highly liquid assets to the total assets	20.08%	15%	No Breach
N2 ¹¹ 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	15.68%	4%	No Breach
N2 ¹² Standard of total liquidity for the Bank's second group currency, USD and euro	X	4%	No Breach
N2 ² Minimal ratio of the Bank's highly liquid assets to the callable liabilities	127.13%	60%	No Breach
N2 ²¹ 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	77.40%	10%	No Breach
N2 ²² Standard of current liquidity for the Bank's second group currency, USD and euro	X	10%	No Breach
N3 ¹ Maximal ratio of one borrower's risk	14.81%	20%	No Breach
N3 ² Maximal ratio of all big borrowers' risk	84.56%	500%	No Breach
N4 ¹ Maximal ratio of one borrower's risk related with the Bank	0.89%	5%	No Breach
N4 ² Maximal ratio of all big borrowers' risk related with the Bank	3.47%	20%	No Breach
Minimal ratio of mandatory reserves allocated in the RA Central Bank:			
in AMD	X	2%	No Breach
		12% in AMD	No Breach
in USD	X	6% in USD	No Breach
		12% in AMD	No Breach
in EUR	X	6% in EUR	No Breach
		12% in AMD	No Breach
Other currencies	X	6% in USD	No Breach
Maximum ratio of the currency position and the Bank's total capital	3.95%	10%	No Breach
Maximum ratio of each currency position and the Bank's total capital, acc. to each currency:			
in USD	3.85%	7%	No Breach
in EUR	X	7%	No Breach
in RUR	X	7%	No Breach
Other currencies	0.10%	7%	No Breach

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20 April 2020

Karen Yeghiazaryan



Chairman of Management Board



Emma Janinyan



Chief Accountant, Member of Management Board

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.

Number of employees as at the reporting date is 333.

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

2 Armenian business environment

Armenia continues to undergo political and economic changes and development of tax and legal systems. The stability and development of the Armenian economy largely depends on these changes.

The Government has reaffirmed its commitment to effective governance, which includes anti-corruption efforts, transparency and accountability. The sectors of trade, services and industry have played a key role in the economy.

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 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 References to the Conceptual Framework in IFRS Standards (effective from 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (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),
- 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).

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 2019). 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 period-end used by the Bank in the preparation of the interim financial statements are as follows:

	31 March 2020	31 December 2019 (audited)
AMD/1 US Dollar	504.47	479.7
AMD/1 EUR	553.45	537.26

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when 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 36.1.2.

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

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

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

- PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position

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 Loans and advances to banks

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

Measurement and recognition

Bank as lessor

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.

Bank as 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.

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:

	Useful life (years)	Rate (%)
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 36.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

6 Interest and similar income and expense

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Loans to customers	3,194,392	2,316,094
Reverse repurchase transactions	223,732	122,749
Investment securities at FVOCI	216,090	246,718
Loans and advances to banks	21,878	16,088
Investment securities at amortised cost	6,510	6,539
Other	1,111	(8,359)
Total interest and similar income	3,663,713	2,699,829
Customer accounts	1,222,551	850,414
Repurchase transactions	172,514	159,076
Subordinated debt	108,254	108,071
Other borrowings	98,099	69,777
Debt securities issued	72,960	75,031
Deposits and balances from banks	28,482	25,553
Interest expense on lease liabilities	9,524	15,413
Total interest and similar expense	1,712,384	1,303,335

7 Fee and commission income and expense

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Plastic cards operations income	140,340	84,094
Settlement operations/transfers	73,088	96,245
Cash operations	17,328	14,751
Guarantees and letters of credit issuance	13,706	9,303
Cash/non-cash currency translation	5,911	4,577
Other fees and commissions	7,135	3,815
Total fee and commission income	257,508	212,785
Plastic cards operations	133,472	52,254
Cash/non-cash currency translation	30,130	52,239
Settlement operations/transfers	27,548	44,190
Guarantees and letters of credit issuance	933	-
Other expenses	5,864	1,050
Total fee and commission expense	197,947	149,733

8 Net trading income

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Gain less loss from trading in foreign currencies	248,113	149,627
Net gain/(loss) from revaluation of derivative instruments	(59,448)	(8,608)
Gain less loss from trading of FVTPL assets	2,880	438
Net loss from disposal of derivative instruments	(21)	(14)
Total net trading income	191,524	141,443

9 Other operating income

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Foreign currency translation net gain of non-trading assets and liabilities	101,539	22,473
Fines and penalties received	28,694	28,143
Gains from grants relating to assets	173	345
Other	17,531	9,568
Total other operating income	147,937	60,529

10 Other operating expenses

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Deposit guarantee fund expenses	56,969	32,237
Cash collection expenses	6,035	-
Financial system mediator expenses	4,334	3,341
Net loss from disposal of other assets	2,984	343
Other	37,857	6,534
Total other operating expenses	108,179	42,455

11 Impairment losses

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Cash and cash equivalents	24	1,359
Amounts receivable under reverse repurchase agreements	3,730	-
Loans and advances to banks	10,072	(8,818)
Loans and advances to customers	550,684	475,704
Investment securities at FVOCI	21,824	(14,368)
Other assets	931	(10,418)
Financial guarantee contracts	8,980	-
Total impairment losses	596,245	443,459

12 Staff costs

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Compensation of employees, related taxes included	432,372	387,829
Staff training expenses	1,213	2,541
Other staff costs	23,915	2,707
Total staff costs	457,500	393,077

13 Other general administrative expenses

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Advertising costs	104,784	54,886
Maintenance expenses of intangible assets	47,796	25,162
Representative and organizational expenses	40,836	4,781
Repair and maintenance expenses of tangible assets	37,993	43,273
Office supplies	24,707	14,253
Security	19,261	18,945
Communications	18,695	26,986
Taxes, other than income tax, duties	12,247	14,414
Operating lease	8,661	7,815
Consulting and other services	5,361	17,453
Business trip expenses	1,741	6,515
Other	54,139	24,019
Total other general administrative expenses	376,221	258,502

14 Income tax expense

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Current tax expense	-	107,761
Deferred tax	124,757	(26,953)
Total income tax expense	124,757	80,808

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

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

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Effective rate (%)	Three-Month Period Ended 31 March 2019	Effective rate (%)
Profit before income tax	681,553		417,910	
Income tax at the rate of 20%	122,680	18.0	83,582	20.0
(Non-taxable income)/non-deductable expenses	9,653	1.4	(13,751)	(3.3)
Foreign exchange losses	(7,576)	(1.1)	10,977	2.6
Total income tax expense	124,757	18.3	80,808	19.3

The applicable deferred tax rate for the Bank is 18% (2019: 18%). Deferred tax calculation in respect of temporary differences:

In thousand Armenian
drams

	1 January 2020	Recognized in profit or loss	Recognized in other comprehensive income	Net	31 March 2020 Deferred income tax asset	Deferred income tax liabilities
Cash and cash equivalents	(783)	1,208	-	425	425	-
Amounts receivable under reverse repurchase agreements	(29,044)	30,080	-	1,036	-	-
Loans and advances to banks	(4,581)	(2,996)	-	(7,577)	-	(7,577)
Investment securities	(34,788)	-	(8,764)	(43,552)	-	(43,552)
Loans and advances to customers	321,848	(78,322)	-	243,526	243,526	-
Property, equipment and intangible assets	(316,178)	(4,986)	-	(321,164)	-	(321,164)
Other assets	(2,146)	(17,378)	-	(19,524)	-	(19,524)
Amounts due to customers	2,605	(2,605)	-	-	-	-
Other liabilities	94,350	(78,673)	-	15,677	15,677	-
Tax loss carry-forward	-	28,915	-	28,915	-	-
Deferred tax asset/(liability)	31,283	(124,757)	(8,764)	(102,238)	259,628	(391,817)

In thousand Armenian
drams

	1 January 2019	Recognized in profit or loss	Recognized in other comprehensive income	Net	31 December 2019 (audited) Deferred income tax asset	Deferred income tax liabilities
Cash and cash equivalents	-	(783)	-	(783)	-	(783)
Amounts receivable under reverse repurchase agreements	-	(29,044)	-	(29,044)	-	(29,044)
Loans and advances to banks	1,728	(6,309)	-	(4,581)	-	(4,581)
Investment securities	(201,404)	-	166,616	(34,788)	-	(34,788)
Loans and advances to customers	233,837	88,011	-	321,848	321,848	-
Property, equipment and intangible assets	(362,447)	9,963	36,306	(316,178)	-	(316,178)
Other assets	(13,543)	11,397	-	(2,146)	-	(2,146)
Amounts due to customers	-	2,605	-	2,605	2,605	-
Other liabilities	8,646	85,704	-	94,350	94,350	-
Deferred tax asset/(liability)	(333,183)	161,544	202,922	31,283	418,803	(387,520)

15 Cash and cash equivalents

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Cash on hand	8,003,324	8,584,553
Correspondent account with the CBA	7,089,937	16,746,836
Correspondent accounts with banks	909,528	701,873
	16,002,789	26,033,262
Less loss allowance on cash and cash equivalents	(2,362)	(2,338)
Total cash and cash equivalents	16,000,427	26,030,924

Correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 March 2020 is computed at 2% (31 December 2019: 2%) of certain obligations of the Bank denominated in Armenian drams and 18% (31 December 2019: 18%) of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 12,632,162 thousand (31 December 2019: AMD 12,341,352 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 March 2020 the Bank has no Bank except for the CBA (31 December 2019: no bank except for CBA), whose balances exceed 10% of equity.

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

In thousand Armenian drams	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	2,338	-
Net remeasurement of loss allowance inclusive repayments	(2,338)	-
New financial assets originated or purchased	2,362	1,359
ECL allowance as at 31 March	2,362	1,359

16 Amounts received under reverse repurchase agreements

In thousand Armenian drams	31 March 2020	31 December 2019 (audited)
Reverse repurchase agreements with other financial institutions	9,469,539	13,024,251
Reverse repurchase agreements with individuals	653,421	2,158,486
Reverse repurchase agreements with banks	-	959,859
	10,122,960	16,142,596
Less loss allowance on amounts receivable under reverse repurchase agreements	(5,757)	(2,027)
Total amounts receivable under reverse repurchase agreements	10,117,203	16,140,569

As of 31 March 2020 the weighted average effective interest rates on reverse repurchase agreements with financial institutions is 6.1% for AMD agreements (31 December 2019: 6.2%), and 3.0% for agreements in USD, EUR and other freely convertible currencies (31 December 2019: 2.8%).

As of 31 March 2020 the weighted average effective interest rates on reverse repurchase agreements with individuals is 7.2% (31 December 2019: 7.4%). All agreements are denominated in AMD.

As of 31 March 2020 the Bank has no counterparty (31 December 2019: one counterparty), whose balances exceed 10% of equity. The gross value of these balances as of 31 December 2019 is AMD 3,115,367 thousand.

An analysis of changes in the ECLs amounts receivable under reverse repurchase agreements is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	2,027	-
Net remeasurement of loss allowance inclusive repayments	(2,027)	-
New financial assets originated or purchased	5,757	-
ECL allowance as at 31 March	5,757	-

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

In thousand Armenian drams	31 March 2020		31 December 2019 (audited)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state securities	10,796,603	10,117,203	17,435,753	16,140,569
Total assets pledged and loans under reverse repurchase agreements	10,796,603	10,117,203	17,435,753	16,140,569

Fair value of securities received under reverse repurchase agreements and repledged under repurchase agreements amounts to AMD 550,583 thousand as of 31 March 2020 (31 December 2019: AMD 4,639,548 thousand).

17 Loans and advances to banks

In thousand Armenian drams	31 March 2020	31 December 2019 (audited)
Loans to banks	1,112,332	482,001
Deposited funds in other banks	256,080	384,772
Deposited funds with the CBA	103,000	253,000
Regular way purchase agreements – foreign exchange spot transactions	4,993	323
	1,476,405	1,120,096
Less loss allowance on loans and advances to banks	(10,072)	-
Total loans and advances to banks	1,466,333	1,120,096

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

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

As of 31 March 2020 the weighted average effective interest rates on loans to banks is 4.4% for agreements in USD, EUR and other freely convertible currencies (31 December 2019: 6.7%). There is no agreement in AMD as of 31 March 2020 and 31 December 2019.

As of 31 March 2020 and 31 December 2019 the Bank has no counterparty, whose balances exceed 10% of equity.

An analysis of changes in the ECLs on loans and advances to banks is as follows:

In thousand Armenian drams	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	-	10,014
Net remeasurement of loss allowance inclusive repayments	-	(10,014)
New financial assets originated or purchased	10,072	1,196
ECL allowance as at 31 March	10,072	1,196

18 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

	31 March 2020			31 December 2019 (audited)		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
<i>Foreign exchange contracts</i>						
Foreign exchange forward contracts	768,800	-	20,376	768,800	1,280	-
Foreign exchange forward contracts	383,200	-	38,352	383,200	-	560
Total derivative financial instruments	1,152,000	-	58,728	1,152,000	1,280	560

19 Investment securities

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
<i>Investment securities at amortised cost</i>		
RA state bonds at amortised cost	506,111	489,177
	506,111	489,177
<i>Investment securities measured at FVOCI</i>		
RA state bonds measured at FVOCI	6,327,869	-
Corporate bonds measured at FVOCI	1,888,332	1,839,320
Shares in RA organization measured at FVOCI	42,825	42,825
Total investment securities measured at FVOCI	8,259,026	1,882,145
Debt investment securities measured at FVOCI pledged under repurchase agreements	2,739,203	8,840,490

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

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	27,892	63,592
Net remeasurement of loss allowance inclusive repayments	21,824	(14,368)
ECL allowance as at 31 March	49,716	49,224

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.

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

All debt securities have fixed coupons. Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 March 2020		31 December 2019 (audited)	
	%	Maturity	%	Maturity
Government bonds	7.4-10.1	2020-2036	7.4-10.1	2020-2036
Corporate bonds	4.0-13.1	2020-2022	4.0-13.1	2020-2022

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

In thousand Armenian drams	31 March 2020		31 December 2019 (audited)	
	%	Maturity	%	Maturity
RA state bonds	5.4	2020	5.4	2020

20 Loans and advances to customers

In thousand Armenian drams	31 March 2020			31 December 2019 (audited)		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
<i>Mortgage and consumer lending</i>						
Mortgage	18,585,794	(17,292)	18,568,502	16,158,181	(6,292)	16,151,889
Consumer lending	35,119,236	(2,235,746)	32,883,490	29,626,423	(2,198,323)	27,428,100
Overdrafts	2,837,261	(146,087)	2,691,174	2,582,613	(236,174)	2,346,439
<i>Commercial lending</i>						
Construction	5,579,457	(80,212)	5,499,245	5,372,689	(45,858)	5,326,831
Industry	10,894,499	(37,185)	10,857,314	10,146,866	(205,045)	9,941,821
Trading	18,322,659	(189,211)	18,133,448	16,222,236	(145,723)	16,076,513
Financial services	5,173,884	(35,509)	5,138,375	5,752,037	(71,042)	5,680,995
Other	19,401,345	(83,583)	19,317,762	18,652,942	(48,715)	18,604,227
Total	115,914,135	(2,824,825)	113,089,310	104,513,987	(2,957,172)	101,556,815

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

As of 31 March 2020 the weighted average effective interest rates on loans and advances to customers is 18.0% for loans in AMD (31 December 2019: 17.2%) and 9.0 % for loans in USD, EUR and other freely convertible currencies (31 December 2019: 8.3%).

As of 31 March 2020 the Bank has four borrowers and groups of related parties (31 December 2019: four), whose loan balances exceed 10% of equity. The carrying amount of these loans as of 31 March 2020 amounts to AMD 20,321,552 thousand (31 December 2019: AMD 21,276,560 thousand).

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

In thousand Armenian drams	Three-Month Period Ended 31 March 2020				Three-Month Period Ended 31 March 2019
	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	917,571	337,443	1,185,775	2,440,789	1,077,932
Changes due to financial assets recognised in opening balance that have:					
Transfer to 12-month ECL	5,274	(5,274)	-	-	-
Transfer to Lifetime ECL not credit-impaired	(17,345)	27,035	(9,690)	-	-
Transfer to Lifetime ECL credit-impaired	(9,286)	(290,028)	299,314	-	-
Net remeasurement of loss allowance inclusive repayments	(212,791)	272,792	117,166	177,167	752,969
New financial assets originated or purchased	436,127	15,632	1,725	453,484	-
Recoveries	-	-	50,971	50,971	13,367
Amounts written off during the period	-	-	(723,286)	(723,286)	(319,913)
ECL allowance as at 31 March	1,119,550	357,600	921,975	2,399,125	1,524,355

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

In thousand Armenian drams	Three-Month Period Ended 31 March 2020				Three-Month Period Ended 31 March 2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	
<i>Commercial lending</i>					
ECL allowance as at 1 January	160,952	0	355,431	516,383	1,228,205
Changes due to financial assets recognised in opening balance that have:					
Transfer to 12-month ECL	-	-	-	-	-
Transfer to Lifetime ECL not credit-impaired	(17,890)	17,890	-	-	-
Transfer to Lifetime ECL credit-impaired	(9,510)	-	9,510	-	-
Net remeasurement of loss allowance inclusive repayments	103,927	(14,628)	(180,621)	(91,322)	(277,265)
New financial assets originated or purchased	11,355	-	-	11,355	-
Recoveries	-	-	6,761	6,761	91,064
Amounts written off during the period	-	-	(17,477)	(17,477)	(30,767)
ECL allowance as at 31 March	248,834	3,262	173,604	425,700	1,011,237

As of 31 March 2020, loans to customers in amount of AMD 6,430,673 thousand (31 December 2019: AMD 6,097,777 thousand) serve as collateral for loans due to financial institutions.

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

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 36. Information on related parties is disclosed in note 32.

21 Property and equipment

In thousand Armenian drams	Land and buildings	Right-of- use assets	Leasehold improve- ments	Computer equip- ment	Vehicles	Office equip- ment	Intangi- ble assets	Total
Cost								
At 1 January 2019 (audited)	4,913,013	-	93,260	1,179,640	158,612	587,206	257,089	7,188,820
Additions	-	108,916	-	270,997	-	17,701	84,911	482,525
At 31 March 2019	4,913,013	108,916	93,260	1,450,637	158,612	604,907	342,000	7,671,345
At 1 January 2020 (audited)	4,633,873	529,768	93,844	1,482,817	159,435	738,629	443,493	8,081,859
Additions	-	-	4,641	17,902	175	43,227	7,910	73,855
Reclassifications	-	-	-	(673,891)	-	673,891	-	-
Disposals	-	-	-	(79)	-	-	-	(79)
At 31 March 2020	4,633,873	529,768	98,485	826,749	159,610	1,455,747	451,403	8,155,635
Accumulated depreciation								
At 1 January 2019 (audited)	433,422	-	29,852	638,044	85,476	348,268	127,271	1,662,333
Charge for the period	21,566	5,488	2,342	55,134	3,248	11,594	6,743	106,115
Disposals	-	-	-	-	-	-	-	-
At 31 March 2019	454,988	5,488	32,194	693,178	88,724	359,862	134,014	1,768,448
At 1 January 2020 (audited)	529,715	39,172	873,283	51,298	398,296	163,759	59,185	2,114,708
Charge for the period	30,691	19,196	2,362	33,849	4,436	31,954	8,165	130,653
Reclassifications	-	-	-	(476,332)	-	476,332	-	-
Disposals	-	-	-	(79)	-	-	-	(79)
At 31 March 2020	560,406	58,368	875,645	(391,264)	402,732	672,045	67,350	2,245,282
Carrying amount								
At 1 January 2019 (audited)	4,479,591	-	63,408	541,596	73,136	238,938	129,818	5,526,487
At 31 March 2019	4,458,025	103,428	61,066	757,459	69,888	245,045	207,986	5,902,897
At 1 January 2020 (audited)	4,104,158	490,596	(779,439)	1,431,519	(238,861)	574,870	384,308	5,967,151
At 31 March 2020	4,073,467	471,400	(777,160)	1,218,013	(243,122)	783,702	384,053	5,910,353

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

Contractual commitments

As of 31 March 2020 the Bank had contractual commitments of making investments in fixed assets and intangible assets at the amount AMD 112,226 thousand (31 December 2019: AMD 104,588 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 31 March 2020 and 31 December 2019 the fair value of the buildings does not differ significantly from their revalued amounts.

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

In thousand Armenian drams	31 March 2020	31 December 2019 (audited)
Cost	3,177,402	3,177,402
Accumulated depreciation	(908,948)	(888,565)
Carrying amount	2,268,454	2,288,837

22 Repossessed assets

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

	31 March 2020	31 December 2019 (audited)
Real estate	2,243,932	2,129,642
Total repossessed assets	2,243,932	2,129,642

During the period ended 31 March 2020, 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.

23 Other assets

In thousand Armenian drams	31 March 2020	31 December 2019 (audited)
Receivables and other proceeds	154,993	544,234
Proceeds on cash transfers	124,208	180,070
Other financial assets	279,201	724,304
Less allowance for assets impairment	(301)	(810)
Total other financial assets	278,900	723,494
Prepayments	105,668	79,282
Materials	50,194	54,542
Tax prepayments	15,194	15,000
Other	70,884	55,617
Total non-financial assets	241,940	204,441
Total other assets	520,840	927,935

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

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	810	12,703
Net remeasurement of loss allowance inclusive repayments	(810)	(12,703)
New financial assets originated or purchased	1,741	2,285
Net amounts written off	(1,440)	(319)
ECL allowance as at 31 March	301	1,966

24 Deposits and balances from banks

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Loans from banks	2,785,407	4,090,696
Regular way purchase agreements – foreign exchange spot transactions	-	5,809
Total deposits and balances from banks	2,785,407	4,096,505

Loans from financial institutions have fixed interest rates.

As of 31 March 2020 the weighted average effective interest rates on loans from banks is 5.4% for loans in AMD (31 December 2019: 5.6%), and 0.8% for loans in USD, EUR and other freely convertible currencies (31 December 2019: 1.6%).

As of 31 March 2020 the Bank has no Bank (31 December 2019: no bank), whose balances exceed 10% of equity.

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

25 Amounts payable under repurchase agreements

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Repurchase agreements with the banks	2,871,929	4,560,826
Repurchase agreements with the other financial institutions	307,006	-
Repurchase agreements with the CBA	-	8,152,510
Total amounts payable under repurchase agreements	3,178,935	12,713,336

As of 31 March 2020 the weighted average effective interest rates on repurchase agreements is 5.5% for loans in AMD (31 December 2019: 5.8%). As of 31 March 2020 and 31 December 2019 there are no agreements denominated in foreign currency.

As of 31 March 2020 the Bank has no borrower (31 December 2019: no bank except for CBA), whose balances exceed 10% of equity.

26 Amounts due to customers

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
<i>Legal entities</i>		
Current/Settlement accounts	14,463,388	15,118,166
Time deposits	21,984,158	21,533,410
	36,447,546	36,651,576
<i>Individuals</i>		
Current/Settlement accounts	10,606,181	9,670,241
Time deposits	58,665,866	53,805,812
	69,272,047	63,476,053
Total amounts due to customers	105,719,593	100,127,629

As of 31 March 2020 time deposits of legal entities / individuals are deposits amounting to AMD 10,511,019 thousand (31 December 2019: AMD 8,696,085 thousand) held as security against loans to customers, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

As of 31 March 2020 the weighted average effective interest rates on amounts due to customers is 9.4% for deposits in AMD (31 December 2019: 9.3%), 5.2% for deposits in USD, EUR (31 December 2019: 4.9%) and 6.3% for deposits in RUB (31 December 2019: 6.6%).

As of 31 March 2020 the Bank has four group of related customers (31 December 2019: four), amounts due to customers balances with whom exceed 10% of equity. The gross value of these balances as of 31 March 2020 amounted to AMD 20,529,045 thousand (31 December 2019: AMD 20,749,760 thousand).

27 Other borrowings

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Loans from other financial institutions	6,430,673	6,097,777
Total other borrowings	6,430,673	6,097,777

As of 31 March 2020 the weighted average effective interest rates on other borrowings is 6.3% for borrowings in AMD (31 December 2019: 6.4%). As of 31 March 2020 and 31 December 2019 there are no borrowings denominated in foreign currency.

As of 31 March 2020 the Bank has one group of related counterparties (31 December 2019: one group), borrowings received balance with whom exceed 10% of equity. The gross value of these balances as of 31 March 2019 amounted to AMD 4,137,151 thousand (31 December 2019: AMD 3,810,471 thousand).

28 Subordinated debt

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Bonds issued	5,556,136	5,393,602
Subordinated debt from individuals	5,115,820	4,868,162
Total subordinated debt	10,671,956	10,261,764

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

During 2016 The Bank has received a subordinated debt in amount of US dollar 10,000 thousand maturing in 2026. The interest rate is 9% (Refer to note 32).

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 2019: nil).

29 Other liabilities

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Lease liabilities	464,767	480,323
Dividends to shareholders	426,000	426,000
Accounts payables	312,574	314,584
Due to personnel	127,034	512,832
Total other financial liabilities	1,330,375	1,733,739
Tax payable, other than income tax	81,890	139,488
Grants related to assets	45,459	45,632
Expected loss allowance for financial guarantee contracts	9,954	974
Other	3,245	1,608
Total other non-financial liabilities	140,548	187,702
Total Other liabilities	1,470,923	1,921,441

Grants related to assets

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
At 1 January	45,632	47,705
Recognition of income	(173)	(345)
At 31 March	45,459	47,360

30 Equity

As at 31 March 2020 and 31 December 2019 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 31 March 2020 and 31 December 2019 may be specified as follows:

In thousand Armenian drams

	31 March 2020		31 December 2019 (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	95.8	17,196,100	95.8
Other shareholders	753,900	4.2	753,900	4.2
	17,950,000	100	17,950,000	100

As at 31 March 2020 and 31 December 2019, 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 31 March 2020 Bank accrued no dividends on preferred shares (31 December 2019: AMD 426,000 thousand).

Distributable among participants reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's charter capital reported in statutory books.

31 Contingent liabilities and commitments

Tax and legal matters

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

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these 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 31 March 2020 and 31 December the nominal or contract amounts were:

In thousand Armenian drams

	31 March 2020	31 December 2019 (audited)
Undrawn loan commitments	5,526,718	6,304,772
Guarantees	3,989,765	2,085,440
Letter of credit	10,931	159,163
Total commitments and contingent liabilities	9,527,414	8,549,375

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 is presented below:

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	974	-
Net remeasurement of loss allowance inclusive repayments	421	-
New financial assets originated or purchased	8,559	-
Net amounts written off	-	-
ECL allowance as at 31 March	9,954	-

32 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present 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 period end, and related expense and income for the period are as follows:

In thousand Armenian drams

	31 March 2020		31 December 2019 (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>Interim statement of financial position</i>				
Loans and advances to customers	4,748,482	289,760	5,065,730	305,347
Amounts due to customers	4,154,507	620,450	7,572,412	775,913
Subordinated liabilities	5,115,820	-	4,868,162	-

In thousand Armenian drams

	31 March 2020		Three-Month Period Ended 31 March 2019	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
<i>Interim statement of profit or loss and other comprehensive income</i>				
Interest income on loans	67,047	22,289	92,850	16,574
Interest expense on deposits	(19,380)	(4,289)	(43,267)	(9,694)
Interest expense on subordinated debt	(108,254)	-	(108,071)	-
Net gain/(loss) from revaluation of derivative instruments	(59,448)	-	(8,608)	-
Other operating income	-	-	-	-
Other general administrative expenses	-	-	-	-
Fee and commission income	-	-	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams

	Three-Month Period Ended 31 March 2020	Three-Month Period Ended 31 March 2019
Salaries and bonuses	65,269	63,725
Total key management compensation	65,269	63,725

33 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).

33.1 Financial instruments that are not measured at fair value

As at 31 March 2020 and 31 December 2019 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 31 March 2020 and 31 December 2019, 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	31 March 2020			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Financial and non-financial bonds	-	8,216,201	-	8,216,201
Equity instruments	-	42,825	-	42,825
Securities pledged under repurchase agreements	-	2,739,203	-	2,739,203
Total	-	10,998,229	-	10,998,229
<i>Financial liabilities</i>				
Derivative financial liabilities	-	58,728	-	58,728
Total	-	58,728	-	58,728
Net fair value	-	10,939,501	-	10,939,501
In thousand Armenian drams	31 December 2019 (audited)			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Financial and non-financial bonds	1,579,102	260,218	-	1,839,320
Equity instruments	-	42,825	-	42,825
Securities pledged under repurchase agreements	-	8,840,490	-	8,840,490
Derivative financial assets	-	1,280	-	1,280
Total	1,579,102	9,144,813	-	10,723,915
<i>Financial liabilities</i>				
Derivative financial liabilities	-	560	-	560
Total	-	560	-	560
Net fair value	1,579,102	9,144,253	-	10,723,355

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

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

Quoted investments

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

Unquoted debt securities

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

Unquoted equity investments

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

Derivatives

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

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

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams

In thousand Armenian drams	31 March 2020					
		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	Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/liabilities			Financial instruments in the statement of financial position	Cash colla- teral receiv ed	Net
Financial assets						
Reverse repurchase agreements (note 16)	10,117,203	-	10,117,203	10,117,203	-	-
Financial liabilities						
Repurchase agreements (note 25)	3,178,935	-	3,178,935	3,178,935	-	-

In thousand Armenian drams

In thousand Armenian drams			31 December 2019 (audited)			
	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	Related amounts that are not offset in the statement of financial position		
				Financial instruments in the statement of financial position	Cash colla- teral receiv- ed	Net
<i>Financial assets</i>						
Reverse repurchase agreements (note 16)	16,142,596	-	16,142,596	16,142,596	-	-
<i>Financial liabilities</i>						
Repurchase agreements (note 25)	12,713,336	-	12,713,336	13,480,038	-	(766,702)

35 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 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams		31 March 2020					
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	16,000,427	-	16,000,427	-	-	-	16,000,427
Amounts receivable under reverse repurchase agreements	10,117,203	-	10,117,203	-	-	-	10,117,203
Loans and advances to banks	965,716	250,308	1,216,024	250,309	-	250,309	1,466,333
Derivative financial assets	-	-	-	-	-	-	-
- Investment securities at fair value through other comprehensive income	332,293	341,234	673,527	4,245,338	3,340,161	7,585,499	8,259,026
- Investment securities at amortised cost	165	505,946	506,111	-	-	-	506,111
- Investment securities at FVOCI pledged under repurchase agreements	76,625	95,544	172,169	2,567,034	-	2,567,034	2,739,203
Loans and advances to customers	4,403,807	27,453,106	31,856,913	57,129,844	24,102,553	81,232,397	113,089,310
Other financial assets	278,900	-	278,900	-	-	-	278,900
	32,175,136	28,646,138	60,821,274	64,192,525	27,442,714	91,635,239	152,456,513
Liabilities							
Deposits and balances from banks	2,785,407	-	2,785,407	-	-	-	2,785,407
Amounts payable under repurchase agreements	3,178,935	-	3,178,935	-	-	-	3,178,935
Amounts due to customers	31,832,146	40,569,989	72,402,135	33,314,773	2,685	33,317,458	105,719,593
Derivative financial liabilities	-	20,376	20,376	38,352	-	38,352	58,728
Other borrowings	29,573	270,691	300,264	2,178,063	3,952,346	6,130,409	6,430,673
Subordinated liabilities	1,131,807	4,495,449	5,627,256	-	5,044,700	5,044,700	10,671,956
Other financial liabilities	432,817	492,389	925,206	244,559	160,610	405,169	1,330,375
	39,390,685	45,848,894	85,239,579	35,775,747	9,160,341	44,936,088	130,175,667
Net position	(7,215,549)	(17,202,756)	(24,418,305)	28,416,778	18,282,373	46,699,151	22,280,846
Accumulated gap	(7,215,549)	(24,418,305)		3,998,473	22,280,846		

In thousand Armenian
drams

31 December 2019 (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	26,030,924	-	26,030,924	-	-	-	26,030,924
Amounts receivable under reverse repurchase agreements	16,140,569	-	16,140,569	-	-	-	16,140,569
Loans and advances to banks	640,400	159,899	800,299	319,797	-	319,797	1,120,096
Derivative financial assets	-	-	-	1,280	-	1,280	1,280
- Investment securities at fair value through other comprehensive income	-	163,887	163,887	1,718,258	-	1,718,258	1,882,145
- Investment securities at amortised cost	-	489,177	489,177	-	-	-	489,177
- Investment securities at FVOCI pledged under repurchase agreements	-	701,732	701,732	4,903,299	3,235,459	8,138,758	8,840,490
Loans and advances to customers	3,253,900	27,517,748	30,771,648	49,038,211	21,746,956	70,785,167	101,556,815
Other financial assets	723,494	-	723,494	-	-	-	723,494
	34,028,902	24,612,928	58,641,830	46,691,528	16,294,228	62,985,756	121,627,586
Liabilities							
Deposits and balances from banks	2,750,595	1,345,910	4,096,505	-	-	-	4,096,505
Amounts payable under repurchase agreements	12,713,336	-	12,713,336	-	-	-	12,713,336
Amounts due to customers	26,276,927	42,070,782	68,347,709	31,777,491	2,429	31,779,920	100,127,629
Derivative financial liabilities	-	560	560	-	-	-	560
Other borrowings	30,916	249,202	280,118	2,076,109	3,741,550	5,817,659	6,097,777
Subordinated liabilities	21,437	5,443,327	5,464,764	-	4,797,000	4,797,000	10,261,764
Other financial liabilities	822,236	492,389	1,314,625	243,830	175,284	419,114	1,733,739
	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		

36 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. 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.

36.1 Credit risk

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

financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of 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.

36.1.1 Credit quality analysis

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

In thousand Armenian drams

31 March 2020

Internal rating grade	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
<i>Cash and cash equivalents</i>				
High	8,003,324	-	-	8,003,324
Standard	7,999,465	-	-	7,999,465
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	16,002,789	-	-	16,002,789
Loss allowance	(2,362)	-	-	(2,362)
Net carrying amount	16,000,427	-	-	16,000,427
<i>Amounts receivable under reverse repurchase agreements</i>				
High	-	-	-	-
Standard	10,122,960	-	-	10,122,960
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	10,122,960	-	-	10,122,960
Loss allowance	(5,757)	-	-	(5,757)
Net carrying amount	10,117,203	-	-	10,117,203
<i>Loans and advances to banks</i>				
High	-	-	-	-
Standard	1,476,405	-	-	1,476,405
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	1,476,405	-	-	1,476,405
Loss allowance	(10,072)	-	-	(10,072)
Net carrying amount	1,466,333	-	-	1,466,333
<i>Loans and advances to mortgage and consumer customers</i>				
High	53,592,436	-	-	53,592,436
Standard	562,149	128,587	-	690,736
Low	-	561,358	-	561,358
Non-performing	-	-	1,697,761	1,697,761
Gross carrying amount	54,154,585	689,945	1,697,761	56,542,291
Loss allowance	(1,119,550)	(357,600)	(921,975)	(2,399,125)
Net carrying amount	53,035,035	332,345	775,786	54,143,166

Internal rating grade	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
<i>Loans and advances to commercial customers</i>				
High	55,371,709	-	-	55,371,709
Standard	3,823	2,282,523	-	2,286,346
Low	-	3,106	-	3,106
Non-performing	-	-	1,710,683	1,710,683
Gross carrying amount	55,375,532	2,285,629	1,710,683	59,371,844
Loss allowance	(248,834)	(3,262)	(173,604)	(425,700)
Net carrying amount	55,126,698	2,282,367	1,537,079	58,946,144
<i>Debt investment securities at amortised cost</i>				
High	-	-	-	-
Standard	506,111	-	-	506,111
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	506,111	-	-	506,111
Loss allowance	-	-	-	-
Net carrying amount	506,111	-	-	506,111
<i>Debt investment securities at FVOCI including the pledged securities</i>				
High	-	-	-	-
Standard	10,998,229	-	-	10,998,229
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount-fair value	10,998,229	-	-	10,998,229
<i>Other financial assets</i>				
High	-	-	-	-
Standard	279,201	-	-	279,201
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	279,201	-	-	279,201
Loss allowance	(301)	-	-	(301)
Net carrying amount	278,900	-	-	278,900
<i>Loan commitments and financial guarantee</i>				
High	9,506,592	-	-	9,506,592
Standard	-	30,776	-	30,776
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	9,506,592	30,776	-	9,537,368
Loss allowance	(9,954)	-	-	(9,954)
Net carrying amount	9,496,638	30,776	-	9,527,414

In thousand Armenian drams

31 December 2019 (audited)

Internal rating grade	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
<i>Cash and cash equivalents</i>				
High	8,584,553	-	-	8,584,553
Standard	17,448,709	-	-	17,448,709
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	26,033,262	-	-	26,033,262
Loss allowance	(2,338)	-	-	(2,338)
Net carrying amount	26,030,924	-	-	26,030,924
<i>Amounts receivable under reverse repurchase agreements</i>				
High	-	-	-	-
Standard	16,142,596	-	-	16,142,596
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	16,142,596	-	-	16,142,596
Loss allowance	(2,027)	-	-	(2,027)
Net carrying amount	16,140,569	-	-	16,140,569
<i>Loans and advances to banks</i>				
High	-	-	-	-
Standard	1,120,096	-	-	1,120,096
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	1,120,096	-	-	1,120,096
Loss allowance	-	-	-	-
Net carrying amount	1,120,096	-	-	1,120,096
<i>Loans and advances to mortgage and consumer customers</i>				
High	45,659,672	-	-	45,659,672
Standard	536,983	88,717	-	625,700
Low	-	520,254	-	520,254
Non-performing	-	-	1,561,591	1,561,591
Gross carrying amount	46,196,655	608,971	1,561,591	48,367,217
Loss allowance	(917,571)	(337,443)	(1,185,775)	(2,440,789)
Net carrying amount	45,279,084	271,528	375,816	45,926,428
<i>Loans and advances to commercial customers</i>				
High	52,129,962	-	-	52,129,962
Standard	12,325	2,320,048	-	2,332,373
Low	-	54,346	-	54,346
Non-performing	-	-	1,630,089	1,630,089
Gross carrying amount	52,142,287	2,374,394	1,630,089	56,146,770
Loss allowance	(160,952)	-	(355,431)	(516,383)
Net carrying amount	51,981,335	2,374,394	1,274,658	55,630,387

In thousand Armenian drams

31 December 2019 (audited)

Internal rating grade	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
<i>Debt investment securities at amortised cost</i>				
High	-	-	-	-
Standard	489,177	-	-	489,177
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	489,177	-	-	489,177
Loss allowance	-	-	-	-
Net carrying amount	489,177	-	-	489,177
<i>Debt investment securities at FVOCI including the pledged securities</i>				
High	-	-	-	-
Standard	10,722,635	-	-	10,722,635
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount-fair value	10,722,635	-	-	10,722,635
<i>Other financial assets</i>				
High	-	-	-	-
Standard	724,304	-	-	724,304
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	724,304	-	-	724,304
Loss allowance	(810)	-	-	(810)
Net carrying amount	723,494	-	-	723,494
<i>Loan commitments and financial guarantee</i>				
High	8,513,915	-	-	8,513,915
Standard	2,367	30,926	-	33,293
Low	-	580	-	580
Non-performing	-	-	2,562	2,562
Gross carrying amount	8,516,282	31,506	2,562	8,550,350
Loss allowance	(974)	-	-	(974)
Net carrying amount	8,515,308	31,506	2,562	8,549,376

Credit exposures arising from derivative transactions refer to note 18.

36.1.2 Impairment assessment

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

Significant increase in credit risk

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

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

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

Criteria for loans and advances to customers

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

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

36.1.3 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 20.

36.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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

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

	31 March 2020	31 December 2019 (audited)
Real estate	62,369,928	55,472,352
Movable property and other fixed assets	1,465,935	3,227,779
Current accounts and deposits	4,825,858	6,220,079
Inventories	3,399,775	3,323,674
Guarantees	5,974,708	4,655,659
Precious metals, gold	1,250,510	1,095,790
Other	-	0
Unsecured	36,627,421	30,518,654
Total loans and advances, gross	115,914,135	104,513,987

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

36.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on 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.

36.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 March 2020 and 31 December 2019. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets at 31 March 2020 and 31 December 2019 for the effects of the assumed changes in interest rates.

In thousand Armenian drams

	Change in basis points	Sensitivity of net interest income	31 March 2020 Sensitivity of equity	31 December 2019 (audited) Sensitivity of equity
Currency				
AMD	+1	-	(355,099)	(356,717)
AMD	(1)	-	355,099	356,717

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 March 2020 and 31 December 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams

	31 March 2020		31 December 2019 (audited)	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Freely convertible currencies	+5	53,133	+5	75,063
Non-freely convertible currencies	+5	(15,587)	+5	(2,147)

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

In thousand Armenian drams

	31 March 2020			
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	2,707,096	12,653,391	639,940	16,000,427
Amounts receivable under reverse repurchase agreements	8,965,796	1,151,407	-	10,117,203
Loans and advances to banks	101,420	1,364,913	-	1,466,333
- Investment securities at fair value through other comprehensive income	7,094,098	1,164,928	-	8,259,026
- Investment securities at amortised cost	-	506,111	-	506,111
- Investment securities at FVOCI pledged under repurchase agreements	2,739,203	-	-	2,739,203
Loans and advances to customers	48,192,231	64,814,686	82,393	113,089,310
Other financial assets	101,636	102,735	74,529	278,900
Total	69,901,480	81,758,171	796,862	152,456,513
Liabilities				
Deposits and balances from banks	1,401,436	1,383,971	-	2,785,407
Amounts payable under repurchase agreements	3,178,935	-	-	3,178,935
Amounts due to customers	37,217,041	66,912,150	1,590,402	105,719,593
Other borrowings	6,430,673	-	-	6,430,673
Subordinated liabilities	-	10,671,956	-	10,671,956
Other financial liabilities	1,295,463	32,836	2,076	1,330,375
Total	49,523,548	79,000,913	1,592,478	130,116,939
Regular way purchase agreements – foreign exchange spot transactions effect	-	(483,876)	483,876	-
Total effect of derivative financial instruments	1,152,000	(1,210,728)	-	(58,728)
Net position	21,529,932	1,062,654	(311,740)	22,280,846
Commitments and contingent liabilities	6,421,352	3,106,062	-	9,527,414

In thousand Armenian drams

31 December 2019 (audited)

	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	10,095,058	13,271,316	2,664,550	26,030,924
Amounts receivable under reverse repurchase agreements	14,177,280	1,963,289	-	16,140,569
Loans and advances to banks	253,000	867,096	-	1,120,096
- Investment securities at fair value through other comprehensive income	771,416	1,110,729	-	1,882,145
- Investment securities at amortised cost	-	489,177	-	489,177
- Investment securities at FVOCI pledged under repurchase agreements	8,840,490	-	-	8,840,490
Loans and advances to customers	43,294,048	58,099,693	163,074	101,556,815
Other financial assets	241,301	382,179	100,014	723,494
Total	77,672,593	76,183,479	2,927,638	156,783,710
Liabilities				
Deposits and balances from banks	1,401,502	2,689,194	5,809	4,096,505
Amounts payable under repurchase agreements	12,713,336	-	-	12,713,336
Amounts due to customers	36,582,460	62,398,966	1,146,203	100,127,629
Other borrowings	6,097,777	-	-	6,097,777
Subordinated liabilities	-	10,261,764	-	10,261,764
Other financial liabilities	1,669,642	63,838	259	1,733,739
Total	58,464,717	75,413,762	1,152,271	135,030,750
Regular way purchase agreements – foreign exchange spot transactions effect	(64,514)	1,882,822	(1,818,308)	-
Total effect of derivative financial instruments	1,152,000	(1,151,280)	-	720
Net position	20,295,362	1,501,259	(42,941)	21,753,680
Commitments and contingent liabilities	4,865,293	3,684,083	-	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.

36.3 Liquidity risk

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

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

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

The indicators as of 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020, %	31 December 2019, %
N2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	20.08	21.85
N2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	127.13	142.64

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 March 2020 and 31 December 2019 based on contractual undiscounted repayment obligations. Refer to note 35 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams

	31 March 2020					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying value
<i>Non-derivative financial liabilities</i>						
Deposits and balances from banks	2,785,400	-	-	-	2,785,400	2,785,407
Amounts payable under repurchase agreements	3,179,594	-	-	-	3,179,594	3,178,935
Amounts due to customers	31,935,818	42,839,728	35,913,287	5,476	110,694,309	105,719,593
Other borrowings	39,746	625,918	3,444,231	4,491,168	8,601,063	6,430,673
Subordinated liabilities	1,132,808	5,070,135	1,818,829	5,790,542	13,812,314	10,671,956
Other financial liabilities	435,887	524,584	340,434	190,849	1,491,754	1,330,375
Total undiscounted non-derivative financial liabilities	39,509,253	49,060,365	41,516,781	10,478,035	140,564,434	130,116,939
<i>Derivative financial instruments</i>						
<i>Foreign exchange forward contracts</i>						
Inflow	-	383,200	768,800	-	1,152,000	1,152,000
Outflow	-	(403,576)	(807,152)	-	(1,210,728)	(1,210,728)
Commitments and contingent liabilities	72,335	4,496,309	3,666,818	1,291,952	9,527,414	9,527,414

	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>						
Deposits and balances from banks	2,750,595	1,345,910	-	-	4,096,505	4,096,505
Amounts payable under repurchase agreements	12,728,924	-	-	-	12,728,924	12,713,336
Amounts due to customers	26,391,515	44,456,097	34,398,502	5,111	105,251,225	100,127,629
Other borrowings	40,801	591,146	3,301,015	4,266,372	8,199,334	6,097,777
Subordinated liabilities	23,093	6,191,806	1,727,866	5,617,405	13,560,170	10,261,764
Other financial liabilities	828,736	522,362	344,280	209,195	1,904,573	1,733,739
Total undiscounted non-derivative financial liabilities	42,763,664	53,107,321	39,771,663	10,098,083	145,740,731	135,030,750
<i>Derivative financial instruments</i>						
<i>Foreign exchange forward contracts</i>						
Inflow	-	383,200	768,800	-	1,152,000	1,152,000
Outflow	-	(383,760)	(767,520)	-	(1,151,280)	(1,151,280)
Commitments and contingent liabilities	103,065	3,188,147	3,675,405	1,582,759	8,549,376	8,549,376

36.4 Operational risk

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

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

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

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

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

37 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams

31 March 2020

	Other borrowings	Subordinated debt	Lease liabilities	Total
As of 1 January 2019	6,097,777	10,261,764	480,323	16,839,864
Cash-flows	326,911	-	(25,080)	301,831
Repayments	(172,415)	-	(25,080)	(197,495)
Amounts received	499,326	-	-	499,326
Non-cash	5,985	410,192	9,524	425,701
Foreign exchange gains	-	413,474	-	413,474
Accrued interest	5,985	(3,282)	9,524	12,227
As of 31 March 2020	6,430,673	10,671,956	464,767	17,567,396

In thousand Armenian drams

31 March 2019

	Other borrowings	Subordinated debt	Lease liabilities	Total
As of 1 January 2019	3,707,012	10,466,922	-	14,173,934
Cash-flows	305,114	-	(16,980)	288,134
Repayments	(127,973)	-	(16,980)	(144,953)
Amounts received	433,087	-	-	433,087
Non-cash	(171)	(59,423)	124,331	64,737
Transition to IFRS 16	-	-	108,918	108,918
Foreign exchange gains	-	(56,224)	-	(56,224)
Accrued interest	(171)	(3,199)	15,413	12,043
As of 31 March 2019	4,011,955	10,407,499	107,351	14,526,805

38 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, 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 31 March 2020 and 31 December 2019 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

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

	31 March 2020	31 December 2019
Tier 1 capital	26,745,085	26,865,186
Tier 2 capital	5,349,017	6,807,376
Total regulatory capital	32,094,102	33,672,562
Risk-weighted assets	170,652,063	160,474,732
Capital adequacy ratio	18.81%	20.98%

39 Events after the reporting period

In March 2020 the World Health Organization recognised coronavirus (COVID-19) erupted in China in December 2019 as a pandemic. The final impact of the coronavirus outbreak is unknown at this time, but it has already had a significant impact on the global economy and large financial markets. The evolving situation with COVID-19 may have some effect on the Bank's operations. It can be expressed by the inability of both individuals and legal entities to fulfill their contractual obligations. On 16 March 2020 the Government of the Republic of Armenia declared a state of emergency in the country, which will last until 14 May 2020. These financial statements do not reflect the potential impact of the above.