ГОДОВОЙ ОТЧЕТ ЭМИТЕНТА

«ЮНИБАНК» ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО

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Отчет номер 01, 05.05.2021г.

Исполнительный директор – Председатель Правления Месроп Акопян

ГОДОВОЙ ОТЧЕТ
о деятельности ОАО “ЮНИБАНК” за 2020г.

В 2020-ом году перед банками встали новые задачи и вызовы, которые надо было решать не поэтапно, а параллельно. На фоне событий пандемии коронавируса и негативных последствий эскалации нагорно-карабахского конфликта сократился потребительский и инвестиционный спрос.
Юнибанку удалось сохранить положительную динамику развития по ключевым финансовым показателям и зарегистрировал прогресс по стратегическим направлениям. Повышенное внимание уделялось эффективности бизнес-процессов, улучшению качества активов, совершенствованию системы риск-менеджмента.

МИССИЯ И ЦЕННОСТИ
ОАО «Юнибанк» - динамично развивающийся и инновационный Банк, предоставляющий полный спектр услуг розничным и корпоративным клиентам. Свою миссию Банк видит в содействии экономическому развитию Республики Армения, росту финансового благополучия клиентов, акционеров и партнеров, и обеспечении потребностей общества в высококачественных финансовых услугах.

НАШИ ЦЕННОСТИ

- внимательное и честное отношение к клиентам
- сильный командных дух и результативность
- доверие общества
- высокая узнаваемость бренда и репутация
- надежность и стабильность

МЫ СТРЕМИМСЯ

- укрепить свои позиции и увеличить долю финансовом рынке
- обеспечить высокую культуру банковского обслуживания
- повысить доступность востребованных банковских услуг
- внедрить прозрачную модель ведения бизнеса и лучшую практику корпоративной культуры
- повысить инвестиционную привлекательность банка

ПРИОРИТЕТЫ ЮНИБАНКА

- Клиентоориентированный подход
- Сохранение конкурентного преимущества за счет продвижения инновационных решений и вопросов информационных технологий
- Профессиональная команда и мотивированный персонал
- Коллектив банка это актив и успех банка невозможен без практических достижений – лояльности к каждому сотруднику
- Применение передовых банковских технологий
- Быть на шаг впереди своих основных конкурентов

- Финансовые результаты
- Обеспечить прибыль в результате своей деятельности, оптимизировать затраты при сохранении соотношения риска и доходности
- Корпоративное управление
- Создание сильной, прозрачной и справедливой корпоративной культуры в интересах акционеров
- Корпоративная и социальная ответственность
- Банк является гражданином своей страны, он обязан вносить свой вклад в развитие общества

ВАЖНЕЙШИЕ СОБЫТИЯ

- ✓ Банк расширил географическую зону присутствия и открыл три новых филиала “Москва”, Апаран, “Сисан”. На конец года филиальная сеть Юнибанка включала 54 филиала по Армении и Арцаху, в Москве действует представительство Банка, которое содействует в привлечении зарубежных клиентов.С конца 2020 начал работать филиал на площадке Международного Финансового Центра Астана как канала для новых возможностей привлечения иностранных инвестиций.
- ✓ В целях реализации нового подхода к инвестиционной политике банка впервые в истории Армянского банкинга было подписано соглашение об обращении банковских ценных бумаг на Московской бирже, в результате чего долларовые облигации Юнибанка прошли листинг на Московской бирже.
- ✓ Юнибанк успешно внедрил технологию искусственного интеллекта, обновив кредитный скоринг по беззалоговым потребительским кредитам. Инновационный алгоритм помогает существенно сократить издержки, обрабатывать большие объёмы информации, анализировать и моделировать профиль клиента, тем самым способствуя наращиванию массового кредитования.
- ✓ В декабре 2020г. международное рейтинговое агентство Moody’s Investors Service утвердило рейтинг Юнибанка на уровне B2 со стабильным прогнозом.
- ✓ Австрийский Raiffeisen Bank International наградил Юнибанк премией «STP Quality Award 2020» за обеспечение высокого качества международных переводов
- ✓ Юнибанк был удостоен награды «Sustainability Icon» международной платежной системой Visa
- ✓ Центр обработки данных Юнибанка полностью перешел на работу от энергии солнечных батарей

КОРПОРАТИВНЫЙ БИЗНЕС

Активы Банка на конец 2020 года составили 238.1 млрд драм, а кредитные вложения составили примерно 156 млрд. драм.
Кредитование малого и среднего предпринимательства продолжило оставаться приоритетным направлением развития Юнибанка в корпоративном сегменте с использованием отраслевого подхода к выбору потенциальных брендов. 2020 году кредитныйный портфель малых и средних предприятий увеличился на 6% в количественном выражении, составив более 67 млрд драм.
Объем бизнес кредитов в совокупном кредитном портфеле составил 44%, при этом крупные кредиты – 61%, МСБ кредиты – 39%.

В 2020 году Юнибанк продолжил стратегию гибкого кредитования МСБ, учитывая особенности бизнес клиентов и скорости принятия решений по кредитованию. В частности Юнибанк предоставил гибкие графики погашения и льготные периоды погашения для представителей сегментов экономики пострадавших от последствий пандемии. В результате были реструктуризированны бизнес кредиты на общую сумму 9 млрд драмов РА.

Юнибанк также активно учавствовал в государственной программе поддержки юридических лиц пострадавших от последствий пандемии, выдав кредитов почти на 1 млрд драмов РА.

Помимо условий кредитования, важнейшим фактором Юнибанка при выборе является гибкий подход, понимание специфики бизнеса клиента и скорость принятия кредитного решения
В течение года Банк продолжал работать по программам финансирования:
с Немецким банком развития KfW - на приобретение солнечных электростанций, Голландским банком развития FMO - в поддержку женского предпринимательства в Армении, Европейским инвестиционным банком – в кредитовании агро сектора и туризма МСБ.
В ноябре была подана заявка на участие в программе KfW "МСБ финансирование Агро сферы", в январе 2021г. Банк прошел процесс первоначального отбора.

РОЗНИЧНЫЙ БИЗНЕС

В 2019 году Юнибанк предоставил физическим лицам кредитов на сумму 70 млрд драм, обьем потребительского кредитования обеспечен в том числе за счет разработки удобного продуктового ряда и снижения процентных ставок. Большой популярностью продолжали пользоваться беззалоговые потребительские кредиты и кредиты под залог золота.
Портфель срочных депозитов физических лиц с начала года увеличился на 10 млрд драм, или порядка 13%. В структуре портфеля выпущенных Банком облигаций 80% удельного веса приходится на облигации физических лиц, что свидетельствует о высоком доверии населения и готовности к размещению своих сбережений в инструмент долгосрочного инвестирования.
По итогам 2020 года Юнибанк занял лидирующую позицию по количеству предоставленных POS-кредитов. На долю банка приходится около 20% рынка POS-кредитования.
Одним из значимых нововведений Юнибанка является использование технологии искусственного интеллекта в скоринговой системе потребительских кредитов. Технология искусственного интеллекта позволяет быстрее и лучше обрабатывать большие объемы информации, анализировать данные клиентов и более точно строить их профиль.
Следуя клиентоориентированной политике, в 2020 году Юнибанк принял мероприятия по поддержке клиентов в условиях эпидемии и военной ситуации.
Банк продлил срок погашения бззалоговых потребительских кредитов, предоставленных физическим лицам и распределил выплаты пропорционально сроку непогашенного кредита. Банк также оказал помощь клиентам, участвовавшим в боевых действиях.

КАДРОВАЯ ПОЛИТИКА

Кадровая политика Банка в 2020г. была нацелена на обеспечение достижения бизнес-целей посредством повышения профессионального уровня сотрудников и мотивации персонала на их реализацию. Особое внимание уделялось развитию внутрикорпоративной культуры, посредством внутреннего обучения повышению профессиональной компетентности сотрудников, а также новичков, привлеченных в том числе из перспективных выпускников ВУЗ-ов.
Целью кадровой политики «Юнибанк» является:

- формирование высокопрофессиональной и эффективной команды
- развитие системы обучения
- периодичних аттестаций персонала
- динамичный подход и пересмотр мотивационных программ для сотрудников
- поддержание корпоративной культуры, подразумевающей соблюдение стандартов обслуживания и делового общения.

Продолжаются работы по формированию оптимальной организационной структуры.
По состоянию на 31.12.2020г. численность персонала составила 792 сотрудников.

СООТВЕТСТВИЕ ТРЕБОВАНИЯМ ЦБ РА

В целях устранения нарушений и несоответствий, зарегистрированных Центральным банком РА, а также выявленных в процессе мониторинга Департаментом по комплаенс за отчетный год, и их исключения в дальнейшем, по установленному плану-графику были проведены соответствующие мероприятия.
Департамент по комплаенс уделяет большое внимание обеспечению соответствия внутренних правовых актов Банка действующему законодательству Республики Армения и применяемым банковским бизнес-процессам, о чем свидетельствует тот факт, что в 2020 году было принято 22 нормативных акта в новой редакции.

СТРАТЕГИЧЕСКИЕ ПРИОРИТЕТЫ 2021г.

Согласно плану на 2021-2023 годы, Банк воздержится от программ расширения, сосредоточившись в основном на повышении качества активов и снижении затрат. В рамках утвержденной стратегии Юнибанка определены следующие ключевые приоритеты развития на 2021:

- Ключевым фактором принятия стратегических решений является потенциальное развитие негативных тенденций мировой экономики в условиях пандемии коронавируса;
- Прибыльность продуктов и операций должна быть определена получением долгосрочной доходности;
- Акцент на уменьшении пассивов и росте комиссионной маржи, а не на росте кредитного портфеля;
- Разтитие IT-технологий (система CRM, мобайл-банкиг и т.д.), что позволяет Банку получить возможную информацию о клиенте и использовать данную информацию для повышения лояльности, а также осуществлять кросс-продажи без существенного увеличения административных расходов.
- Технологическое совершенствование, развитие продажи цифровой площадки,
- Дальнейшее развитие технологий искусственного интеллекта в сфере кредитования,
- Развитие клиентоориентированного подхода и формирование обслуживания и продуктовой линейки на основе глубинного анализа потребностей клиентов также для их контрагентов,
- Обеспечение финансовой эффективности и улучшение позиций Юнибанка в банковской системе, повышение инвестиционной привлекательности Банка

Для достижения стратегических целей предусмотрены решения следующих проблем:

- гибкая тарифная политика и обеспечение индивидуального подхода к клиенту
- повышение стандартов корпоративного обслуживания
- улучшение работы региональной сети банка
- совершенствование системы комплексного анализа рисков
- улучшение качества активов
- эффективная работа с проблемнымы обязательствами
- диверсификация источников формирования ресурсной базы
- целенаправленниое повышение квалификации сотрудников банка
- укрепление лидирующих позиций в сфере кредитования и обслуживания микро, малого и среднего бизнеса
- дальнейшая автоматизация существующих бизнес процессов
- оптимизация бизнес-расходов и повышение эффективности за счет новейших банковских и информационных технологий
- внедрение новых банковских технологий, простых и стандартных систем дистанционного управления
- расширение партнерских отношений с рядом международных финансовых организаций для привлечения ресурсов
- значительный рост межбанковских операций, кредитных и обменных операций
- положительные тенденции на рынке ценных бумаг, особенно облигаций

- обеспечение целей по прибыли

Financial Statements and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2020

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To the shareholders of "UNIBANK" OPEN JOINT STOCK COMPANY

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for expected credit loss

Refer to note 4 of the financial statements for a description of the accounting policies and to note 35.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2020. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Armen Hovhannisyan

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

20 April 2021

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2020	2019
Interest and similar income	7	19,471,091	19,469,982
Interest and similar expense	7	(9,419,847)	(9,333,829)
Net interest income		10,051,244	10,136,153
Fee and commission income	8	2,770,901	2,251,099
Fee and commission expense	8	(614,638)	(543,896)
Net fee and commission income		2,156,263	1,707,203
Net trading income	9	1,118,369	1,979,686
Other income	10	1,360,247	679,124
Impairment losses	11	(5,786,898)	(3,703,851)
Staff costs	12	(3,862,403)	(4,539,655)
Depreciation of property and equipment	21	(975,205)	(867,630)
Amortization of intangible assets	22	(145,757)	(119,231)
Other expenses	13	(3,474,144)	(3,644,103)
Profit before income tax		441,716	1,627,696
Income tax expense	14	(203,140)	(300,715)
Profit for the year		238,576	1,326,981
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		408,411	-
Income tax relating to items not reclassified		(73,514)	27,545
Net gains from items that will not be reclassified subsequently to profit or loss		334,897	27,545

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

In thousand Armenian drams	Notes	2020	2019
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net change in fair value during the year		(165,761)	400,859
Changes in allowance for expected credit losses		23,948	(16,817)
Income tax relating to items reclassified		25,796	(69,128)
Adjustment due to tax rate changes		-	(6,212)
Gains/(loss) on financial instruments at fair value through other comprehensive income		(116,017)	308,702
Other comprehensive income for the year, net of tax		218,880	336,247
Total comprehensive income for the year		457,456	1,663,228
Earnings/(loss) per share	15	(0.0008418)	0.0054432

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 76.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	16	28,450,237	49,575,707
Derivative financial assets	17	2,020	912
Amounts due from financial institutions	18	18,197,520	23,298,518
Loans and advances to customers	19	156,575,090	141,401,217
Investment securities	20		
-Investment securities at fair value through other comprehensive income, including securities pledged with repurchase agreements		2,563,117	3,353,992
-Investment securities at amortised cost, including securities pledged with repurchase agreements		13,986,817	14,416,575
Property and equipment	21	10,287,139	9,537,627
Intangible assets	22	2,301,902	1,933,759
Income tax prepayments		127,210	-
Other assets	23	5,681,000	5,497,108
Total assets		238,172,052	249,015,415
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	29,573,686	7,387,238
Amounts due to customers	25	156,805,550	189,738,550
Derivative financial liabilities	17	30,336	21,150
Borrowings	26	5,905,308	5,907,632
Debt securities issued	27	9,498,202	9,523,655
Current income tax liability		-	305,561
Deferred income tax liabilities	14	312,486	298,151
Other liabilities	28	2,147,402	2,007,732
Total liabilities		204,272,970	215,189,669

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Equity			
Share capital	29	20,489,653	20,489,653
Share premium		9,605,638	9,605,638
Statutory general reserve		608,510	508,876
Other reserves		1,722,635	1,503,755
Retained earnings		1,472,646	1,717,824
Total equity		33,899,082	33,825,746
Total liabilities and equity		238,172,052	249,015,415

The financial statements were approved on 20 April 2021 by:

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 76.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2020	20,489,653	9,605,638	508,876	52,872	1,450,883	1,717,824	33,825,746
Profit for the year	-	-	-	-	-	238,576	238,576
Other comprehensive income:							
Revaluation of property and equipment	-	-	-	-	408,411	-	408,411
Net change in fair value of debt instrument at FVOCI	-	-	-	(165,761)	-	-	(165,761)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	23,948	-	-	23,948
Income tax relating to components of other comprehensive income	-	-	-	25,796	(73,514)	-	(47,718)
Total comprehensive income for the year	-	-	-	(116,017)	334,897	238,576	457,456
Distribution to reserve	-		99,634	-	-	(99,634)	-
Dividends to shareholders	-	-	-	-	-	(384,120)	(384,120)
Total transactions with owners	-	-	99,634	-	-	(483,754)	(384,120)
Balance as of 31 December 2020	20,489,653	9,605,638	608,510	(63,145)	1,785,780	1,472,646	33,899,082

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2019	20,489,653	9,605,638	448,298	(255,830)	1,495,348	765,337	32,548,444
Profit for the year	-	-	-	-	-	1,326,981	1,326,981
Other comprehensive income:							
Adjustment to reserve from sale or depreciation of property and equipment	-	-	-	-	(72,010)	72,010	-
Revaluation gains on debt instruments at fair value through other comprehensive income	-	-	-	400,859	-	-	400,859
Changes in allowance for expected credit losses	-	-	-	(16,817)	-	-	(16,817)
Income tax relating to components of other comprehensive income	-	-	-	(69,128)	-	-	(69,128)
Adjustment due to tax rate changes	-	-	-	(6,212)	27,545	-	21,333
Total comprehensive income for the year	-	-	-	308,702	(44,465)	1,398,991	1,663,228
Distribution to reserve	-	-	60,578	-	-	(60,578)	-
Dividends to shareholders	-	-	-	-	-	(385,926)	(385,926)
Total transactions with owners	-	-	60,578	-	-	(446,504)	(385,926)
Balance as of 31 December 2019	20,489,653	9,605,638	508,876	52,872	1,450,883	1,717,824	33,825,746

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 76.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Profit before tax	441,716	1,627,696
Adjustments for		
Impairment losses	5,786,898	3,703,851
Gains from reversal of impairment and sale of repossessed	31,289	-
Amortization and depreciation allowances	1,120,962	986,861
Gains from sale of other assets	(85,459)	(88,093)
Interest receivable	(621,786)	(10,512)
Interest payable	(356,881)	27,994
Revaluation of derivative financial instruments	471,022	(641,711)
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	(824,780)	97,342
Cash flows from operating activities before changes in operating assets and liabilities	5,962,981	5,703,428
(Increase)/decrease in operating assets		
Amounts due from financial institutions	6,902,338	(10,028,724)
Derivative financial instruments	(462,944)	626,293
Loans and advances to customers	(13,568,076)	(13,092,486)
Other assets	509,935	477,390
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	(252,126)	(2,064,204)
Amounts due to customers	(40,566,623)	37,781,395
Other liabilities	(631,918)	1,309,577
Net cash flow from/(used in) operating activities before income tax	(42,106,433)	20,712,669
Income tax	(669,294)	(338,201)
Net cash from/(used in) operating activities	(42,775,727)	20,374,468
Cash flows from investing activities		
(Purchase)/sale of investment securities	1,987,110	(741,364)
Purchase of property and equipment	(673,882)	(2,328,744)
Proceeds from sale of property and equipment	245,910	472,539
Purchase of intangible assets	(513,900)	(423,646)
Net cash from/(used in) investing activities	1,045,238	(3,021,215)

Statement of cash flows (continued)

In thousand Armenian drams

	2020	2019
Cash flow from financing activities		
Dividends paid	(384,120)	(385,926)
Loans repaid to financial institutions	21,971,666	393,223
Issue/(repayment) of bonds	(757,846)	1,009,895
Payment of lease liabilities	(479,289)	(431,020)
Repayment of other long-term loans and borrowings	(337,930)	(707,327)
Net cash from/(used in) in financing activities	20,012,481	(121,155)
Net increase/(decrease) in cash and cash equivalents	(21,718,008)	17,232,098
Cash and cash equivalents at the beginning of the year	49,575,707	32,049,007
Effect of ECL	5,597	14,691
Exchange differences on cash and cash equivalents	586,941	279,911
Cash and cash equivalents at the end of the year (note 16)	28,450,237	49,575,707
Supplementary information:		
Interest received	18,849,305	19,618,840
Interest paid	(9,776,728)	(9,657,357)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 76.

Notes to the financial statements

1 Principal activities

“Unibank” CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the “CBA”).

On 23 June 2015 according to the Bank’s license registered under number 0373, “UNIBANK” CJSC was reorganized to “UNIBANK” OJSC issuing 14,500,000 shares.

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, Visa International payment systems.

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

It has 55 branches in the RA, one in the Republic of Kazakhstan and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

On 29 July 2019 ''Moody's Investors Service'' International rating agency confirmed the Bank's deposit rating: B2/NP, base credit rating b3, and counterparty-risk ratings B2(cr)/NP(cr). The forecast for all ratings is stable.

On 22 July 2020 ''Moody's Investors Service'' International rating agency confirmed the Bank’s deposit rating B2/NP rating, base credit rating b3, counterparty risk rating: B2(cr)/NP(cr). The forecast for all ratings is stable.

2 Armenian business environment

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

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

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

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

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

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

New standards and amendments described below and applied for the first time in 2020, did not have a material impact on the annual financial statements of the Bank *(this section has to be customized to each client’s financial statements).*

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

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)
- *IFRS 17 Insurance contracts*
- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)

- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see 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 recognized in the statement of 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 investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

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

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

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

	31 December 2020	**31 December 2019**
AMD/1 US Dollar	522.59	479.70
AMD/1 EUR	641.11	537.26
AMD/1 RUB	7.02	7.77

4.3 Taxation

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

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 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 (see note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- loan commitments
- financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 35.1.2.

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

The PD, the EAD and the LGD are further explained in note 35.1.2.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.

- The country’s ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs the shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within provisions.

Write-offs

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

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

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

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

4.8 Loans 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.

4.9 Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as 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.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced in note 20. 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.

4.11 Securities lending and borrowing

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

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

4.12 Leases

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

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

Measurement and recognition of leases

Bank as a lessee

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

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

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

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

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

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

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

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

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

4.13 Precious metals

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

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

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Bank's buildings and land and the computer and communication technologies are presented at fair value less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. 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	75	1.33
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATMs	10	10
Other property and equipment	5	20

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. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits from them, which will be more than it was expected from the initial assessment of the statutory indicator of the present asset, will flow to the Bank. 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.

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 statement of financial position, 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.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.15 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives 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.

Computer software development costs are recognized as an expense as incurred.

4.16 Repossessed assets

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

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

4.17 Borrowings

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

4.18 Financial guarantees and loan commitments

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

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

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

4.19 Provisions

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

4.20 Equity

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 32).

Useful life of property and equipment

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

Extension options for leases

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

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 31).

Impairment of financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (see note 35.1.2), as well as the key assumptions used in estimating recoverable cash flows (see note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 30.

6 Transition disclosure

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

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 1,144,612 thousand were recognised and presented in the statement of financial position within Property and equipment".
- Additional lease liabilities of AMD 1,144,612 thousand were recognised and presented in the statement of financial position within "Other liabilities".
- The adoption of IFRS 16 had no impact on the Bank's retained earnings.

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

In thousand Armenian drams

Total operating lease commitments disclosed as of 31 December 2018	1,052,432
Reasonably certain extension options	
Recognition exemptions:	218,359
• Leases with remaining lease term of less than 12 months	(11,718)
Operating lease liabilities before discounting	1,259,073
Discounted using incremental borrowing rate	(114,461)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	1,144,612

7 Interest and similar income and expense

In thousand Armenian drams	2020	2019
Loans and advances to customers	17,421,417	17,569,519
Investment securities at FVOCI	207,729	189,814
Investment securities at amortised cost	1,278,886	1,077,571
Amounts due to financial institutions	470,340	582,159
Income from guarantee agreements	35,031	46,698
Reverse repurchase transactions	-	4,221
Derivative financial instruments	57,688	-
Total interest and similar income	19,471,091	19,469,982
Amounts due to customers	7,447,099	7,432,079
Amounts due to financial institutions	483,615	540,646
Government loans	236,420	277,962
Repurchase transactions	257,207	145,891
Borrowings	295,786	238,970
Lease liabilities	133,891	136,564
Bonds issued	560,910	548,479
Derivative instruments	4,919	13,238
Total interest and similar expense	9,419,847	9,333,829

8 Fee and commission income and expense

In thousand Armenian drams	2020	2019
Cash operations	394,250	311,897

Plastic cards operations	1,024,746	1,354,163
Guarantees and letters of credit	19,778	4,141
Foreign currency translation operations	1,148,045	421,944
Other fees and commissions	184,082	158,954
Total fee and commission income	2,770,901	2,251,099

Wire transfer fees	194,165	192,348
Plastic cards operations	363,795	316,688
Foreign currency translation operations	18,868	4,189
Stock exchange services	28,738	21,984
Other expenses	9,072	8,687
Total fee and commission expense	614,638	543,896

9 Net trading income

In thousand Armenian drams	2020	2019
Gains less losses from transactions in foreign currencies	1,589,391	1,366,212
Gains/(losses) less losses from derivatives	(471,022)	641,711
Gains less losses from investment operations	-	(28,237)
Total net trading income	1,118,369	1,979,686

10 Other income

In thousand Armenian drams	2020	2019
Fines and penalties received	333,120	456,860
Foreign currency translation net gains of non-trading assets and liabilities	824,780	-
Net income from revaluation of property and equipment	20,145	-
Gains from operations of precious metals	41,484	16,597
Gains from sale of other assets	82,192	88,093
Gains from guarantee agreements	13,071	63,712
Income from leased assets	28,109	33,173
Other income	17,346	20,689
Total other income	1,360,247	679,124

11 Impairment losses/(reversal)

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2020

Cash and cash equivalents	16	(5,597)	-	-	(5,597)
Amounts due from financial institutions	18	162,124	-	-	162,124
Loans and advances to customers	19	(259,273)	(264,140)	5,622,107	5,098,694
Investment securities measured at FVOCI	20	23,948	-	-	23,948
Investment securities measured at amortised cost	20	51,984	-	-	51,984
Other assets	23	486,548	-	-	486,548
Financial guarantees and loan commitments	30	(30,803)	-	-	(30,803)
Total impairment losses/(reversal)		428,931	(264,140)	5,622,107	5,786,898

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2019
Cash and cash equivalents	16	(14,691)	-	-	(14,691)
Amounts due from financial institutions	18	(52,592)	-	-	(52,592)
Loans and advances to customers	19	662,815	97,639	2,921,346	3,681,800
Investment securities measured at FVOCI	20	(16,817)	-	-	(16,817)
Investment securities measured at amortised cost	20	(61,232)	-	-	(61,232)
Other assets	23	204,013	-	-	204,013
Financial guarantees and loan commitments	30	(36,630)	-	-	(36,630)
Total impairment losses		684,866	97,639	2,921,346	3,703,851

12 Staff costs

In thousand Armenian drams	2020	2019
Compensations of employees, related taxes included	3,857,600	4,534,502
Staff training and other costs	4,803	5,153
Total staff costs	3,862,403	4,539,655

13 Other expenses

In thousand Armenian drams	2020	2019
Property and equipment maintenance	582,415	625,286
Expenses of short term and low value assets leases	24,688	87,888
Advertising costs	188,998	231,867
Business trip expenses	6,576	31,669
Communications	182,662	200,748
Taxes, other than income tax, duties	584,675	463,943
Impairment loss of repossessed assets	31,289	-
Foreign currency translation net losses of non-trading assets	-	97,342
Consulting and other services	85,467	97,945
Security	205,497	190,902
Representative expenses	227,799	451,363
Office supplies	140,762	188,444
Penalties paid	318	-
Deposit insurance	334,556	395,727
Computer software maintenance	49,600	46,880
Cash collection services	100,997	79,320
Loss from operations of precious metals	4,875	2,962
Charitable donations	429,462	252,597
Other expenses	293,508	199,220
Total other expense	3,474,144	3,644,103

14 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	236,523	583,270
Deferred tax	(33,383)	(282,555)
Total income tax expense	203,140	300,715

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%.

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

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	441,716	-	1,627,696	
Income tax	79,509	18	325,539	20
Other taxable income	2,957	1	1,328	-
Non-deductible expenses	184,350	42	30,063	2
Tax rate changes	-	-	52,659	3
Gains/(loss) less losses from derivatives	84,784	19	(128,342)	(8)
Foreign exchange (gains)/losses	(148,460)	(34)	19,468	1
Income tax expense	203,140	46	300,715	18

In 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia will be reduced from 20 to 18%. This change resulted in a loss of AMD 52,659 thousand related to the remeasurement of deferred tax assets and liabilities of the Bank being recognised during the year ended 31 December 2019.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2019	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	3,081	(1,008)	-	2,073	2,073	-
Amounts due from financial institutions	(35,129)	38,563	-	3,434	3,434	-
Investments in securities	128,589	(134,210)	25,796	20,175	20,175	-
Loans and advances to customers	(170,113)	160,589	-	(9,524)	-	(9,524)
Property and equipment	(247,485)	(71,001)	(73,514)	(392,000)	-	(392,000)
Other assets	(7,008)	13,211		6,203	6,203	
Other liabilities	37,432	33,756	-	71,188	71,188	-
Contingent liabilities	(7,518)	(6,517)		(14,035)		(14,035)
Deferred tax asset/(liability)	(298,151)	33,383	(47,718)	(312,486)	103,073	(415,559)

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	2019 Net	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	7,157	(4,076)	-	3,081	3,081	-
Amounts due from financial institutions	(9,161)	(25,968)	-	(35,129)	-	(35,129)
Investments in securities	93,228	110,701	(75,340)	128,589	128,589	-
Loans and advances to customers	(280,167)	110,054	-	(170,113)	-	(170,113)
Property and equipment	(353,119)	84,412	21,222	(247,485)	-	(247,485)
Other assets	(52,691)	45,683	-	(7,008)	-	(7,008)
Other liabilities	67,723	(30,291)	-	37,432	37,432	-
Contingent liabilities	442	(7,960)	-	(7,518)	-	(7,518)
Deferred tax asset/(liability)	(526,588)	282,555	(54,118)	(298,151)	169,102	(467,253)

15 Earnings/(loss) per share

In thousand Armenian drams	2020	2019
Profit for the year	238,576	1,326,981
Dividends on preference shares	(384,120)	(385,926)
Net gain/(loss) from ordinary shares of owners	(145,544)	941,055
Weighted average number of ordinary shares (number of shares)	172,886,525	172,886,525
Earnings/(loss) per share – basic	(0.0008418)	0.0054432

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2020	31 December 2019
Cash on hand	8,129,037	8,606,837
Correspondent accounts with CBA	17,858,234	26,116,742
Nostro accounts with other banks	2,478,463	14,873,222
	28,465,734	49,596,801
Less loss allowance	(15,497)	(21,094)
Total cash and cash equivalents	28,450,237	49,575,707

As of 31 December 2020 and 31 December 2019 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed for certain Bank obligations denominated in Armenian drams and Bank obligations denominated in foreign currency. As of 31 December 2020 those funds amounted AMD AMD 20,893,618 thousand (as of 31 December 2019: AMD 24,767,141 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. The mandatory reserve deposits of the Bank are non-interest bearing.

As at 31 December 2020 the correspondent accounts in amount of AMD 1,975,997 thousand (80%) (2019: AMD 13,385,900 thousand (90%)) were due from two commercial banks, which represent significant concentration.

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

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
Cash and cash equivalents		
ECL allowance as at 1 January	21,094	35,785
Net remeasurement of loss allowance	(5,597)	(14,691)
Balance as at 31 December	15,497	21,094

Non-cash transactions performed by the Bank during 2020 are represented by:

- repayment of AMD 1,090,502 thousand loan by repossessing the collateral (2019: AMD 2,423,702 thousand).

17 Derivative financial instruments

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

Whether aggregate contractual or notional amount of derivative financial instruments are favourable or not, the fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

In thousand Armenian drams	31 December 2020			31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Foreign exchange swap contracts	23,252,695	2,020	30,098	17,434,087	912	16,058
Foreign exchange forward	249,761	-	238	2,824,941	-	5,092
Total derivative financial instruments		2,020	30,336		912	21,150

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Deposited funds with the CBA	411,500	211,500
Deposited funds with other banks	840,623	767,747
Deposits in banks	3,523,702	-
Loans to banks	13,155,279	22,293,367
Loans to financial institutions	447,061	44,425
	18,378,165	23,317,039
Less loss allowance for amounts due from financial institutions	(180,645)	(18,521)
Total amounts due from financial institutions	18,197,520	23,298,518

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

Deposited funds with other banks include guaranteed deposits for settlements via VISA and Master Card payment systems transactions.

As of 31 December 2020 the average effective interest rates on loans to banks were 5.03% for loans in USD (2019: 5.19%), 1.75% for loans in EUR (2019: 1.48%).

As of 31 December 2020 the average effective interest rates on deposits in banks were 4.87% for deposits in USD, 1.98% for deposits in EUR, 3.37% for deposits in RUB (2019: none).

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

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
Amount due from financial institutions		
ECL allowance as at 1 January	18,521	71,113
Net remeasurement of loss allowance	162,124	(52,592)
Balance as at 31 December	180,645	18,521

19 Loans and advances to customers

In thousand Armenian drams	31 December 2020			31 December 2019		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	11,213,186	(310,833)	10,902,353	11,255,938	(1,143,162)	10,112,776
Consumer	80,980,868	(6,434,533)	74,546,335	70,680,069	(5,816,646)	64,863,423
	92,194,054	(6,745,366)	85,448,688	81,936,007	(6,959,808)	74,976,199
Commercial lending						
Manufacture	11,289,182	(570,372)	10,718,810	10,634,677	(1,271,962)	9,362,715
Agriculture	847,011	(87,056)	759,955	1,193,391	(161,987)	1,031,404
Construction	9,925,780	(247,659)	9,678,121	9,147,979	(637,565)	8,510,414
Transportation	10,369,526	(356,996)	10,012,530	9,503,919	(218,765)	9,285,154
Trade	12,799,514	(791,485)	12,008,029	15,169,652	(1,439,560)	13,730,092
Services	13,660,221	(1,414,733)	12,245,488	11,312,898	(1,088,492)	10,224,406
Other	15,772,561	(69,092)	15,703,469	14,765,849	(485,016)	14,280,833
	74,663,795	(3,537,393)	71,126,402	71,728,365	(5,303,347)	66,425,018
Total	166,857,849	(10,282,759)	156,575,090	153,664,372	(12,263,155)	141,401,217

As of 31 December 2020 the average effective interest rates on loans and advances to corporate customers were 13.17% for loans in AMD, 11.04% for loans in USD, 5.40% for loans in EUR, 12.59% for loans in RUB, 4.02% for loans in GBP. And the average effective interest rates on loans and advances to individuals were 19.76% for loans in AMD, 12.85% for loans in USD, 10.32% for loans in EUR, 9.33% for loans in RUB (2019: on loans and advances to corporate customers were 13.47% for loans in AMD, 11.54% for loans in USD, 6.45% for loans in EUR, 11.95% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 20.15% for loans in AMD, 12.83% for loans in USD, 13.15% for loans in EUR, 9.44% for loans in RUB).

As of 31 December 2020, the Bank had a concentration of loans represented by AMD 40,033,732 thousand due from the 10 largest third party entities and parties related with them (24% of gross loan portfolio) (2019: AMD 39,003,064 thousand due from the 10 largest third party entities and parties related with them (25% of gross loan portfolio). An allowance of AMD 533,281 thousand (2019: AMD 1,118,856 thousand) was made against these loans.

As of 31 December 2020, the loans to customers with a carrying amount of AMD 894,985 thousand (2019: AMD 943,889 thousand) were the transfer of rights to loans from financial institutions, and AMD 3,057,483 thousand (2019: AMD 3,673,866 thousand) were the transfer of rights to loans from the RA Government (refer to notes 24,26).

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

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	1,756,955	175,279	5,027,574	6,959,808
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	81,644	(13,128)	(68,516)	-
- Transfer to Lifetime ECL not credit-impaired	(69,520)	216,455	(146,935)	-
- Transfer to Lifetime ECL credit-impaired	(252,888)	(147,063)	399,951	-
Net remeasurement of loss allowance	(1,073,970)	(176,500)	6,016,498	4,766,028
New provided loans	770,659	83,601	1,209,642	2,063,902
Recoveries	-	-	3,198,552	3,198,552
Amounts written off during the year	-	-	(10,242,924)	(10,242,924)
Balance at 31 December	1,212,880	138,644	5,393,842	6,745,366

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	71,583	733	5,231,031	5,303,347
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	94,098	(272)	(93,826)	-
- Transfer to Lifetime ECL not credit-impaired	(1,004)	176,971	(175,967)	-
- Transfer to Lifetime ECL credit-impaired	(2,680)	(379)	3,059	-
Net remeasurement of loss allowance	(6,381)	(173,398)	(1,614,173)	(1,793,952)
New provided loans	50,419	2,157	10,140	62,716
Recoveries	-	-	11,270	11,270
Amounts written off during the year	-	-	(45,988)	(45,988)
Balance at 31 December	206,035	5,812	3,325,546	3,537,393

In thousand Armenian drams	2019

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	1,063,745	248,389	4,451,150	5,763,284
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	65,770	(19,528)	(46,242)	-
- Transfer to Lifetime ECL not credit-impaired	(13,453)	26,327	(12,874)	-
- Transfer to Lifetime ECL credit-impaired	(87,128)	(184,596)	271,724	-
Net remeasurement of loss allowance	(606,015)	(49,008)	3,537,232	2,882,209
Net remeasurement of loss allowance for new financial assets originated	1,334,036	153,695	1,324,110	2,811,841
Recoveries	-	-	1,232,196	1,232,196
Amounts written off during the year	-	-	(5,729,722)	(5,729,722)
Balance at 31 December	1,756,955	175,279	5,027,574	6,959,808

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	114,598	10,074	8,187,583	8,312,255
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	24,419	(509)	(23,910)	-
- Transfer to Lifetime ECL not credit-impaired	(249)	249	-	-
- Transfer to Lifetime ECL credit-impaired	(1,979)	(2,033)	4,012	-
Net remeasurement of loss allowance	(93,506)	(7,403)	(1,961,674)	(2,062,583)
Net remeasurement of loss allowance for new financial assets originated	28,300	355	21,678	50,333
Recoveries	-	-	515,221	515,221
Amounts written off during the year	-	-	(1,511,879)	(1,511,879)
Balance at 31 December	71,583	733	5,231,031	5,303,347

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

At 31 December 2020 and 2019 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to note 32.

Maturity analysis of loans and advances to customers are disclosed in note 34.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 35. The information on transactions with related party balances is disclosed in note 31.

20 Investment securities

In thousand Armenian drams	31 December 2020	31 December 2019
Investment securities measured at amortised cost		
RA state bonds	52	10,522,858
Corporate bonds	1,633,703	3,940,523
Less loss allowance	(13,994)	(46,806)
Total investment securities at amortised cost	1,619,761	14,416,575
Investment securities measured at amortised cost pledged under repurchase agreements		
RA state bonds	9,264,041	-
Corporate bonds	3,187,811	-
Less loss allowance	(84,796)	-
Total investment securities at amortised cost pledged under repurchase agreements	12,367,056	-
Total investment securities at amortised cost	13,986,817	14,416,575

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

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	46,806	108,038
Net remeasurement of loss allowance	51,984	(61,232)
Balance as at 31 December	98,790	46,806

In thousand Armenian drams	31 December 2020	31 December 2019
Investment securities measured at FVOCI		
RA state bonds	-	2,076,766
Corporate bonds	-	1,255,767
Equity investments	28,643	21,459
Total investment securities measured at FVOCI	28,643	3,353,992
Debt investment securities measured at FVOCI pledged under repurchase agreements		
RA state bonds	1,158,537	-
RA corporate bonds	1,375,937	-
Total investment securities measured at FVOCI pledged under repurchase agreements	2,534,474	-
Total investment securities measured at FVOCI	2,563,117	3,353,992

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

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
ECL allowance as at 1 January	9,297	26,114
Net remeasurement of loss allowance	23,948	(16,817)
Balance at 31 December	33,245	9,297

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

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. The total amount of financial assets that have been pledged as collateral for liabilities as of 31 December 2020 was AMD 14,986,326 thousand (2019: nil). Refer to note 24.

All debt securities have fixed coupons.

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

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

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	Maturity	%	Maturity
RA state bonds	7.15-12	2021-2025	6-12	2020-2025
Corporate bonds	5-9.9	2021-2025	5-9.9	2021-2022

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

In thousand Armenian drams	31 December 2020		31 December 2019	
	%	Maturity	%	Maturity
RA state bonds	11	2028	10-11	2020-2028
Corporate bonds	5.95-7.5	2021-2022	5.95-7.5	2021-2022

21 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improvement	Machinery and equipment	Vehicles	Fixtures and fittings	Right-of-use assets Land and buildings	Total
Cost or revalued amount							
As of 31 December 2018	5,805,473	246,802	1,003,562	212,475	4,175,206	-	11,443,518
Impact of adopting IFRS 16	-	-	-	-	-	1,144,612	1,144,612
Balance 1 January 2019	5,805,473	246,802	1,003,562	212,475	4,175,206	1,144,612	12,588,130
Additions	187,580	61,472	177,465	110,216	429,085	218,314	1,184,132
Disposals	(301,384)	-	(18,442)	(86,527)	(176,605)	-	(582,958)
Reclassifications	-	-	853	-	(853)	-	-
As of 31 December 2019	5,691,669	308,274	1,163,438	236,164	4,426,833	1,362,926	13,189,304
Revaluation	408,411	-	-	-	-		408,411
Disposal on revaluation	(207,320)						(207,320)
Revaluation increase on a revaluation decrease of the same asset previously recognised in profit or loss	20,145						20,145
Additions	13,449	58,868	110,889	4,232	486,444	534,263	1,208,145
Remeasurment	-	-	-	-	-	317,447	317,447
Disposals	-	(15,107)	(12,254)	-	(149,500)	(256,603)	(433,464)
Reclassification	-	-	71	-	(71)		-
As of 31 December 2020	5,926,354	352,035	1,262,144	240,396	4,763,706	1,958,033	14,502,668
Accumulated depreciation							
As of 1 January 2019	81,680	48,812	586,842	84,897	2,092,235	-	2,894,466
Expenses for the year	70,974	5,081	109,735	22,545	303,359	355,936	867,630
Disposals	(14,226)	-	(17,183)	(45,969)	(33,041)	-	(110,419)
As of 31 December 2019	138,428	53,893	679,394	61,473	2,362,553	355,936	3,651,677
Expenses for the year	71,397	16,112	107,089	23,116	330,067	427,424	975,205
Disposals	-	(15,109)	(11,790)	-	(46,781)	(130,353)	(204,033)
Disposal on revaluation	(207,320)	-	-	-	-	-	(207,320)
Reclassification							
As of 31 December 2020	2,505	54,896	774,693	84,589	2,645,839	653,007	4,215,529
Carrying amount							
As of 31 December 2019	5,553,241	254,381	484,044	174,691	2,064,280	1,006,990	9,537,627
As of 31 December 2020	5,923,849	297,139	487,451	155,807	2,117,867	1,305,026	10,287,139

Revaluation of assets

The land and buildings and computer and communication technologies of the Bank are represented at the revalued amount. The land and buildings owned by the Bank were revaluated by an independent appraiser in December 2020 using the comparative methods resulting in a net increase in amount of AMD 408,411 thousand. Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 5,569,109 thousand as at 31 December 2020 (2019: AMD 5,430,704 thousand).

The computer and communication technologies owned by the Bank were revaluated in December 2018 using the comparative methods resulting in a net increase in amount of AMD 32,831 thousand.

Right-of-use assets

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Lease liabilities are presented in the statement of financial position in the line of other liabilities.

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

Fully depreciated items

As at 31 December 2020 property and equipment included fully depreciated assets in cost of AMD 1,802,306 thousand (2019: AMD 1,606,330 thousand).

Fixed assets in the phase of installation

As at 31 December 2020 fixed assets included assets in the phase of installation amounting AMD 1,628,709 thousand (2019: AMD 1,422,783 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As at 31 December 2020, the Bank had no contractual commitment in respect of investments in fixed assets (2019: either).

22 Intangible assets

In thousand Armenian drams	**Licenses**	**Acquired software licenses**	**Other**	**Total**
Cost				
At 1 January 2019	974,811	1,209,437	101,021	2,285,269
Additions	19,122	404,523	-	423,645
At 31 December 2019	993,933	1,613,960	101,021	2,708,914
Additions	-	513,900	-	513,900
At 31 December 2020	993,933	2,127,860	101,021	3,222,814
Accumulated depreciation				
At 1 January 2019	340,502	248,758	66,664	655,924

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
Amortisation charge	57,793	59,041	2,397	119,231
At 31 December 2019	398,295	307,799	69,061	775,155
Amortisation charge	57,963	85,390	2,404	145,757
At 31 December 2020	456,258	393,189	71,465	920,912
Carrying amount				
At 31 December 2019	595,638	1,306,161	31,960	1,933,759
At 31 December 2020	537,675	1,734,671	29,556	2,301,902

As of 31 December 2020, the Bank did not have contractual commitments in respect of investments in intangible assets.

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

As of 31 December 2020, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 370,160 thousand (2019: AMD 416,509 thousand).

As of 31 December 2020 intangible assets included fully amortized assets in cost of AMD 15,555 thousand (2019: AMD 15,555 thousand).

23 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Accounts receivable	193,402	299,437
Less loss allowance on other assets	(6,883)	(1,084)
Total other financial assets	186,519	298,353
Prepayments and other debtors	684,225	447,213
Repossessed assets	3,964,033	3,593,764
Other prepaid taxes	160,122	124,616
Materials	190,546	166,291
Precious metals	156,072	106,207
Other assets	339,483	760,664
Total non-financial assets	5,494,481	5,198,755
Total other assets	5,681,000	5,497,108

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

In thousand Armenian drams	2020	2019
	12-month ECL	12-month ECL
Other financial assets		
ECL allowance as at 1 January	1,084	523
Net remeasurement of loss allowance	486,548	204,013
Net amounts written off	(480,749)	(203,452)
Balance as at 31 December	6,883	1,084

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

24 Amounts due to financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Correspondent accounts of other banks	347,048	816,565
Current accounts of other financial institutions	309,334	81,441
Loans from financial institutions	12,829,246	5,424,996
Deposits from financial institutions	932,956	1,064,236
Loans from banks under repo agreements	15,155,102	-
Total amounts due to financial institutions	29,573,686	7,387,238

As of 31 December 2020 loans from financial institutions are secured with the transfer of rights of loans from customers in gross amount of AMD 894,985 thousand (943,889 thousand drams in 2019) (refer to note 19).

Loans from banks under repo agreements are secured by investment securities measured at amortized cost at the amount of AMD 12,451,852 thousand and investment securities measured at fair value through other comprehensive income at the amount of AMD 2,534,474 thousand, pledged by the Bank (refer to note 20).

As of 31 December 2020 the average effective interest rates on amounts due to financial institutions was 5.77% for borrowings in AMD (2019: 7.94%) and 2.94% for borrowings in USD (2019: 6.02%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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

25 Amounts due to customers

In thousand Armenian drams	31 December 2020	31 December 2019
Corporate customers		
Current/Settlement accounts	31,596,857	68,725,174
Time deposits	17,849,638	12,049,787
	49,446,495	80,774,961
Retail customers		
Current/Demand accounts	19,432,442	12,775,492
Time deposits	87,926,613	96,188,097
	107,359,055	108,963,589
Total amounts due to customers	156,805,550	189,738,550

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2020 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 7,395,471 thousand (2019: AMD 6,947,177 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2020 the aggregate balance of top eight retail and corporate customers of the Bank amounts to AMD 24,761,743 thousand (2019: AMD 42,494,251 thousand, ten customers) or 15.8% of total retail and corporate customer accounts (2019: 23%).

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

As of 31 December 2020 the average effective interest rates on amounts due to corporate customers were 9.53% for liabilities in AMD, 1.89% for liabilities in USD, 0.51% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 9.26% for liabilities in AMD, 4.19% for liabilities in USD, 3.24% for liabilities in EUR, 5.08% for liabilities in RUB (2019: for corporate customers 10.62% for liabilities in AMD, 6.32% for liabilities in USD, 1.19% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 9.35% for liabilities in AMD, 4.44% for liabilities in USD, 2.84% for liabilities in EUR, 6.21% for liabilities in RUB).

26 Borrowings

In thousand Armenian drams	31 December 2020	31 December 2019
Subordinated debt provided by non-financial organizations	2,091,047	1,919,431
Loans from RA Government	3,812,246	3,975,376
Other borrowing	2,015	12,825
Total borrowings	5,905,308	5,907,632

The amounts due to Government of the RA represent loans received from EIB within the scope of “Small, Medium Business Development” loan program, KFW within the scope of “Development of the Renewable Energies” and “Micro, Small and Medium Business Energy Efficiency Support” loan programs. Loans carry fixed interest rates.

As of 31 December 2020 loans from RA Government are secured with the transfer of rights of loans from customers in gross amount of AMD 3,057,483 thousand (2019: AMD 3,673,866 thousand) (refer to note 19).

The Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 31).

As of 31 December 2020 the average effective interest rate on amounts due to Government of the RA was 5.78% for loans in AMD, (2019: the average effective interest rate was 5.94% for loans in AMD).

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

As of 31 December 2020 average weighted interest rate of borrowings was 12% for loans in USD, 12% for loans in EUR (2019: 12.55% for loans in USD and 12.55% for loans in EUR).

27 Debt securities issued

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

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
13.02.2018	USD	100	50,000	5.5	13.05.2021	5,000,000
22.10.2018	USD	100	50,000	5.5	22.10.2021	5,000,000
20.03.2019	USD	100	10,924	5	20.03.2022	1,092,400
15.11.2019	USD	100	10,000	5.25	15.11.2022	1,000,000
01.09.2020	USD	100	50,000	5.25	01.09.2023	5,000,000
10.09.2020	AMD	10,000	50,000	10.5	10.12.2022	500,000,000

The bonds of the Bank are listed at “NASDAQ OMX Armenia” stock exchange.

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

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

28 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Accounts payables	130,363	149,025
Lease liabilities	1,305,057	1,068,470
Due to personnel	447,391	432,659
Total other financial liabilities	1,882,811	1,650,154
Tax payable, other than income tax	189,921	260,650
Revenues of future periods	63,040	54,495
ECL for guarantee and loan commitments	11,630	42,433
Total other non-financial liabilities	264,591	357,578
Total other liabilities	2,147,402	2,007,732

Lease liabilities

The Bank has leases for the branches. With the exception of short-term leases and leases of low-value underlying assets (refer to note 13), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are presented in the statement of financial position in the line of property and equipment (refer to note 21):

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option [to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term.

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

In thousand Armenian drams	31 December 2020	31 December 2019
As of 1 January (2019: effect of adoption of IFRS 16)	1,068,470	1,144,612
Additions	534,263	218,314
Cessation	(135,834)	-
Remeasurment	317,447	-
Accretion of interest	133,891	136,564
Payments	(613,180)	(431,020)
Total lease liabilities as of 31 December	1,305,057	1,068,470

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10% (2019: 10%).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2020 (refer to note 35.3).

29 Equity

As at 31 December 2020 the Bank's registered and paid-in share capital was AMD 20,489,653 thousand. In accordance with the Bank's statute, the share capital consists of 172,886,525 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2020 and 2019 may be specified as follow:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Uniholding GG Ltd	17,981,523	87.8
Sfikaro Investments Ltd	1,350,900	6.6
Arolova Enterprises Ltd	776,701	3.8
Other	380,529	1.8
	20,489,653	100

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

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2020 the dividends for preference shareholders recognized in the financial statements amounted to AMD 384,120 thousand (2019: AMD 385,926 thousand).

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

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

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

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2020	31 December 2019
Undrawn loan commitments	5,338,936	3,627,200
Guarantees	1,059,334	1,354,075
Total commitments and contingent liabilities	6,398,270	4,981,275

An analysis of changes in the ECLs on financial guarantee and loan commitments as follow:

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
Financial guarantees and loan commitments		
ECL allowance as at 1 January	42,433	79,063
Net remeasurement of loss allowance	(30,803)	(36,630)
Balance as at 31 December	11,630	42,433

The Bank does not have any capital commitments.

Insurance

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

31 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

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

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

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	2,647,202	402,093	5,610,203	464,601
Loans issued during the year	10,283,416	1,901,968	246,560	104,041
Loan repayments during the year	(129,501)	(14,398)	(3,209,561)	(166,549)
Loans outstanding at 31 December gross	12,801,117	2,289,663	2,647,202	402,093
Less: allowance for loan impairment	(27,053)	(45,726)	(2,559)	(757)
Loans outstanding at December 31	12,774,064	2,243,937	2,644,643	401,336
Amounts due from financial institutions				
At January 1	3,024,449	-	2,478,671	-
Increase	25,406,519	-	69,385,726	-
Decrease	(28,172,448)	-	(68,839,948)	-
At December 31	258,520	-	3,024,449	-
Less: allowance impairment	(745)	-	(2,259)	-
Amount outstanding at December 31	257,775	-	3,022,190	-
Amounts due to financial institutions				
At January 1	1,259,852	-	3,336,425	-
Increase	50,810,942	-	72,032,876	-
Decrease	(51,051,973)	-	(74,109,449)	-

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
At December 31	1,018,821	-	1,259,852	-
Amounts due to customers				
At January 1	1,459,242	319,778	3,290,620	273,346
Deposits received during the year	14,326,933	3,463,610	19,580,066	4,365,315
Deposits repaid during the year	(14,046,721)	(3,629,834)	(21,411,444)	(4,318,883)
At December 31	1,739,454	153,554	1,459,242	319,778
Borrowings				
At January 1	1,919,431	-	2,550,179	-
Received during the year	171,616	-	735,935	-
Repaid during the year	-	-	(1,366,683)	-
Borrowings at December 31	2,091,047	-	1,919,431	-
Debt securities issued	-	77,648	-	70,936
Statement of profit or loss or other comprehensive income				
Interest and similar income	900,903	147,276	510,793	53,613
Interest and similar expenses	(321,579)	(11,395)	(423,510)	(31,797)
Charge/(reversal) of credit losses	22,980	44,969	(23,164)	757
Other expenses	-	-	(63,970)	(104,208)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	704,626	771,799
Total key management compensation	704,626	771,799

32 Fair value measurement

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	28,450,237	-	28,450,237	28,450,237
Amounts due from financial institutions	-	18,197,520	-	18,197,520	18,197,520
Loans and advances to customers	-	155,944,518	-	155,944,518	156,575,090
Investments securities measured at amortised cost, including repurchase agreements	1,668,876	13,267,111	-	14,935,987	13,986,817
Other assets	-	186,519	-	186,519	186,519
Financial liabilities					
Amounts due to financial institutions	-	29,166,267	-	29,166,267	29,573,686
Amounts due to customers	-	156,251,677	-	156,251,677	156,805,550
Borrowings	-	5,744,988	-	5,744,988	5,905,308
Issued debt securities	-	9,449,566	-	9,449,566	9,498,202
Other financial liabilities	-	1,882,811	-	1,882,811	1,882,811

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	49,575,707	-	49,575,707	49,575,707
Amounts due from financial institutions	-	23,298,518	-	23,298,518	23,298,518
Loans and advances to customers	-	140,772,451	-	140,772,451	141,401,217
Investments securities measured at amortised cost	1,505,021	14,171,173	-	15,676,194	14,416,575
Other financial assets	-	298,353	-	298,353	298,353
Financial liabilities					
Amounts due to financial institutions	-	7,165,035	-	7,165,035	7,387,238
Amounts due to customers	-	187,959,263	-	187,959,263	189,738,550
Borrowings	-	5,856,056	-	5,856,056	5,907,632
Issued debt securities	-	9,514,794	-	9,514,794	9,523,655
Other financial liabilities	-	1,650,154	-	1,650,154	1,650,154

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 24% per annum (2019: 5% to 24% per annum).

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

Investment securities measured at amortised cost

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

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Due to financial institutions and customers

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

Debt securities issued

The estimated fair value of the issued debt securities is determined based on the estimated future cash flows discounted at the relevant interest rates at the end of the year, which mainly coincides with the current interest rates.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2020
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments securities at FVOCI, including securities pledged with repurchase agreements	-	2,563,117	-	2,563,117
Derivative financial assets	-	2,020	-	2,020
Total	-	2,565,137	-	2,565,137
Financial liabilities				
Derivative financial liabilities	-	30,336	-	30,336
Total	-	30,336	-	30,336
Net fair value	-	2,534,801	-	2,534,801

In thousand Armenian drams				31 December 2019
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments securities at FVOCI	-	3,353,992	-	3,353,992
Derivative financial assets	-	912	-	912
Total	-	3,354,904	-	3,354,904
Financial liabilities				
Derivative financial liabilities	-	21,150	-	21,150
Total	-	21,150	-	21,150
Net fair value	-	3,333,754	-	3,333,754

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

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.

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs. Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

32.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2020
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land and buildings	-	-	5,926,354	5,926,354
Computer and communication technologies	-	-	1,262,144	1,262,144
Total non-financial assets	-	-	7,188,498	7,188,498
Net fair value	-	-	7,188,498	7,188,498

In thousand Armenian drams				31 December 2019
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land and buildings	-	-	5,691,669	5,691,669
Computer and communication technologies	-	-	1,163,438	1,163,438
Total non-financial assets	-	-	6,855,107	6,855,107
Net fair value	-	-	6,855,107	6,855,107

Fair value measurements in Level 3

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

The non-financial assets within this level are as follows:

In thousand Armenian drams			2020
	Land and buildings	***Computer and communication technologies***	**Total**
Non-financial assets			
Balance as at 1 January 2020	5,691,669	1,163,438	6,855,107
Revaluation	408,411	-	408,411
Elimination on revaluation	(207,320)	-	(207,320)
Revaluation increase on decrease from prior revaluations recognized profit	20,145	-	20,145
Additions	13,449	110,889	124,338
Disposal	-	(12,254)	(12,254)
Reclassification	-	71	71
Balance as at 31 December 2020	5,926,354	1,262,144	7,188,498
Net fair value	5,926,354	1,262,144	7,188,498

In thousand Armenian drams			2019
	Land and buildings	***Computer and communication technologies***	**Total**
Non-financial assets			
Balance as at 1 January 2019	5,805,473	1,003,562	6,809,035
Gain recognised in other comprehensive income	-	-	-
Additions	187,580	177,465	365,045
Disposal	(301,384)	(18,442)	(319,826)
Reclassification	-	853	853
Balance as at 31 December, 2019	5,691,669	1,163,438	6,855,107
Net fair value	5,691,669	1,163,438	6,855,107

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2020					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Bank loans under repo agreements (notes 20,24)	15,155,102	-	15,155,102	(14,986,326)	-	168,776
Total	15,155,102	-	15,155,102	(14,901,530)	-	168,776

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2020							
	Demand and less than 1 month	From 1 to 3 months	From 3 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	28,450,237	-	-	28,450,237	-	-	-	28,450,237
Amounts due from financial institutions	1,233,199	-	14,450,397	15,683,596	2,513,924	-	2,513,924	18,197,520
Derivative financial assets	2,020	-	-	2,020	-	-	-	2,020
Loans and advances to customers	30,461,932	6,143,171	30,149,065	66,754,168	51,339,249	38,481,673	89,820,922	156,575,090
Investment securities								
- Investment securities at fair value through other comprehensive income, including securities pledged with repurchase agreements	2,534,474	-	-	2,534,474	28,643	-	28,643	2,563,117
- Investments securities at amortised cost, including securities pledged with repurchase agreements	12,352,967	-	579,086	12,932,053	1,054,764	-	1,054,764	13,986,817
Other financial assets	186,519	-	-	186,519	-	-	-	186,519
	75,221,348	6,143,171	45,178,548	126,543,067	54,936,580	38,481,673	93,418,253	219,961,320

In thousand Armenian drams								31 December 2020
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Liabilities								
Amounts due to financial institutions	24,123,679	270,557	554,347	24,948,583	4,190,581	434,522	4,625,103	29,573,686
Amounts due to customers	59,515,136	8,757,152	37,108,173	105,380,461	51,380,118	44,971	51,425,089	156,805,550
Derivative financial liabilities	30,336	-	-	30,336	-	-	-	30,336
Borrowings	10,321	-	187,432	197,753	3,196,547	2,511,008	5,707,555	5,905,308
Debt securities issued	35,928	29,957	5,225,900	5,291,785	4,206,417	-	4,206,417	9,498,202
Lease liabilities	32,683	62,586	269,756	365,025	931,792	8,240	940,032	1,305,057
Other liabilities	130,363	447,391	-	577,754	-	-	-	577,754
	83,878,446	9,567,643	43,345,608	136,791,697	63,905,455	2,998,741	66,904,196	203,695,893
Net position	(8,657,098)	(3,424,472)	1,832,940	(10,248,630)	(8,968,875)	35,482,932	26,514,057	16,265,427
Accumulated gap	(8,657,098)	(12,081,570)	(10,248,630)		(19,217,505)	16,265,427		

In thousand Armenian drams								31 December 2019
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Cash and cash equivalents	49,575,707	-	-	49,575,707	-	-	-	49,575,707
Amounts due from financial institutions	4,763,008	4,605,090	12,971,020	22,339,118	959,400	-	959,400	23,298,518
Derivative financial assets	912	-	-	912	-	-	-	912
Loans and advances to customers	20,914,959	15,952,018	27,773,641	64,640,618	43,594,119	33,166,480	76,760,599	141,401,217
Investment securities								
- Investment securities at fair value through other comprehensive income	21,459	860,887	-	882,346	1,255,767	1,215,879	2,471,646	3,353,992
- Investments securities at amortised cost	-	-	1,898,751	1,898,751	10,661,765	1,856,059	12,517,824	14,416,575
Other financial assets	298,353	-	-	298,353	-	-	-	298,353
	75,574,398	21,417,995	42,643,412	139,635,805	56,471,051	36,238,418	92,709,469	232,345,274

In thousand Armenian drams								31 December 2019
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Liabilities								
Amounts due to financial institutions	1,048,455	340,930	489,022	1,878,407	4,933,183	575,648	5,508,831	7,387,238
Amounts due to customers	90,850,203	12,230,421	67,621,963	170,702,587	18,989,339	46,624	19,035,963	189,738,550
Derivative financial liabilities	21,150	-	-	21,150	-	-	-	21,150
Borrowings	6,564	-	-	6,564	2,903,637	2,997,431	5,901,068	5,907,632
Debt securities issued	-	324,431	3,398,500	3,722,931	5,800,724	-	5,800,724	9,523,655
Lease liabilities	40,333	80,667	332,925	453,925	610,234	4,311	614,545	1,068,470
Other liabilities	149,025	432,659	-	581,684	-	-	-	581,684
	92,115,730	13,409,108	71,842,410	177,367,248	33,237,117	3,624,014	36,861,131	214,228,379
Net position	(16,541,332)	8,008,887	(29,198,998)	(37,731,443)	23,233,934	32,614,404	55,848,338	18,116,895
Accumulated gap	(16,541,332)	(8,532,445)	(37,731,443)		(14,497,509)	18,116,895		

35 Risk management

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

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity 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 Audit Committee.

Risk measurement and reporting systems

The Bank also runs "worst case" scenarios that would arise in the event that extreme events which are 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.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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 managed accordingly.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

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

35.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 35.1.2.

In thousand Armenian drams				**31 December 2020**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	8,129,037	-	-	8,129,037
Standard	20,336,697	-	-	20,336,697
Gross carrying amount	28,465,734	-	-	28,465,734
Loss allowance	(15,497)	-	-	(15,497)
Net carrying amount	28,450,237	-	-	28,450,237

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Amounts due from banks and other financial institutions				
Standard	18,378,165	-	-	18,378,165
Gross carrying amount	18,378,165	-	-	18,378,165
Loss allowance	(180,645)	-	-	(180,645)
Net carrying amount	18,197,520	-	-	18,197,520
Loans and advances to mortgage and consumer customers				
High grade	74,348,908	-	-	74,348,908
Standard grade	299,936	1,247,392	-	1,547,328
Low grade	-	2,641,553	-	2,641,553
Non-performing grade	-	-	13,656,265	13,656,265
Gross carrying amount	74,648,844	3,888,945	13,656,265	92,194,054
Loss allowance	(1,212,880)	(138,644)	(5,393,842)	(6,745,366)
Net carrying amount	73,435,964	3,750,301	8,262,423	85,448,688
Loans and advances to commercial customers				
High grade	55,214,481	-	-	55,214,481
Standard grade	115,252	351,374	-	466,626
Low grade	-	1,744,515	-	1,744,515
Non-performing grade	-	-	17,238,173	17,238,173
Gross carrying amount	55,329,733	2,095,889	17,238,173	74,663,795
Loss allowance	(206,035)	(5,812)	(3,325,546)	(3,537,393)
Net carrying amount	55,123,698	2,090,077	13,912,627	71,126,402
Debt investment securities at amortised cost, including those pledged				
Standard	14,085,607	-	-	14,085,607
Gross carrying amount	14,085,607	-	-	14,085,607
Loss allowance	(98,790)	-	-	(98,790)
Net carrying amount	13,986,817	-	-	13,986,817
Debt investment securities at FVOCI, including those pledged				
Standard	2,534,474	-	-	2,534,474
Carrying amount-fair value	2,534,474	-	-	2,534,474
Loss allowance	(33,245)	-	-	(33,245)
Other financial assets				
Standard grade	193,402	-	-	193,402
Gross carrying amount	193,402	-	-	193,402
Loss allowance	(6,883)	-	-	(6,883)
Net carrying amount	186,519	-	-	186,519

Loan commitments and financial

In thousand Armenian drams				31 December 2020
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
guarantee				
Standard grade	6,398,270	-	-	6,398,270
	6,398,270	-	-	6,398,270
Loss allowance	(11,630)	-	-	(11,630)

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Cash and cash equivalents				
High	8,606,837	-	-	8,606,837
Standard	40,989,964	-	-	40,989,964
Gross carrying amount	49,596,801	-	-	49,596,801
Loss allowance	(21,094)	-	-	(21,094)
Net carrying amount	49,575,707	-	-	49,575,707
Amounts due from financial institutions				
Standard	23,317,039	-	-	23,317,039
Gross carrying amount	23,317,039	-	-	23,317,039
Loss allowance	(18,521)	-	-	(18,521)
Net carrying amount	23,298,518	-	-	23,298,518
Loans and advances to mortgage and consumer customers				
High grade	66,152,059	-	-	66,152,059
Standard grade	876,387	4,942,996	-	5,819,383
Low grade	-	647,688	-	647,688
Non-performing grade	-	-	9,316,877	9,316,877
Gross carrying amount	67,028,446	5,590,684	9,316,877	81,936,007
Loss allowance	(1,756,955)	(175,279)	(5,027,574)	(6,959,808)
Net carrying amount	65,271,491	5,415,405	4,289,303	74,976,199
Loans and advances to commercial customers				
High grade	38,656,568	-	-	38,656,568
Standard grade	3,872,826	2,426,309	-	6,299,135
Low grade	-	46,483	-	46,483
Non-performing grade	-	-	26,726,179	26,726,179
Gross carrying amount	42,529,394	2,472,792	26,726,179	71,728,365
Loss allowance	(71,583)	(733)	(5,231,031)	(5,303,347)
Net carrying amount	42,457,811	2,472,059	21,495,148	66,425,018

Debt investment securities at amortised

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
cost				
High	-	-	-	-
Standard	14,463,381	-	-	14,463,381
Low	-	-	-	-
Non-performing	-	-	-	-
Gross carrying amount	14,463,381	-	-	14,463,381
Loss allowance	(46,806)	-	-	(46,806)
Net carrying amount	14,416,575	-	-	14,416,575
Debt investment securities at FVOCI				
Standard	3,332,533	-	-	3,332,533
Carrying amount-fair value	3,332,533	-	-	3,332,533
Loss allowance	(9,297)	-	-	(9,297)
Other financial assets				
Standard grade	299,437	-	-	299,437
Gross carrying amount	299,437	-	-	299,437
Loss allowance	(1,084)	-	-	(1,084)
Net carrying amount	298,353	-	-	298,353
Loan commitments and financial guarantee				
Standard grade	4,981,275	-	-	4,981,275
	4,981,275	-	-	4,981,275
Loss allowance	(42,433)	-	-	(42,433)

Credit exposures arising from derivative transactions see note 17.

35.1.2 Impairment assessment

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

Significant increase in credit risk

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

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

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

Criteria for loans and advances to customers

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

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

Criteria for amounts due from financial institutions

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

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

Criteria for Investment securities

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

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is

taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

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

Credit risk grades

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

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

		2020	2019
International external rating agency (S&P) rating	**Grade**	**12 month PD**	**12 month PD**
AAA to A-	Hight	0.001-0.040%	0.001-0.04%
BBB+ to B-	Standard	0.059-7.207%	0.052-7.48%
CCC+ to CC	Substandard	12.834-23.604%	13.385-29.13%
D	Non-Performing	100%	100%

Collective or individual assessment

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

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

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

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

Definition of default and cure

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

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

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

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

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

Forborne and modified loan

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

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

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

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

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

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

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

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

In thousand Armenian drams	**2020**	**2019**
Amortised costs of financial assets modified during the period	2,947,861	375,362
Net modification loss	(479,994)	(82,102)

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

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

35.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	26,056,964	649,239	1,744,034	28,450,237
Amounts due from financial institutions	17,041,071	396,943	759,506	18,197,520
Derivative financial assets	-	-	2,020	2,020
Loans and advances to customers	140,561,417	15,569,992	443,681	156,575,090
Investment securities				
- Investment securities at fair value through other comprehensive income, including securities pledged under repurchase agreements	2,563,117	-	-	2,563,117
- Investment securities at amortised cost, including securities pledged under repurchase agreements	13,986,817	-	-	13,986,817
Other financial assets	159,678	-	26,841	186,519
As of 31 December 2020	200,369,064	16,616,174	2,976,082	219,961,320
As of 31 December 2019	207,604,552	19,700,407	5,040,315	232,345,274

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The Bank's main credit exposure as categorized by the industry sectors of the counterparties as of 31 December 2020 are concentrated in financial sector except for the loans. For the loan industry sector please see note 19.

35.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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

As of 31 December 2020 allowance for ECL on loans at the total amount of 53,724,834 thousand has not been recognized because of collaterals (2019: AMD 21,303,216 thousand).

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 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 loan portfolio by collateral is represented as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
Loans collateralized by real estate	77,063,123	73,000,400
Loans collateralized by movable property	13,588,087	12,933,173
Loans collateralized by goods in circulation	1,403,860	520,061
Loans collateralized by guarantees	5,903,726	6,776,599
Loans collateralized by cash	5,442,039	2,781,320
Loans collateralized by household appliances	25,697,470	20,300,154
Unsecured loans	37,759,544	37,352,665
Total loans and advances to customers (gross)	166,857,849	153,664,372

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

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 Market risk – Non-trading

Interest rate risk

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for the period, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2020.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2020 for the effects of the assumed changes in interest rates.

In thousand Armenian drams		2020	2019
Currency	Change in basis points	Sensitivity of equity	Sensitivity of equity
AMD	+1	(54,209)	(65,707)
AMD	-1	57,844	70,475

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 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 income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2020		31 December 2019	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	613,990	+5	(1,096,197)
EUR	+5	95,970	+5	846,010
USD	(5)	(613,990)	(5)	1,096,197
EUR	(5)	(95,970)	(5)	(846,010)

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

	31 December 2020			
In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	12,640,559	15,292,850	516,828	28,450,237
Amounts due from financial institutions	265,723	17,784,282	147,515	18,197,520
Loans and advances to customers	80,717,218	72,743,957	3,113,915	156,575,090
Investment securities				
- Investment securities at fair value through other comprehensive income, including securities pledged under repurchase agreements	1,187,180	1,375,937	-	2,563,117
- Investments securities at amortised cost, including securities pledged under repurchase agreements	4,512,794	9,474,023	-	13,986,817
Other financial assets	159,723	26,796	-	186,519
Total	99,483,197	116,697,845	3,778,258	219,959,300

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
				31 December 2020
Assets				
Liabilities				
Amounts due to financial institutions	12,596,751	16,976,918	17	29,573,686
Amounts due to customers	73,106,756	78,862,470	4,836,324	156,805,550
Borrowings	3,812,246	2,093,062	-	5,905,308
Debt securities issued	9,498,202	-	-	9,498,202
Other financial liabilities	1,881,693	1,118	-	1,882,811
Total	100,895,648	97,933,568	4,836,341	203,665,557
Total effect of derivative financial instruments	2,611,536	(4,474,459)	1,834,607	(28,316)
Net position as of 31 December 2020	1,199,085	14,289,818	776,524	16,265,427
Commitments and contingent liabilities as of 31 December 2020	1,845,561	4,548,497	4,212	6,398,270
Total financial assets	102,763,228	124,824,609	4,756,525	232,344,362
Total financial liabilities	84,996,065	122,711,448	6,499,716	214,207,229
Total effect of derivative financial instruments	12,882,472	(17,434,107)	4,531,397	(20,238)
Net position as of 31 December 2019	30,649,635	(15,320,946)	2,788,206	18,116,895
Commitments and contingent liabilities as of 31 December 2019	2,548,570	2,432,705	-	4,981,275

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

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. 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.

As of 31 December, these ratios were as follows:

	Unaudited	
	31 December 2020, %	31 December 2019, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	19.89	30.72
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	71.96	88.86

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations. Refer to note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Analysis of financial liabilities by remaining contractual maturities.

In thousand Armenian drams	31 December 2020						
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Total
Non-derivative financial liabilities							
Amounts due to financial institutions	24,150,975	273,254	614,168	5,354,800	671,222	31,064,419	29,573,686
Amounts due to customers	59,523,932	8,854,317	38,722,144	58,298,923	85,898	165,485,214	156,805,550
Borrowings	10,321	-	234,598	4,391,453	4,382,674	9,019,046	5,905,308
Debt securities issued	35,928	97,343	5,553,857	4,533,554	-	10,220,682	9,498,202
Lease liabilities	43,436	81,983	348,203	1,035,879	10,500	1,520,001	1,305,057
Other financial liabilities	130,363	447,391	-	-	-	577,754	577,754
Total undiscounted non-derivative financial liabilities	83,894,955	9,754,288	45,472,970	73,614,609	5,150,294	217,887,116	203,665,557
Derivative financial liabilities							
Foreign exchange forward contracts							
Inflow	249,523	-	-	-	-	249,523	249,523
Outflow	(249,761)	-	-	-	-	(249,761)	(249,761)
Foreign exchange swap contracts							
Inflow	21,911,025	-	-	-	-	21,911,025	21,911,025
Outflow	(21,941,123)	-	-	-	-	(21,941,123)	(21,941,123)
Commitments and contingent liabilities	1,340,649	632,639	2,449,063	1,975,919	-	6,398,270	6,398,270

In thousand Armenian drams	31 December 2019						
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Total
Non-derivative financial liabilities							
Amounts due to financial institutions	1,049,342	344,907	524,038	6,379,593	935,077	9,232,957	7,387,238
Amounts due to customers	90,876,669	12,352,705	70,071,399	22,228,164	96,572	195,625,509	189,738,550
Borrowings	6,563	-	-	4,284,697	4,949,789	9,241,049	5,907,632
Debt securities issued	-	392,051	3,778,872	6,081,721	-	10,252,644	9,523,655
Lease liabilities	44,375	88,749	380,564	1,022,573	33,606	1,569,867	1,068,470
Other financial liabilities	149,025	432,659	-	-	-	581,684	581,684
Total undiscounted non-derivative financial liabilities	92,558,633	13,178,412	74,754,873	39,996,748	6,015,044	226,503,710	214,207,229
Derivative financial liabilities							
Foreign exchange forward contracts							
Inflow	2,819,848	-	-	-	-	2,819,848	2,819,848
Outflow	(2,824,940)	-	-	-	-	(2,824,940)	(2,824,940)
Foreign exchange swap contracts							
Inflow	15,505,383	-	-	-	-	15,505,383	15,505,383
Outflow	(15,521,441)	-	-	-	-	(15,521,441)	(15,521,441)
Commitments and contingent liabilities	292,780	357,737	1,540,849	1,622,982	1,166,927	4,981,275	4,981,275

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 34. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as of 31 December 2020 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

35.4 Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Risk Management department, Board, Executive Management. 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.

36 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 December 2020
	Amounts due to financial institutions	Borrowings	Debt securities issued	Lease liabilities	Total
As of 1 January 2020	7,387,238	5,907,632	9,523,655	1,068,470	23,886,995
Cash-flows	*21,971,666*	*(337,930)*	*(757,846)*	*(479,289)*	*20,396,601*
Repayments	(1,004,555,861)	(4,674,643)	(10,126,976)	(613,180)	(1,019,970,660)
Proceeds	1,026,527,527	4,336,713	9,369,130	133,891	1,040,367,261
Non-cash	*214,782*	*335,606*	*732,393*	*715,876*	*1,998,657*
Adjustment on lease liabilities	-	-	-	534,263	534,263
Remeasurment on lease liabilities	-	-	-	181,613	181,613
Foreign exchange differences	203,893	230,652	723,847	-	1,158,392
Accrued interest	10,889	104,954	8,546	-	124,389
As of 31 December 2020	29,573,686	5,905,308	9,498,202	1,305,057	46,282,253

In thousand Armenian drams **31 December 2019**

	Amounts due to financial institutions	Borrowings	Debt securities issued	Lease liabilities	Total
As of 1 January 2019	6,102,150	6,636,888	8,576,459	-	21,315,497
Cash-flows	*393,223*	*(707,327)*	*1,009,895*	*(431,020)*	*264,771*
Repayments	(664,221,019)	(7,461,199)	(4,809,153)	(431,020)	(676,922,391)
Proceeds	664,614,242	6,753,872	5,819,048	-	677,187,162
Non-cash	*891,865*	*(21,929)*	*(62,699)*	*1,499,490*	*2,306,727*
Transition to IFRS 16	-	-	-	1,144,612	1,144,612
Adjustment on lease liabilities	-	-	-	218,314	218,314
Foreign exchange differences	(6,141)	(79,181)	(133,054)	-	(218,376)
Accrued interest	898,006	57,252	70,355	136,564	1,162,177
As of 31 December 2019	7,387,238	5,907,632	9,523,655	1,068,470	23,886,995

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

	Unaudited	
In thousand Armenian drams	31 December 2020	31 December 2019
Tier 1 capital	27,881,604	28,833,756
Tier 2 capital	3,090,999	2,615,083
Total regulatory capital	30,972,603	31,448,839
Risk-weighted assets	256,608,144	215,846,527
Capital adequacy ratio	12.07%	14.57%

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, the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks.

38 Segment reporting

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 "Operating Segments".

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.