

ID Bank CJSC

Financial Statements

for the year ended 31 December 2020

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Independent Auditors' Report

To the Shareholders and Council of ID Bank CJSC

Opinion

We have audited the financial statements of ID Bank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (*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 these requirements and the IESBA Code. 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.

Expected credit losses for loans to customers	
Please refer to the Note 25(b) and Note 15 in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Loans to customers represent over 50% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 <i>Financial Instruments</i> (hereinafter, "IFRS 9")); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for forward-looking information; - expected cash flows forecast, including from realization of collateral for loans to customers classified in Stage 3. <p>Moreover, the Bank has a portfolio of loans and advances to customers, the terms of which have been modified as a result of implications of COVID-19, which creates additional complexity in identification of significant increase in credit risk.</p> <p>Due to the significant volume of loans to customers, and complexity and subjectivity over estimating timing and amount of ECL this area is a key audit matter.</p>	<p>We analysed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate our audit procedures included the following:</p> <ul style="list-style-type: none"> - for loans to corporate clients we assessed and tested the design, implementation and operating effectiveness of the controls over allocation of loans into Stages. - for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. - for a sample of loans to corporate clients, we tested the correctness of data inputs for PD and LGD calculation. - for a sample of Stage 3 loans, where ECL are assessed individually, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements. - for loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. In addition, we assessed the reasonableness of the Bank's treatment of COVID-19 payment holidays to customers from a significant increase in credit risk perspective. We agreed input data to supporting documents on a sample basis.

	<ul style="list-style-type: none"> - for loans to corporate and individual customers, where ECL are assessed collectively, we tested the correctness of the related models and reconciled the model input data against primary documents on a sample basis. - we assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2020 with the actual results for 2020. - we assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk. In addition we challenged whether the disclosures of the key judgments and assumptions made, including in respect of COVID-19, were sufficiently informative.
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Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS, 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.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditors' 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 auditors' report is:



Irina Gevorgyan
Engagement Partner

Tigran Gasparyan
Director

KPMG Armenia LLC
29 April 2021

	Notes	2020 AMD'000	2019 AMD'000
Interest income calculated using the effective interest method	4	13,491,380	12,325,560
Interest expense	4	(5,265,928)	(4,691,954)
Net interest income		8,225,452	7,633,606
Fee and commission income	5	1,577,052	891,540
Fee and commission expense	5	(1,681,729)	(797,076)
Net fee and commission (expense)/income		(104,677)	94,464
Net foreign exchange gain	6	935,793	1,226,290
Net loss on other financial instruments at fair value through profit or loss		(344,236)	(550,515)
Net realised gain on investment securities		1,299,081	1,324
Net other operating income	7	406,284	671,419
Operating income		10,417,697	9,076,588
Net impairment losses on financial instruments	8	(2,176,258)	(136,539)
Personnel expenses		(3,627,125)	(3,326,719)
Other general administrative expenses	9	(2,917,238)	(2,469,057)
Profit before income tax		1,697,076	3,144,273
Income tax expense	10	(525,614)	(588,765)
Profit for the year		1,171,462	2,555,508
Other comprehensive (loss)/income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve for investment securities:			
- Net change in fair value	10	607,361	737,063
- Net amount reclassified to profit or loss	10	(1,065,246)	(1,059)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>(457,885)</i>	<i>736,004</i>
Other comprehensive (loss)/income for the year, net of income tax		(457,885)	736,004
Total comprehensive income for the year		713,577	3,291,512

The financial statements as set out on pages 7 to 87 were approved by Management on 29 April 2021 and were signed on its behalf by:

Mher Abrahamyan
Chairman of the Management Board

Anushik Khachatryan
Chief Accountant

ID Bank CJSC
Statement of Financial Position as at 31 December 2020

	Notes	2020 AMD'000	2019 AMD'000
ASSETS			
Cash and cash equivalents	11	17,217,615	14,337,037
Investment securities measured at fair value through other comprehensive income	12		
- Held by the Bank		6,040,756	6,502,509
- Pledged under sale and repurchase agreements		2,443,334	2,260,311
Investment securities measured at amortised cost	12		
- Held by the Bank		6,606,680	11,270,882
- Pledged under sale and repurchase agreements		14,059,182	11,829,493
Derivative financial assets		-	4,312
Loans and advances to banks and other financial institutions	13	17,819,238	10,305,167
Amounts receivable under reverse repurchase agreements	14	6,039,207	4,767,263
Loans to customers	15	94,522,560	77,379,245
Current tax asset		-	99,786
Property, equipment and intangible assets	16	6,722,661	5,810,745
Right of use asset	17	1,493,835	1,606,304
Repossessed assets	15	2,484,925	1,476,007
Other assets	18	1,480,526	2,407,470
Total assets		176,930,519	150,056,531
LIABILITIES			
Derivative financial liabilities		19,040	-
Deposits and balances from banks and other financial institutions	19	26,812,253	20,129,742
Amounts payable under repurchase agreements	20	20,785,812	16,292,695
Debt securities issued	21	13,416,535	6,700,803
Current accounts and deposits from customers	22	66,773,517	58,819,120
Deferred tax liabilities	10	1,011,619	1,389,630
Lease liability	17	1,542,646	1,638,420
Current tax liabilities		661,306	-
Other liabilities	23	1,638,580	1,530,487
Total liabilities		132,661,308	106,500,897
EQUITY			
Share capital	24	33,971,850	33,971,850
Share premium		5,014,099	5,014,099
Revaluation surplus for buildings		105,601	110,808
Fair value reserve for investment securities		385,096	842,981
Retained earnings		4,792,565	3,615,896
Total equity		44,269,211	43,555,634
Total liabilities and equity		176,930,519	150,056,531

The statement financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2020 AMD'000	2019 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		13,423,198	11,807,607
Interest payments		(5,483,882)	(4,300,316)
Fee and commission receipts		1,577,052	891,540
Fee and commission payments		(1,681,729)	(797,076)
Net payments from financial instruments at fair value through profit or loss		(320,641)	(556,359)
Net receipts from foreign exchange		368,566	848,241
Other income receipts		411,491	526,668
Personnel and other general administrative expenses payments		(5,613,721)	(4,957,374)
(Increase)/decrease in operating assets			
Amounts receivable under reverse repurchase agreements		(1,269,114)	(1,337,205)
Loans and advances to banks and other financial institutions		(6,197,277)	2,735,830
Loans to customers		(16,056,000)	(15,669,226)
Other assets		779,927	(695,093)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		6,180,007	13,645,608
Amounts payable under repurchase agreements		3,685,688	9,545,547
Current accounts and deposits from customers		4,955,856	2,913,084
Other liabilities		149,034	215,094
Net cash (used in)/provided by operating activities before income tax paid		(5,091,545)	14,816,570
Income tax paid		(18,000)	-
Cash flows (used in)/from operating activities		(5,109,545)	14,816,570
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(2,508,324)	(8,368,271)
Proceeds from sale and repayment of investment securities		6,141,496	2,737,112
Purchases of property, equipment and intangible assets		(1,710,632)	(1,980,597)
Dividends received		-	144,751
Cash flows from/(used in) investing activities		1,922,540	(7,467,005)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	21	5,708,144	4,252,464
Repayment of debt securities issued	21	-	(8,207,150)
Repayment of lease liability	17	(290,591)	(282,238)
Cash flows from/(used in) financing activities		5,417,553	(4,236,924)
Net increase in cash and cash equivalents		2,230,548	3,112,641
Effect of changes in exchange rates on cash and cash equivalents		654,234	(37,750)
Effect of changes in ECL on cash and cash equivalents		(4,204)	1,390
Cash and cash equivalents as at the beginning of the year		14,337,037	11,260,756
Cash and cash equivalents as at the end of the year	11	17,217,615	14,337,037

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation surplus for buildings	Fair value reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2019	33,971,850	5,014,099	110,808	106,977	1,060,388	40,264,122
Total comprehensive income						
Profit for the year	-	-	-	-	2,555,508	2,555,508
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	737,063	-	737,063
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,059)	-	(1,059)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	736,004	-	736,004
Total other comprehensive income	-	-	-	736,004	-	736,004
Total comprehensive income for the year	-	-	-	736,004	2,555,508	3,291,512
Balance as at 31 December 2019	33,971,850	5,014,099	110,808	842,981	3,615,896	43,555,634
Balance as at 1 January 2020	33,971,850	5,014,099	110,808	842,981	3,615,896	43,555,634
Total comprehensive income						
Profit for the year	-	-	-	-	1,171,462	1,171,462
Other comprehensive loss						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	607,361	-	607,361
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,065,246)	-	(1,065,246)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	(457,885)	-	(457,885)
<i>Items that will not be reclassified to profit or loss:</i>						
Sales of revalued property, equipment and intangible assets	-	-	(5,207)	-	5,207	-
<i>Total items that will not be reclassified to profit or loss</i>	-	-	(5,207)	-	5,207	-
Total other comprehensive loss	-	-	(5,207)	(457,885)	5,207	(457,885)
Total comprehensive income for the year	-	-	(5,207)	(457,885)	1,176,669	713,577
Balance as at 31 December 2020	33,971,850	5,014,099	105,601	385,096	4,792,565	44,269,211

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

ID Bank CJSC (the “Bank”) was established in the Republic of Armenia as a limited liability company in 1990, and reorganised into a closed joint stock company in 2007. Previously the bank operated under the brand name “Anelik Bank” CJSC. In June 2018 the Bank was renamed to ID Bank CJSC.

The principal activities of the bank are deposit taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The activities of the Bank are regulated by the Central Bank of Armenia (the “CBA”). The Bank has a general banking license and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank’s registered office is 13 Vardanants Street, Yerevan 0010, Republic of Armenia. The Bank has 13 branches. The majority of its assets and liabilities are located in the Republic of Armenia.

The Bank’s shareholders are FISTOCO LTD (59.68%) and Creditbank SAL (40.32%). The Bank is ultimately controlled by a single individual, Mr. Vartan Dilanyan.

Related party transactions are described in detail in Note 29.

(b) Armenian business environment

The Bank’s operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia.

The COVID-19 coronavirus pandemic jointly with military escalation in Nagorno-Karabakh in September 2020 has led to economic downturn. However, cease-fire arrangement over disputed Nagorno-Karabakh territories and positive trend related to COVID-19 statistics allowed government to reopen economy with very limited restrictions and created positive expectations going forward.

The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss (FVTPL) and investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value, and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 25(b).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 25(b);
- estimates of fair values of financial assets and liabilities – Note 30;
- building revaluation estimates – Note 16;
- assessment of impairment of repossessed assets – Note 15.

(e) Changes in significant accounting policies

A number of amendments to the existing standards are effective from 1 January 2020 but they do not have a material effect on the Bank's financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 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 3(e)(vi).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Financial assets and financial liabilities

Financial assets

i. Classification

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

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

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

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

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

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

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

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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 other comprehensive income. This election is made on an investment-by-investment basis.

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 other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

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.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassification

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

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

*ii. Derecognition***Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, 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 other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). 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.

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.

Financial liabilities

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

iii. Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within borrowings and other balances from banks. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

v. Modification 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 (referred to as 'substantial modification'), 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 and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBA key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

vi. Impairment

See also Note 25(b).

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

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 (see Note 25(b)).

The Bank does not apply the low credit risk exemption to any financial instruments.

12-month ECL 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. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 25(b).

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 3(e)(ii)) 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 (see Note 25(b)).
- 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 (referred to as ‘Stage 3 financial assets’). 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 addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

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.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *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; and
- *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 recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

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.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on debt financial assets'.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

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

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI (see Note 3(e)(i)); and
- equity investment securities designated as at FVOCI (see Note 3(e)(i)).

(h) Deposits, debt securities issued and loans from banks and other financial institutions

Deposits, debt securities issued and loans from banks and other financial institutions are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

(i) 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 (see Note 3(e)(vi)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognises a loss allowance (see Note 3(e)(vi)) in accordance with IFRS 9.

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

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	50 years
- leasehold improvements	10 years
- computers and communication equipment	4-10 years
- motor vehicles	10 years
- fixtures and fittings	10 years

(k) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 to 10 years.

(l) Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

(m) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Share premium

Amount paid in excess of par value of shares issued is recognised as a share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(p) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(q) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Management considers that the Bank comprises of one operating segment.

(r) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

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

(s) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

A. Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied.

B. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

(i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

(ii) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas.

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

(iii) Disclosure

The amendments will require the Bank to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

C. Other standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*

4 Net interest income

	2020 AMD'000	2019 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	9,788,219	8,974,794
Investment securities	2,894,599	2,751,228
Loans and advances to banks and other financial institutions	298,884	326,423
Amounts receivable under reverse repurchase agreements	502,763	267,456
Other	6,915	5,659
	13,491,380	12,325,560
Interest expense		
Current accounts and deposits from customers	2,901,795	2,546,602
Amounts payable under repurchase agreements	632,627	713,458
Deposits and balances from banks and other financial institutions	878,357	566,820
Debt securities issued	488,757	470,604
Lease liabilities	80,357	93,781
Other borrowed funds	65,181	57,326
Other	218,854	243,363
	5,265,928	4,691,954
Net interest income	8,225,452	7,633,606

5 Net fee and commission (expense)/income

	2020 AMD'000	2019 AMD'000
Fee and commission income		
Plastic card servicing	1,066,878	524,020
Remittances	227,304	201,443
Cash withdrawal and accounts service	110,616	121,792
Other	172,254	44,285
	1,577,052	891,540
Fee and commission expense		
Card transactions	1,058,237	521,686
Payment systems services	491,682	85,859
Other	131,810	189,531
	1,681,729	797,076
Net fee and commission (expense)/income	(104,677)	94,464

6 Net foreign exchange gain

	2020 AMD'000	2019 AMD'000
Gain on spot transactions	368,566	848,241
Gain from revaluation of financial assets and liabilities	567,227	378,049
	935,793	1,226,290

7 Net other operating income

	2020 AMD'000	2019 AMD'000
Fines and penalties received	240,247	471,943
Dividends received	-	144,751
Gain/(loss) from sale of repossessed assets	7,336	(235)
Other	158,701	54,960
	406,284	671,419

8 Net impairment losses on financial instruments

	2020 AMD'000	2019 AMD'000
Loans to customers and loan commitments	1,688,869	150,133
Investment securities at amortized cost	114,726	(1,421)
Other financial assets	371,499	(8,860)
Financial guarantees given	1,164	(3,313)
	2,176,258	136,539

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income for 2020 and 2019:

2020 AMD'000	Net remeasurement of loss allowance	New financial assets originated or purchased	Recoveries/ (Write of)	Total
Cash and cash equivalents	2,243	(6,447)	-	(4,204)
Loans and advances to banks and other financial institutions at amortized cost	10,419	(21,478)	-	(11,059)
Amounts receivable under reverse repurchase agreements at amortized cost	2,300	(6,261)	-	(3,961)
Loans to customers at amortised cost – corporate customers	(1,291,652)	(84,209)	-	(1,375,861)
Loans to customers at amortised cost – retail customers	(351,099)	(177,309)	215,400	(313,008)
Other financial assets at amortized cost	(191,689)	(120,668)	(39,918)	(352,275)
Investment securities at amortized cost	(114,726)	-	-	(114,726)
Financial guarantees given	716	(1,880)	-	(1,164)
Total	(1,933,488)	(418,252)	175,482	(2,176,258)

2019	Net remeasurement of loss allowance	New financial assets originated or purchased	Recoveries of amounts previously written off	Total
AMD'000				
Cash and cash equivalents	3,633	(2,243)	-	1,390
Loans and advances to banks and other financial institutions at amortized cost	22,967	(12,673)	-	10,294
Amounts receivable under reverse repurchase agreements at amortized cost	2,017	(2,300)	-	(283)
Loans to customers at amortised cost – corporate customers	(814,672)	(73,308)	216,561	(671,419)
Loans to customers at amortised cost – retail customers*	(410,459)	(214,389)	1,146,134	521,286
Other financial assets at amortized cost	196	(2,737)	-	(2,541)
Investment securities at amortized cost	(21,181)	22,602	-	1,421
Financial guarantees given	3,745	(432)	-	3,313
Total	(1,213,754)	(285,480)	1,362,695	(136,539)

* In accordance with the decision of the Government of the Republic of Armenia from 11 June 2018, penalties originated from defaulted loans to retail customers were forgiven. As a result, during 2019 a significant number of customers repaid the principal and accrued interest balances written off primarily during 2013-2017.

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2020.

AMD'000	2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Balance at 1 January	(2,243)	-	-	(2,243)
Net remeasurement of loss allowance	2,243	-	-	2,243
New financial assets originated or purchased	(6,447)	-	-	(6,447)
Balance at 31 December	(6,447)	-	-	(6,447)

AMD'000	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks and other financial institutions at amortized cost				
Balance at 1 January	(31,240)	-	-	(31,240)
Net remeasurement of loss allowance	10,419	-	-	10,419
New financial assets originated or purchased	(21,478)	-	-	(21,478)
Balance at 31 December	(42,299)	-	-	(42,299)

AMD'000	2020			
	Stage 1	Stage 2	Stage 3	Total
Amounts receivable under reverse repurchase agreements at amortized cost				
Balance at 1 January	(2,300)	-	-	(2,300)
Net remeasurement of loss allowance	2,300	-	-	2,300
New financial assets originated or purchased	(6,261)	-	-	(6,261)
Balance at 31 December	(6,261)	-	-	(6,261)

AMD'000	2020*			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(147,480)	(4,056)	(9,826,711)	(9,978,247)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	276	(11,454)	11,178	-
Transfer to Stage 3	246	681	(927)	-
Net remeasurement of loss allowance	46,131	2,384	(1,340,167)	(1,291,652)
New financial assets originated or purchased	(84,209)	-	-	(84,209)
Write offs	-	-	681,475	681,475
Balance at 31 December	(185,036)	(12,445)	(10,475,152)	(10,672,633)

The most significant transfer during the year represented transfer of loans to corporate customers with gross balance of AMD 502,978 thousand from Stage 1 to Stage 2 following the COVID-19 pandemic. The ECL was not significantly affected due to high collateralisation of those loans.

AMD'000	2020*			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(262,949)	(30,084)	(614,640)	(907,673)
Transfer to Stage 1	(35,205)	3,800	31,405	-
Transfer to Stage 2	7,111	(18,025)	10,914	-
Transfer to Stage 3	5,473	2,185	(7,658)	-
Net remeasurement of loss allowance	13,965	(165,248)	(199,816)	(351,099)
New financial assets originated or purchased	(177,309)	-	-	(177,309)
Balance at 31 December	(448,914)	(207,372)	(779,795)	(1,436,081)

* The loss allowance in these tables includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

The most significant transfer during the year represented the following:

- Transfer of loans to retail customers with gross balance of AMD 797,613 thousand from Stage 1 to Stage 2 following the COVID-19 pandemic, resulting in corresponding increase in ECL.
- Transfer of loans to retail customers with gross balance of AMD 724,533 thousand from Stage 1 to Stage 3 following the COVID-19 pandemic, resulting in corresponding increase in ECL.

AMD'000	2020			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets at amortized cost				
Balance at 1 January	(3,201)	-	-	(3,201)
Transfer to Stage 3	1,499	-	(1,499)	-
Net remeasurement of loss allowance	(4,973)	-	(186,716)	(191,689)
New financial assets originated or purchased	(6,186)	-	(114,482)	(120,668)
Balance at 31 December	(12,861)	-	(302,697)	(315,558)

AMD'000	2020			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at amortized cost				
Balance at 1 January	(35,323)	-	-	(35,323)
Net remeasurement of loss allowance	(114,726)	-	-	(114,726)
Balance at 31 December	(150,049)	-	-	(150,049)

	2020			
	Stage 1	Stage 2	Stage 3	Total
AMD'000				
Financial guarantees given				
Balance at 1 January	(1,288)	-	-	(1,288)
Net remeasurement of loss allowance	716	-	-	716
New financial assets originated or purchased	(1,880)	-	-	(1,880)
Balance at 31 December	(2,452)	-	-	(2,452)

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2019.

	2019			
	Stage 1	Stage 2	Stage 3	Total
AMD'000				
Cash and cash equivalents				
Balance at 1 January	(3,633)	-	-	(3,633)
Net remeasurement of loss allowance	3,633	-	-	3,633
New financial assets originated or purchased	(2,243)	-	-	(2,243)
Balance at 31 December	(2,243)	-	-	(2,243)

	2019			
	Stage 1	Stage 2	Stage 3	Total
AMD'000				
Loans and advances to banks and other financial institutions at amortized cost				
Balance at 1 January	(41,534)	-	-	(41,534)
Net remeasurement of loss allowance	22,967	-	-	22,967
New financial assets originated or purchased	(12,673)	-	-	(12,673)
Balance at 31 December	(31,240)	-	-	(31,240)

	2019			
	Stage 1	Stage 2	Stage 3	Total
AMD'000				
Amounts receivable under reverse repurchase agreements at amortized cost				
Balance at 1 January	(2,017)	-	-	(2,017)
Net remeasurement of loss allowance	2,017	-	-	2,017
New financial assets originated or purchased	(2,300)	-	-	(2,300)
Balance at 31 December	(2,300)	-	-	(2,300)

	2019*			
	Stage 1	Stage 2	Stage 3	Total
AMD'000				
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(204,067)	(782)	(8,950,759)	(9,155,608)
Transfer to Stage 1	115	(33)	(82)	-
Transfer to Stage 2	(75)	327	(252)	-
Transfer to Stage 3	(85)	(212)	297	-
Net remeasurement of loss allowance	129,940	(11,908)	(932,704)	(814,672)
New financial assets originated or purchased	(73,308)	-	-	(73,308)
Write offs	-	8,552	56,789	65,341
Balance at 31 December	(147,480)	(4,056)	(9,826,711)	(9,978,247)

AMD'000	2019*			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(214,259)	(48,117)	(336,613)	(598,989)
Transfer to Stage 1	16,906	(2,643)	(14,263)	-
Transfer to Stage 2	(2,349)	17,068	(14,719)	-
Transfer to Stage 3	87,965	59,377	(147,342)	-
Net remeasurement of loss allowance	63,177	(55,769)	(417,867)	(410,459)
New financial assets originated or purchased	(214,389)	-	-	(214,389)
Write offs	-	-	316,164	316,164
Balance at 31 December	(262,949)	(30,084)	(614,640)	(907,673)

* The loss allowance in these tables includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

AMD'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets at amortized cost				
Balance at 1 January	(660)	-	-	(660)
Net remeasurement of loss allowance	196	-	-	196
New financial assets originated or purchased	(2,737)	-	-	(2,737)
Balance at 31 December	(3,201)	-	-	(3,201)

AMD'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at amortized cost				
Balance at 1 January	(36,744)	-	-	(36,744)
Net remeasurement of loss allowance	(21,181)	-	-	(21,181)
New financial assets originated or purchased	22,602	-	-	22,602
Balance at 31 December	(35,323)	-	-	(35,323)

AMD'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantees given				
Balance at 1 January	(4,601)	-	-	(4,601)
Net remeasurement of loss allowance	3,745	-	-	3,745
New financial assets originated or purchased	(432)	-	-	(432)
Balance at 31 December	(1,288)	-	-	(1,288)

9 Other general administrative expenses

	2020 AMD'000	2019 AMD'000
Depreciation and amortization*	962,669	773,732
Advertising and marketing	482,535	276,217
Non-refundable taxes and duties	342,064	321,904
Professional services	283,229	187,005
Office and utility expenses	183,722	148,251
Repairs and maintenance	168,732	209,679
Communications and information services	146,291	81,236
Rent expenses	36,951	43,907
Security	87,762	83,141
Insurance	78,956	71,947
Representation and organizational expenses	58,720	150,037
Other	85,607	122,001
	2,917,238	2,469,057

* Included in depreciation and amortization for the year ended 31 December 2020 is AMD 226,929 thousand related to amortisation of right-of-use asset under IFRS 16 *Leases* requirements, see Note 17.

10 Income tax expense

	2020 AMD'000	2019 AMD'000
Current tax expense	803,114	460
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(277,500)	588,305
Total income tax expense	525,614	588,765

In 2020 the applicable tax rate for current tax is 18% (2019: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2020 AMD'000	%	2019 AMD'000	%
Profit before income tax	1,697,076		3,144,273	
Income tax at the applicable tax rate	305,474	18.0	628,855	20.0
Non-deductible expenses	220,140	13.0	113,211	3.6
Change of legislation*	-	-	(153,761)	(4.9)
Under-provided in prior years	-	-	460	0.0
	525,614	31	588,765	18.7

* In accordance with the tax decree dated 25 June 2019, the new tax code has become effective starting from 1 January 2020 which reduced the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during 2019, the deferred tax assets were recalculated as at 31 December 2019 using the new tax rate expected at the time of reversal.

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2020 and 2019.

Movements in temporary differences during the years ended 31 December 2020 and 2019 are presented as follows:

AMD'000	Balance 1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2020
Cash and cash equivalents	404	756	-	1,160
Investment securities	(166,586)	(39,715)	100,511	(105,790)
Loans and advances to banks and other financial institutions	(16,989)	6,906	-	(10,083)
Loans to customers	(1,386,039)	399,644	-	(986,395)
Property, equipment and intangible assets	(15,324)	1,265	-	(14,059)
Right of use asset	(289,135)	21,182	-	(267,953)
Other assets	(22,977)	25,416	-	2,439
Lease liability	294,916	(17,240)	-	277,676
Other liabilities	111,381	(19,995)	-	91,386
Tax loss carry-forwards	100,719	(100,719)	-	-
	(1,389,630)	277,500	100,511	(1,011,619)

AMD'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Cash and cash equivalents	727	(323)	-	404
Investment securities	(36,231)	53,646	(184,001)	(166,586)
Loans and advances to banks and other financial institutions	(26,468)	9,479	-	(16,989)
Loans to customers	(911,661)	(474,378)	-	(1,386,039)
Property, equipment and intangible assets	(15,905)	581	-	(15,324)
Right of use asset	-	(289,135)	-	(289,135)
Other assets	(35,681)	12,704	-	(22,977)
Lease liability	-	294,916	-	294,916
Other liabilities	140,913	(29,532)	-	111,381
Tax loss carry-forwards	266,982	(166,263)	-	100,719
	(617,324)	(588,305)	(184,001)	(1,389,630)

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2020 and 2019 comprise the following:

AMD'000	2020			2019		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of investment securities at FVOCI	740,685	(133,324)	607,361	921,329	(184,266)	737,063
Net change in fair value of investment securities at FVOCI transferred to profit or loss	(1,299,081)	233,835	(1,065,246)	(1,324)	265	(1,059)
Other comprehensive (loss)/income	(583,396)	100,511	(457,885)	920,005	(184,001)	736,004

11 Cash and cash equivalents

	2020 AMD'000	2019 AMD'000
Cash on hand	6,789,095	6,580,587
Nostro accounts with the CBA	9,742,840	7,118,931
Nostro accounts with other banks		
- rated from A- to A+	14,490	118,695
- rated from BBB- to BBB+	22,013	6,823
- rated from BB- to BB+	415,653	312,396
- rated from B- to B+	43,568	90,240
- not rated	196,403	111,608
Total nostro accounts with other banks	692,127	639,762
Total gross cash and cash equivalents	17,224,062	14,339,280
Credit loss allowance	(6,447)	(2,243)
Total net cash and cash equivalents	17,217,615	14,337,037

The nostro accounts with the CBA are related to settlement activity (see Note 13) and are readily available for withdrawal.

No cash and cash equivalents are credit impaired or past due.

Ratings are based on Standard & Poor's rating system.

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

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2020 and 31 December 2019.

12 Investment securities

(a) Investment securities measured at fair value through other comprehensive income

	2020 AMD'000	2019 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	4,048,272	2,350,550
- Eurobonds of the Republic of Armenia	-	25,718
Total government bonds	4,048,272	2,376,268
Corporate bonds		
- rated from B to B+	254,183	232,995
- not rated	1,444,975	1,339,794
Total corporate bonds	1,699,158	1,572,789
Equity instruments		
Corporate shares	293,326	2,553,452
Total securities held by the bank	6,040,756	6,502,509
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Eurobonds of the Republic of Armenia	2,443,334	2,260,311
Total securities pledged under sale and repurchase agreements	2,443,334	2,260,311
Total investment securities measured at FVOCI	8,484,090	8,762,820

(b) Investment securities measured at amortised cost

	2020 AMD'000	2019 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	3,838,371	7,803,216
- Eurobonds of the Republic of Armenia	-	600,653
Total government bonds	3,838,371	8,403,869
Corporate bonds		
- rated from B to B+	1,815,460	2,005,660
- not rated	1,000,818	896,676
Total corporate bonds	2,816,278	2,902,336
Total securities held by the bank	6,654,649	11,306,205
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	11,380,632	7,384,332
- Eurobonds of the Republic of Armenia	2,780,630	4,445,161
Total government bonds	14,161,262	11,829,493
Total securities pledged under sale and repurchase agreements	14,161,262	11,829,493
Total gross investment securities measured at amortized cost	20,815,911	23,135,698
Credit loss allowance	(150,049)	(35,323)
Total net investment securities measured at amortized cost	20,665,862	23,100,375

(c) Credit quality of investment securities

The following table sets out information about the credit quality of investment securities as at 31 December 2020 and 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

AMD'000	31 December 2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<i>Investment securities at FVOCI</i>				
- rated from BB- to BB+	6,491,605	-	-	6,491,605
- rated from B- to B+	254,183	-	-	254,183
- not rated*	1,444,975	-	-	1,444,975
Carrying amount	8,190,763	-	-	8,190,763

* Management estimates that the unrated instruments approximate to B+ rating under Standard & Poor's rating system.

AMD'000	31 December 2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<i>Investment securities at amortised cost</i>				
- rated from BB- to BB+	17,999,633	-	-	17,999,633
- rated from B- to B+	1,815,460	-	-	1,815,460
- not rated*	1,000,818	-	-	1,000,818
	20,815,911	-	-	20,815,911
Loss allowance	(150,049)	-	-	(150,049)
Carrying amount	20,665,862	-	-	20,665,862

* Management estimates that the unrated instruments approximate to B+ rating under Standard & Poor's rating system.

AMD'000	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<i>Investment securities at FVOCI</i>				
- rated from BB- to BB+	4,636,579	-	-	4,636,579
- rated from B- to B+	232,995	-	-	232,995
- not rated*	1,339,794	-	-	1,339,794
Carrying amount	6,209,368	-	-	6,209,368

* Management estimates that from the unrated instruments AMD 1,339,794 thousand approximates to B+ rating under Standard & Poor's rating system.

	31 December 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	
AMD'000				
<i>Investment securities at amortised cost</i>				
- rated from B- to BB+	22,239,022	-	-	22,239,022
- not rated*	896,676	-	-	896,676
	23,135,698	-	-	23,135,698
Loss allowance	(35,323)	-	-	(35,323)
Carrying amount	23,100,375	-	-	23,100,375

* Management estimates that from the unrated instruments approximates to B+ rating under Standard & Poor's rating system.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

The Bank has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by 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 substantially all the risks and rewards of these securities and therefore has not derecognised them. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (Note 20).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

13 Loans and advances to banks and other financial institutions

	2020 AMD'000	2019 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	733,500	527,500
Deposit with the Central Bank of Armenia, obligatory reserves	2,876,594	2,749,312
Total due from the CBA	3,610,094	3,276,812
Loans and deposits		
Eurasian Union banks		
- rated from BB- to BB+	127	-
- rated from B- to B+	1,442,239	1,934,283
- not rated	5,887,035	584,061
Armenian banks		
- rated from B- to B+	235,526	-
- not rated	1,282,814	1,106,259
Other non-resident banks		
- rated from AA- to AA+	575,617	169,111
- rated from A- to A+	-	13,432
- rated from BBB- to BBB+	96,167	80,589
Armenian medium size credit organizations	2,642,628	2,009,833
Payment systems	2,089,290	1,162,027
Total loans and deposits	14,251,443	7,059,595
Total gross loans and advances to banks and other financial institutions	17,861,537	10,336,407
Credit loss allowance	(42,299)	(31,240)
Total net loans and advances to banks and other financial institutions	17,819,238	10,305,167

(a) Balances with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the CBA for attracted funds. For funds attracted in AMD the obligatory reserve is 2% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 12% is maintained in AMD and 6% in the respective currency of funds attracted. The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply.

Obligatory reserves maintained in AMD are classified as nostro accounts with CBA in cash and cash equivalents (see Note 11) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum daily balance. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks and other financial institutions. The requirement for obligatory daily minimum reserve came into force in 2019. As at of 31 December 2020, included in deposits with the Central Bank of Armenia is the amount of obligatory reserve of AMD 2,876,594 thousand for the amounts attracted in foreign currency (2019: AMD 2,749,312 thousand).

(b) Concentration of loans and advances to banks and other financial institutions

As at 31 December 2020 the Bank has one bank (2019: nil), whose balance exceeded 10% of equity. The gross value of the balance as at 31 December 2020 is AMD 5,868,225 thousand.

(c) Credit quality of loans and advances to banks and financial institutions

Management estimates that as at 31 December 2020 the unrated instruments amounting AMD 11,901,767 thousand approximate rating of B- to B+ under Standard & Poor's rating system (2019: unrated instruments amounting AMD 4,862,180 thousand approximate rating of B- to B+ under Standard & Poor's rating system).

Loans and advances to banks and other financial institutions are fully in Stage 1 and measured at amortised cost as at 31 December 2020 and 2019. No loans and advances to banks and other financial institutions are credit impaired or past due.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

14 Amounts receivable under reverse repurchase agreements

	2020 AMD'000	2019 AMD'000
Amounts receivable from local financial institutions	6,045,468	4,769,563
Total gross amounts receivable under reverse repurchase agreements	6,045,468	4,769,563
Credit loss allowance	(6,261)	(2,300)
Total net amounts receivable under reverse repurchase agreements	6,039,207	4,767,263

As at 31 December 2020 and 2019 the Bank has no amounts receivable under reverse repurchase agreements, whose balances exceeded 10% of equity.

Amounts receivable under reverse repurchase agreements are from nonrated reputable local financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2020 and 2019. No amounts receivable under reverse repurchase agreements are credit impaired or past due.

Management estimates that as at 31 December 2020 the unrated amounts receivable under reverse repurchase agreements amounting AMD 6,045,468 thousand (2019: AMD 4,769,563 thousand) approximate rating of B- to B+ under Standard & Poor's rating system.

(a) Collateral accepted as security for assets

As at 31 December 2020 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 7,026,359 thousand (2019: AMD 5,281,943 thousand).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

15 Loans to customers

	2020 AMD'000	2019 AMD'000
Loans to customers at amortized cost		
Loans to large corporates	38,203,088	36,488,694
Loans to trading companies	2,342,435	2,060,225
Loans to manufacturing companies	3,073,598	1,492,256
Cash covered loans	3,032,742	384,165
Other corporate loans	7,199,895	5,244,474
Total loans to corporate customers	53,851,758	45,669,814
Loans to retail customers		
Consumer loans secured with real estate	17,758,361	15,626,296
Mortgage loans	16,070,099	11,030,994
Gold secured loans	7,537,300	6,682,090
Express loans without guarantee	5,613,371	3,171,605
Credit lines	2,378,629	2,182,738
Cash covered loans	877,225	303,553
Salary project loans	515,978	536,695
Express loans with guarantee	159,504	369,759
Other retail loans	1,869,049	2,691,621
Total loans to retail customers	52,779,516	42,595,351
Gross loans to customers at amortised cost	106,631,274	88,265,165
Credit loss allowance	(12,108,714)	(10,885,920)
Net loans to customers at amortised cost	94,522,560	77,379,245

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

	31 December 2020*			Total loans AMD'000
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	
Loans to corporate customers				
Loans to large corporate customers**				
- not overdue	27,458,829	-	-	27,458,829
- overdue of 91-180 days	-	-	10,744,259	10,744,259
Total gross loans to large corporate customers	27,458,829	-	10,744,259	38,203,088
Credit loss allowance	(136,651)	-	(8,321,114)	(8,457,765)
Total net loans to large corporate customers	27,322,178	-	2,423,145	29,745,323
Loans to trading companies				
- not overdue	1,890,815	47,538	101,160	2,039,513
- overdue of 91-180 days	-	-	72,294	72,294
- overdue more than 1 year	-	-	230,628	230,628
Total gross loans to trading companies	1,890,815	47,538	404,082	2,342,435
Credit loss allowance	(10,188)	(309)	(215,449)	(225,946)
Total net loans to trading companies	1,880,627	47,229	188,633	2,116,489
Loans to manufacturing companies				
- not overdue	2,812,353	-	9,464	2,821,817
- overdue of 181-360 days	-	-	21,718	21,718
- overdue more than 1 year	-	-	230,063	230,063
Total gross loans to manufacturing companies	2,812,353	-	261,245	3,073,598
Credit loss allowance	(4,848)	-	(87,249)	(92,097)
Total net loans to manufacturing companies	2,807,505	-	173,996	2,981,501
Cash covered loans				
- not overdue	3,032,742	-	-	3,032,742
Credit loss allowance	-	-	-	-
Total net cash covered loans	3,032,742	-	-	3,032,742

	31 December 2020*			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Other corporate loans				
- not overdue	4,117,726	381,496	805,463	5,304,685
- overdue of less than 30 days	14,694	20,695	-	35,389
- overdue of 31-90 days	-	28,002	-	28,002
- overdue of 91-180 days	-	-	988,009	988,009
- overdue of 181-360 days	-	-	26,018	26,018
- overdue more than 1 year	-	-	817,792	817,792
Total gross other corporate loans	4,132,420	430,193	2,637,282	7,199,895
Credit loss allowance	(33,349)	(12,136)	(1,851,340)	(1,896,825)
Total net other corporate loans	4,099,071	418,057	785,942	5,303,070
Gross loans to corporate customers	39,327,159	477,731	14,046,868	53,851,758
Total expected credit loss on corporate customers	(185,036)	(12,445)	(10,475,152)	(10,672,633)
Total net loans to corporate customers	39,142,123	465,286	3,571,716	43,179,125
Loans to retail customers				
Consumer loans secured with real estate				
- not overdue	14,926,681	46,508	127,522	15,100,711
- overdue of less than 30 days	439,806	-	-	439,806
- overdue of 31-90 days	-	672,849	-	672,849
- overdue of 91-180 days	-	-	706,424	706,424
- overdue of 181-360 days	-	-	139,340	139,340
- overdue more than 1 year	-	-	699,231	699,231
Total gross consumer loans secured with real estate	15,366,487	719,357	1,672,517	17,758,361
Credit loss allowance	(131,801)	(55,156)	(492,536)	(679,493)
Total net consumer loans secured with real estate	15,234,686	664,201	1,179,981	17,078,868
Mortgage loans				
- not overdue	15,628,631	-	21,476	15,650,107
- overdue of less than 30 days	80,187	-	-	80,187
- overdue of 31-90 days	-	126,869	-	126,869
- overdue of 91-180 days	-	-	123,167	123,167
- overdue of 181-360 days	-	-	89,769	89,769
Total gross mortgage loans	15,708,818	126,869	234,412	16,070,099
Credit loss allowance	(48,786)	(14,352)	(64,043)	(127,181)
Total net mortgage loans	15,660,032	112,517	170,369	15,942,918
Gold secured loans				
- not overdue	7,048,818	1,453	2,651	7,052,922
- overdue of less than 30 days	246,618	-	-	246,618
- overdue of 31-90 days	-	187,509	-	187,509
- overdue of 91-180 days	-	-	49,717	49,717
- overdue of 181-360 days	-	-	534	534
Total gross gold secured loans	7,295,436	188,962	52,902	7,537,300
Credit loss allowance	(32,305)	(29,679)	(24,791)	(86,775)
Total net gold secured loans	7,263,131	159,283	28,111	7,450,525

	31 December 2020*			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Express loan without guarantee				
- not overdue	5,264,898	9,075	2,335	5,276,308
- overdue of less than 30 days	127,436	-	9,185	136,621
- overdue of 31-90 days	2,172	192,249	6,021	200,442
Total gross express loans without guarantee	5,394,506	201,324	17,541	5,613,371
Credit loss allowance	(180,939)	(68,679)	(11,020)	(260,638)
Total net express loans without guarantee	5,213,567	132,645	6,521	5,352,733
Cash covered loans				
- not overdue	877,225	-	-	877,225
Total gross cash covered loans	877,225	-	-	877,225
Credit loss allowance	(95)	-	-	(95)
Total net cash covered loans	877,130	-	-	877,130
Express loan with guarantee				
- not overdue	99,537	2,552	1,215	103,304
- overdue of less than 30 days	3,540	-	-	3,540
- overdue of 31-90 days	-	15,956	-	15,956
- overdue of 91-180 days	-	-	36,704	36,704
Total gross express loans with guarantee	103,077	18,508	37,919	159,504
Credit loss allowance	(3,378)	(3,805)	(13,837)	(21,020)
Total net express loans with guarantee	99,699	14,703	24,082	138,484
Salary project loans				
- not overdue	496,581	493	-	497,074
- overdue of less than 30 days	5,189	-	-	5,189
- overdue of 31-90 days	-	5,652	-	5,652
- overdue of 91-180 days	-	-	8,046	8,046
- overdue of 181-360 days	-	-	17	17
Total gross salary project loans	501,770	6,145	8,063	515,978
Credit loss allowance	(3,321)	(1,312)	(3,899)	(8,532)
Total net salary project loans	498,449	4,833	4,164	507,446
Credit lines				
- not overdue	2,194,233	92	-	2,194,325
- overdue of less than 30 days	27,885	-	-	27,885
- overdue of 31-90 days	-	58,990	-	58,990
- overdue of 91-180 days	-	-	94,225	94,225
- overdue of 181-360 days	-	-	3,204	3,204
Total gross credit lines	2,222,118	59,082	97,429	2,378,629
Credit loss allowance	(32,203)	(29,956)	(67,460)	(129,619)
Total net credit lines	2,189,915	29,126	29,969	2,249,010

	31 December 2020*			Total loans AMD'000
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	
Other retail loans				
- not overdue	1,574,547	8,558	86,140	1,669,245
- overdue of less than 30 days	7,013	-	-	7,013
- overdue of 31-90 days	-	14,240	-	14,240
- overdue of 91-180 days	-	-	101,596	101,596
- overdue of 181-360 days	-	-	3,997	3,997
- overdue more than 1 year	-	-	72,958	72,958
Total gross other retail loans	1,581,560	22,798	264,691	1,869,049
Credit loss allowance	(16,086)	(4,433)	(102,207)	(122,726)
Total net other retail loans	1,565,474	18,365	162,484	1,746,323
Total gross loans to retail customers	49,050,997	1,343,045	2,385,474	52,779,516
Total expected credit loss on retail customers	(448,914)	(207,372)	(779,795)	(1,436,081)
Total net loans to retail customers	48,602,083	1,135,673	1,605,679	51,343,435

* The loss allowance in this table includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

** Management estimates that as at 31 December 2020 from the unrated gross loans to large corporate customers AMD 15,916,719 thousand approximates to B+ rating (2019: AMD 10,263,491 thousand), AMD 11,542,109 thousand approximates to B rating under Standard & Poor's rating system (2019: AMD 7,057,009 thousand).

The following table provides information on the credit quality of loans to customers as at 31 December 2019:

	31 December 2019*			Total loans AMD'000
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	
Loans to corporate customers				
Loans to large corporate customers				
- not overdue	22,174,895	-	-	22,174,895
- not overdue credit impaired	-	-	14,313,799	14,313,799
Total gross loans to large corporate customers	22,174,895	-	14,313,799	36,488,694
Credit loss allowance	(92,800)	-	(8,343,811)	(8,436,611)
Total net loans to large corporate customers	22,082,095	-	5,969,988	28,052,083
Loans to trading companies				
- not overdue	1,329,178	-	172,804	1,501,982
- overdue of 31-90 days	-	1,016	-	1,016
- overdue of 181-360 days	-	-	138,552	138,552
- overdue more than 1 year	-	-	418,675	418,675
Total gross loans to trading companies	1,329,178	1,016	730,031	2,060,225
Credit loss allowance	(18,250)	(898)	(295,924)	(315,072)

	31 December 2019*			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Total net loans to trading companies	1,310,928	118	434,107	1,745,153
Loans to manufacturing companies				
- not overdue	1,303,184	-	-	1,303,184
- overdue of 91-180 days	-	-	17,424	17,424
- overdue of 181-360 days	-	-	2,324	2,324
- overdue more than 1 year	-	-	169,324	169,324
Total gross loans to manufacturing companies	1,303,184	-	189,072	1,492,256
Credit loss allowance	(1,155)	-	(32,124)	(33,279)
Total net loans to manufacturing companies	1,302,029	-	156,948	1,458,977
Cash covered loans				-
- not overdue	384,165	-	-	384,165
Credit loss allowance	-	-	-	-
Total net cash covered loans	384,165	-	-	384,165
Other corporate loans				
- not overdue	3,124,330	53,533	30,813	3,208,676
- overdue of less than 30 days	5,272	8,742	1,617	15,631
- overdue of 31-90 days	-	18,004	24,508	42,512
- overdue of 91-180 days	-	-	99,084	99,084
- overdue of 181-360 days	-	-	751,103	751,103
- overdue more than 1 year	-	-	1,127,468	1,127,468
Total gross other corporate loans	3,129,602	80,279	2,034,593	5,244,474
Credit loss allowance	(35,275)	(3,158)	(1,154,852)	(1,193,285)
Total net other corporate loans	3,094,327	77,121	879,741	4,051,189
Gross loans to corporate customers	28,321,024	81,295	17,267,495	45,669,814
Total expected credit loss on corporate customers	(147,480)	(4,056)	(9,826,711)	(9,978,247)
Total net loans to corporate customers	28,173,544	77,239	7,440,784	35,691,567
Loans to retail customers				
Consumer loans secured with real estate				
- not overdue	13,392,523	17,547	343,115	13,753,185
- overdue of less than 30 days	357,315	5,360	55,570	418,245
- overdue of 31-90 days	-	91,069	94,221	185,290
- overdue of 91-180 days	-	-	146,680	146,680
- overdue of 181-360 days	-	-	34,461	34,461
- overdue more than 1 year	-	-	1,088,435	1,088,435
Total gross consumer loans secured with real estate	13,749,838	113,976	1,762,482	15,626,296
Credit loss allowance	(60,097)	(6,535)	(452,296)	(518,928)
Total net consumer loans secured with real estate	13,689,741	107,441	1,310,186	15,107,368

	31 December 2019*			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Mortgage loans				
- not overdue	10,857,309	-	83,253	10,940,562
- overdue of less than 30 days	18,384	-	67,941	86,325
- overdue of 31-90 days	-	4,107	-	4,107
Total gross mortgage loans	10,875,693	4,107	151,194	11,030,994
Credit loss allowance	(24,754)	(245)	(26,722)	(51,721)
Total net mortgage loans	10,850,939	3,862	124,472	10,979,273
Gold secured loans				
- not overdue	6,532,127	830	4,646	6,537,603
- overdue of less than 30 days	128,264	2,890	865	132,019
- overdue of 31-90 days	-	8,534	1,174	9,708
- overdue of 91-180 days	-	-	1,585	1,585
- overdue of 181-360 days	-	-	1,175	1,175
Total gross gold secured loans	6,660,391	12,254	9,445	6,682,090
Credit loss allowance	(16,088)	(1,329)	(3,755)	(21,172)
Total net gold secured loans	6,644,303	10,925	5,690	6,660,918
Express loan without guarantee				
- not overdue	3,014,374	30,699	33,978	3,079,051
- overdue of less than 30 days	33,753	1,616	22,797	58,166
- overdue of 31-90 days	-	19,732	14,656	34,388
Total gross express loans without guarantee	3,048,127	52,047	71,431	3,171,605
Credit loss allowance	(108,344)	(10,509)	(46,685)	(165,538)
Total net express loans without guarantee	2,939,783	41,538	24,746	3,006,067
Cash covered loans				
- not overdue	301,519	-	-	301,519
- overdue of less than 30 days	2,034	-	-	2,034
Total gross cash covered loans	303,553	-	-	303,553
Credit loss allowance	-	-	-	-
Total net cash covered loans	303,553	-	-	303,553
Express loan with guarantee				
- not overdue	324,729	7,037	11,160	342,926
- overdue of less than 30 days	3,601	395	2,229	6,225
- overdue of 31-90 days	-	4,573	278	4,851
- overdue of 91-180 days	-	-	9,592	9,592
- overdue of 181-360 days	-	-	6,165	6,165
Total gross express loans with guarantee	328,330	12,005	29,424	369,759
Credit loss allowance	(4,905)	(1,655)	(14,411)	(20,971)
Total net express loans with guarantee	323,425	10,350	15,013	348,788

	31 December 2019*			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Salary project loans				
- not overdue	516,945	1,589	1,281	519,815
- overdue of less than 30 days	3,964	90	28	4,082
- overdue of 31-90 days	-	4,155	566	4,721
- overdue of 91-180 days	-	-	5,400	5,400
- overdue of 181-360 days	-	-	2,677	2,677
Total gross salary project loans	520,909	5,834	9,952	536,695
Credit loss allowance	(4,702)	(1,331)	(5,020)	(11,053)
Total net salary project loans	516,207	4,503	4,932	525,642
Credit lines				
- not overdue	2,130,376	-	5,780	2,136,156
- overdue of less than 30 days	16,584	169	-	16,753
- overdue of 31-90 days	-	11,314	-	11,314
- overdue of 181-360 days	-	-	16,247	16,247
- overdue more than 1 year	-	-	2,268	2,268
Total gross credit lines	2,146,960	11,483	24,295	2,182,738
Credit loss allowance	(15,039)	(4,719)	(12,040)	(31,798)
Total net credit lines	2,131,921	6,764	12,255	2,150,940
Other retail loans				
- not overdue	2,536,969	4,787	32,025	2,573,781
- overdue of less than 30 days	3,548	1,265	4,574	9,387
- overdue of 31-90 days	-	11,399	3,260	14,659
- overdue of 91-180 days	-	-	15,939	15,939
- overdue of 181-360 days	-	-	10,742	10,742
- overdue more than 1 year	-	-	67,113	67,113
Total gross other retail loans	2,540,517	17,451	133,653	2,691,621
Credit loss allowance	(29,020)	(3,761)	(53,711)	(86,492)
Total net other retail loans	2,511,497	13,690	79,942	2,605,129
Total gross loans to retail customers	40,174,318	229,157	2,191,876	42,595,351
Total expected credit loss on retail customers	(262,949)	(30,084)	(614,640)	(907,673)
Total net loans to retail customers	39,911,369	199,073	1,577,236	41,687,678

* The loss allowance in this table includes ECL on loan commitments for certain corporate products, retail products such as credit cards and overdrafts.

(b) Key assumptions and judgements for estimating credit loss allowance

Key assumptions and judgements for estimating credit loss allowance is presented in Note 25(b).

(c) Analysis of collateral and other credit enhancements**(i) Loans to corporate customers**

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2020	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD*000			
Loans which are not credit impaired			
Real estate	11,686,248	-	11,686,248
Corporate guarantee *	17,531,201	-	17,531,201
Corporate shares	4,243,923	-	4,243,923
Highly liquid assets **	4,101,474	4,101,474	-
Other collateral	1,002,609	-	1,002,609
No collateral or other credit enhancement	1,041,954	-	1,041,954
Total loans which are not credit impaired	39,607,409	4,101,474	35,505,935
Credit impaired loans			
Real estate***	3,294,865	3,294,865	-
Other collateral	268,856	-	268,856
No collateral or other credit enhancement	7,995	-	7,995
Total credit impaired loans	3,571,716	3,294,865	276,851
Total loans to corporate customers	43,179,125	7,396,339	35,782,786

31 December 2019	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD'000			
Loans which are not credit impaired			
Real estate	8,565,356	-	8,565,356
Corporate guarantee *	9,404,397	-	9,404,397
Corporate shares	4,901,139	-	4,901,139
Highly liquid assets **	429,039	429,039	-
Other collateral	1,150,375	-	1,150,375
No collateral or other credit enhancement	3,800,477	-	3,800,477
Total loans which are not credit impaired	28,250,783	429,039	27,821,744
Credit impaired loans			
Real estate***	5,234,164	5,234,164	-
Highly liquid assets**	2,206,620	2,206,620	-
Total credit impaired loans	7,440,784	7,440,784	-
Total loans to corporate customers	35,691,567	7,869,823	27,821,744

* Corporate guarantees are from companies with sound financial performance and management expects that if the underlying loans default guarantors will be able to repay the loans in full.

** Highly liquid assets include deposits from banks and customers in amount of AMD 3,032,742 thousand (2019: AMD 2,635,659 thousand) and corporate bonds in amount of AMD 1,068,732 thousand (nil).

*** The amount of real estate includes an amount of AMD 922,271 thousand (2019: AMD 2,839,641 thousand), which is not directly pledged with the Bank. However, it secures right which has been pledged with the Bank against loans extended to two borrowers.

The tables above exclude overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed on the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

As at 31 December 2020, the balance of cash-covered loans for which no impairment allowance was created because of the collateral, amounted to AMD 3,909,967 thousand (2019: AMD 813,551 thousand).

(ii) Loans to retail customers

Consumer loans are mainly secured by real estate. The Bank's policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of a maximum of 40%.

Express loans with guarantee and without guarantee are mainly unsecured.

Gold secured loans are secured by golden jewelry. The Bank's policy is to issue gold secured loans with a loan-to-value ratio at the date of loan issuance of a maximum of 100%.

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Cash covered loans and part of credit lines are secured with highly liquid assets which include deposits, purchased debt securities issued by the Bank and current accounts.

Salary project loans and part of credit lines are mainly unsecured.

(iii) Repossessed collateral

During the year ended 31 December 2020, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 1,126,820 thousand (2019: AMD 471,817 thousand). As at 31 December 2020 and 31 December 2019, the repossessed collateral comprises mainly real estate.

	2020	2019
	Carrying amount	Carrying amount
	AMD'000	AMD'000
Balance at 1 January	1,476,007	1,087,443
Additions	1,126,820	471,817
Sales	(117,902)	(83,253)
Balance at 31 December	2,484,925	1,476,007

On the date of foreclosure the collateral is measured at the carrying amount of the defaulted loan. Subsequent to foreclosure repossessed assets are measured at cost less impairment losses. Impairment is estimated based on the market approach. The market approach for real estate is based upon an analysis of the results of comparable recent sales of similar assets or announced prices for sale of similar assets, applying a discount of between 10% and 40% depending on the nature and location of the asset for the announced prices for sale.

The Bank's policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

Loans are issued to customers that operate in the following economic sectors:

	2020	2019
	AMD'000	AMD'000
Trade and finance	29,733,721	30,154,107
Mining	5,706,623	5,792,620
Construction	5,378,669	3,755,289
Energy	5,331,535	730,739
Manufacturing	3,968,121	1,706,478
Hospitality	1,020,819	895,071
Service	574,393	937,298
Transportation and communication	447,709	620,887
Agriculture, forestry and timber	31,145	38,486
Other	1,659,023	1,038,839
Loans to retail customers	52,779,516	42,595,351
	106,631,274	88,265,165
Credit loss allowance	(12,108,714)	(10,885,920)
	94,522,560	77,379,245

As at 31 December 2020, loans to customers with a gross value of AMD 99,496,065 thousand (2019: AMD 83,410,769 thousand) are issued to customers located within the Republic of Armenia.

(e) Assets under lien

As at 31 December 2020, loans to customers with a gross value of AMD 2,690,467 thousand (2019: AMD 2,417,771 thousand) serve as collateral for loans from credit organisations and borrowings from Government of Armenia (Note 19).

(f) Significant credit exposures

As at 31 December 2020, the Bank has three borrowers or groups of connected borrowers (2019: five), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2020 is AMD 22,095,098 thousand (2019: AMD 29,861,852 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 25(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Property, equipment and intangible assets

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/revalued amount							
Balance as at 1 January 2020	4,323,235	477,360	1,698,307	1,271,887	122,383	1,052,058	8,945,230
Additions	5,483	375,539	371,060	237,204	15,550	705,796	1,710,632
Disposals/write-offs	(72,606)	(4,638)	(6,140)	(26,924)	(5,534)	(16,911)	(132,753)
Reclassification	-	-	3,954	(3,954)	-	-	-
Balance at 31 December 2020	4,256,112	848,261	2,067,181	1,478,213	132,399	1,740,943	10,523,109
Depreciation and amortisation							
Balance at 1 January 2020	906,124	47,560	1,157,735	578,600	34,458	410,008	3,134,485
Depreciation and amortisation for the year	83,686	38,334	222,188	180,470	14,826	196,236	735,740
Disposals/write-offs	(22,059)	(4,638)	(6,140)	(18,011)	(2,018)	(16,911)	(69,777)
Reclassification	-	-	51	(51)	-	-	-
Balance at 31 December 2020	967,751	81,256	1,373,834	741,008	47,266	589,333	3,800,448
Carrying amount							
At 31 December 2020	3,288,361	767,005	693,347	737,205	85,133	1,151,610	6,722,661
Cost/revalued amount							
Balance at 1 January 2019	4,278,337	266,517	1,499,699	1,051,131	81,871	658,310	7,835,865
Additions	44,898	236,158	206,782	265,290	40,512	525,873	1,319,513
Disposals/write-offs	-	(25,315)	(8,174)	(44,534)	-	(132,125)	(210,148)
Balance at 31 December 2019	4,323,235	477,360	1,698,307	1,271,887	122,383	1,052,058	8,945,230
Depreciation and amortisation							
Balance at 1 January 2019	822,383	56,579	993,015	484,359	22,445	395,240	2,774,021
Depreciation and amortisation for the year	83,741	16,129	171,746	130,162	12,013	139,369	553,160
Disposals/write-offs	-	(25,148)	(7,026)	(35,921)	-	(124,601)	(192,696)
Balance at 31 December 2019	906,124	47,560	1,157,735	578,600	34,458	410,008	3,134,485
Carrying amount							
At 31 December 2019	3,417,111	429,800	540,572	693,287	87,925	642,050	5,810,745

(a) Revalued assets

In 2021 financial statements management contracted independent appraisal to estimate fair value of buildings as at 31 December 2020. The fair value of buildings estimated by independent appraisal has approximated the carrying value of buildings.

The basis used for the appraisal are the combination of market and income capitalization methods.

The fair value of buildings is categorised into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

The carrying value of buildings as at 31 December 2020, if the buildings would not have been revalued, would be AMD 3,172,202 thousand (2019: AMD 3,281,252 thousand).

17 Lease liability/Right of use asset

The Bank leases assets such as customer service centre spaces which typically run for a period of 5 to 10 years. Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2020	2019
	AMD'000	AMD'000
Balance at 1 January	1,606,304	859,117
Additions to right of use assets	114,460	967,759
Depreciation charge for the period	(226,929)	(220,572)
Balance at 31 December	1,493,835	1,606,304

(b) Lease liability

	2020	2019
	AMD'000	AMD'000
Less than one year	286,048	299,993
One to two years	286,468	265,049
Two to five years	853,246	736,171
More than five years	808,728	872,190
Total undiscounted lease payable	2,234,490	2,173,403
Unearned finance cost	(691,844)	(534,983)
Lease liability	1,542,646	1,638,420

(c) Amounts recognised in profit and loss

	2020	2019
	AMD'000	AMD'000
Depreciation of right of use asset	226,929	220,572
Interest on lease liabilities	80,357	93,781
Expenses relating to short-term leases	36,951	43,907

(d) Amounts recognised in the statement of cash flows

	2020	2019
	AMD'000	AMD'000
Total cash outflow for leases		
Payment on lease liabilities	290,591	282,238

18 Other assets

	2020	2019
	AMD'000	AMD'000
Other receivables	758,076	848,824
Credit loss allowance	(315,558)	(3,201)
Total net other financial assets	442,518	845,623
Prepayments	934,320	1,418,083
Materials and supplies	80,479	88,026
Other	23,209	55,738
Total other non-financial assets	1,038,008	1,561,847
Total other assets	1,480,526	2,407,470

Credit loss allowance in amount of AMD 314,059 thousand represents credit loss allowance for Stage 3 financial assets.

19 Deposits and balances from banks and other financial institutions

	2020	2019
	AMD'000	AMD'000
Term deposits from banks and other financial institutions	11,367,033	9,240,996
Unsecured loans from banks	5,488,339	4,672,177
Secured loans from other financial institutions	2,690,750	2,418,041
Vostro accounts	7,266,131	3,798,528
	26,812,253	20,129,742

As at 31 December 2020, loans to customers with a gross value of AMD 2,690,467 thousand (2019: AMD 2,417,771 thousand) serve as collateral for secured loans from credit organizations (Note 15).

As at 31 December 2020 the Bank has three banks and other financial institutions (2019: one bank and other financial institution), whose balances exceed 10% of equity. The gross value of these loans as at 31 December 2020 is AMD 13,595,038 thousand (2019: AMD 5,452,875 thousand).

20 Amounts payable under repurchase agreements

	2020 AMD'000	2019 AMD'000
Amounts payable under repurchase agreements to CBA	16,504,941	4,001,223
Amounts payable under repurchase agreements to local banks	3,319,049	11,535,658
Amounts payable under repurchase agreements to local financial institutions	961,822	755,814
	20,785,812	16,292,695

The securities pledged under repurchase agreement represents Bank's own securities measured at fair value through other comprehensive income of AMD 2,443,334 thousand and measured at amortised cost of AMD 19,624,563 thousand (2019: investment securities measured at fair value through other comprehensive income of AMD 2,260,311 thousand and measured at amortised cost of AMD 13,053,180 thousand).

21 Debt securities issued

	2020 AMD'000	2019 AMD'000
Debt securities issued	13,416,535	6,700,803

During 2020 the Bank issued bonds with nominal amount of USD 10,000,000 (2019: USD 10,000,000 and AMD 250,000 thousand). As at 31 December 2020 the nominal amounts of bonds placed by the Bank at Armenia Securities Exchange Stock Exchange are USD 25,000,000 and AMD 250,000 thousand.

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 AMD	2020 AMD'000	2019 AMD'000
Balance at 1 January	6,700,803	10,823,040
Changes from financing cash flows		
Proceeds from debt securities issued	5,708,144	4,252,464
Repayment of debt securities issued	-	(8,207,150)
Total changes from financing cash flows	5,708,144	(3,954,686)
The effect of changes in foreign exchange rates	906,469	(14,659)
Other changes		
Interest expense	488,757	470,604
Interest paid (operating cash flows)	(387,638)	(623,496)
Balance at 31 December	13,416,535	6,700,803

22 Current accounts and deposits from customers

	2020 AMD'000	2019 AMD'000
Current accounts and demand deposits		
- Retail	14,602,631	9,656,926
- Corporate	11,538,331	5,474,322
Term deposits		
- Retail	37,929,956	41,881,392
- Corporate	2,702,599	1,806,480
	66,773,517	58,819,120

As at 31 December 2020, the Bank maintained customer deposit balances of AMD 3,675,054 thousand (2019: AMD 4,477,966 thousand) that serve as collateral for loans to customers and guarantees issued by the Bank.

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

23 Other liabilities

	2020 AMD'000	2019 AMD'000
Other financial liabilities	487,162	390,006
Total other financial liabilities	487,162	390,006
Payables to employees	581,895	672,480
Other non-financial liabilities	433,470	329,554
Taxes payable other than on income	136,053	138,447
Total other non-financial liabilities	1,151,418	1,140,481
Total other liabilities	1,638,580	1,530,487

24 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 679,437 ordinary shares (2019: 679,437). All shares have a nominal value of AMD 50,000 (2019: AMD 50,000).

During 2020 no ordinary shares were issued (2019: none). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognised or impaired.

Fair value reserve for investment securities

Fair value reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to Armenian legislation.

No dividends were declared in 2020 and 2019.

25 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major (significant) risks faced by the Bank are those related to financial risk, market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Bank has developed a system of reporting on significant risks and capital.

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Chairman of the Management Board and indirectly to the Council of the Bank. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

In compliance with the Bank's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

(b) Financial risk review

This note presents information about the Bank's exposure to financial risks.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments, depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

The exposures of the Bank's borrowers are subject to ongoing monitoring, which may result in a determination about significant increase in credit risk. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> – Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes 	<ul style="list-style-type: none"> – Payment record – this includes overdue status as well as a range of variables about payment ratios
<ul style="list-style-type: none"> – Data from credit reference agencies, press articles, changes in external credit ratings 	<ul style="list-style-type: none"> – Utilisation of the granted limit – Requests for and granting of forbearance
<ul style="list-style-type: none"> – Quoted bond and credit default swap (CDS) prices for the borrower where available 	<ul style="list-style-type: none"> – Existing and forecast changes in business, financial and economic conditions
<ul style="list-style-type: none"> – Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities 	

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Bank sets the maximum level of PDs equal to PD of the country's rating grade where the borrower operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 12 months. Due to COVID-19 pandemic the Bank provided payment holidays to its retail customers for certain months during 2020. To avoid underestimation of PDs, the Bank excluded the matrixes of respective months from the annual average PD calculation.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers and 1 day for loans and advances to banks and other financial institutions and investment securities. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling the remaining lifetime PD increased by more than 64%.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days for loans to customers and 30 days for loans and advances to banks and other financial institutions and investment securities on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;
or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP. Predicted relationships between the key driver and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 6 years. As at the reporting date despite the positive assessed impact of FLI under the base macro scenario, ECL has not been adjusted for FLI due to the large variation in macro scenarios given the situation with COVID pandemic, Nagorno-Karabakh conflict, etc.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(v).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(e)(iv)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	Exposure	External benchmarks used	
		PD	LGD
Investment securities measured at FVOCI	8,190,764	S&P default studies	Moody's recovery studies
Investment securities measured at amortised cost	20,815,911	S&P default studies	Moody's recovery studies
Loans to corporate customers	18,251,332	S&P default studies	Moody's recovery studies
Loans to corporate customers	9,231,744	S&P default studies	-
Loans and advances to banks and other financial institutions	17,861,537	S&P default studies	Moody's recovery studies

Concentrations of credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2020 AMD'000	2019 AMD'000
ASSETS		
Cash and cash equivalents	10,428,520	7,756,450
Investment securities measured at fair value through other comprehensive income	8,484,090	8,762,820
Investment securities measured at amortised cost	20,665,862	23,100,375
Derivative financial assets	-	4,312
Loans and advances to banks and other financial institutions	17,819,238	10,305,167
Amounts receivable under reverse repurchase agreements	6,039,207	4,767,263
Loans to customers	94,522,560	77,379,245
Other financial assets	442,518	845,623
Total maximum exposure	158,401,995	132,921,255

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 27.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank’s 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.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

AMD’000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Amounts receivable under reverse repurchase agreements	6,039,207	-	6,039,207	(6,039,207)	-	-
Total financial assets	6,039,207	-	6,039,207	(6,039,207)	-	-
Deposits and balances from banks and other financial institutions	(2,690,750)	-	(2,690,750)	2,690,467	-	(283)
Amounts payable under repurchase agreements	(20,785,812)	-	(20,785,812)	16,604,596	-	(4,181,216)
Total financial liabilities	(23,476,562)	-	(23,476,562)	19,295,063	-	(4,181,499)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Amounts receivable under reverse repurchase agreements	4,767,263	-	4,767,263	(4,767,263)	-	-
Total financial assets	4,767,263	-	4,767,263	(4,767,263)	-	-
Deposits and balances from banks and other financial institutions	(2,418,041)	-	(2,418,041)	2,417,771	-	(270)
Amounts payable under repurchase agreements	(16,292,695)	-	(16,292,695)	14,089,904	-	(2,202,791)
Total financial liabilities	(18,710,736)	-	(18,710,736)	16,507,675	-	(2,203,061)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2020							
ASSETS							
Investment securities measured at fair value through other comprehensive income	99,787	750,715	262,297	5,530,560	1,547,405	293,326	8,484,090
Investment securities measured at amortised cost	91,472	1,696,663	1,014,150	11,292,554	6,571,023	-	20,665,862
Loans and advances to banks and other financial institutions	2,766,609	5,385,653	1,569,520	1,230,349	-	6,867,107	17,819,238
Amounts receivable under reverse repurchase agreements	6,039,207	-	-	-	-	-	6,039,207
Loans to customers	14,662,888	8,129,308	8,218,628	47,404,717	15,725,772	381,247	94,522,560
	23,659,963	15,962,339	11,064,595	65,458,180	23,844,200	7,541,680	147,530,957
LIABILITIES							
Deposits and balances from banks and other financial institutions	6,624,212	5,674,649	5,217,074	1,456,493	573,694	7,266,131	26,812,253
Debt securities issued	2,639,733	-	2,628,864	8,147,938	-	-	13,416,535
Amounts payable under repurchase agreements	20,785,812	-	-	-	-	-	20,785,812
Current accounts and deposits from customers	35,163,603	9,854,810	17,133,587	4,009,380	612,137	-	66,773,517
	65,213,360	15,529,459	24,979,525	13,613,811	1,185,831	7,266,131	127,788,117
	(41,553,397)	432,880	(13,914,930)	51,844,369	22,658,369	275,549	19,742,840

For management of negative short term interest rate gap position the Bank relies on the investment securities measured at FVOCI, which can be sold or pledged under repo agreements and the assumption that the term deposits will be prolonged upon maturity.

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Investment securities measured at fair value through other comprehensive income	103,767	219,843	209,884	2,386,388	3,289,485	2,553,453	8,762,820
Investment securities measured at amortised cost	72,837	24,047	2,633,269	4,997,342	15,372,880	-	23,100,375
Loans and advances to banks and other financial institutions	1,182,194	1,127,723	1,943,532	197,062	-	5,854,656	10,305,167
Amounts receivable under reverse repurchase agreements	4,767,263	-	-	-	-	-	4,767,263
Loans to customers	16,505,481	19,675,582	24,816,664	14,590,621	1,790,897	-	77,379,245
	22,631,542	21,047,195	29,603,349	22,171,413	20,453,262	8,408,109	124,314,870
LIABILITIES							
Deposits and balances from banks and other financial institutions	3,325,711	6,323,917	4,070,298	2,161,072	450,217	3,798,527	20,129,742
Debt securities issued	54,803	-	-	6,646,000	-	-	6,700,803
Amounts payable under repurchase agreements	16,292,695	-	-	-	-	-	16,292,695
Current accounts and deposits from customers	24,982,574	11,416,436	16,799,490	4,803,012	817,608	-	58,819,120
	44,655,783	17,740,353	20,869,788	13,610,084	1,267,825	3,798,527	101,942,360
	(22,024,241)	(3,306,842)	8,733,561	8,561,329	19,185,437	4,609,582	22,372,510

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020			2019		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Investment securities measured at fair value through other comprehensive income	13.2%	7.0%	-	10.5%	7.0%	-
Investment securities measured at amortized cost	8.4%	7.2%	4.0%	12.4%	6.5%	4.0%
Loans and advances to banks and other financial institutions	11.0%	4.2%	6.5%	10.7%	5.4%	4.5%
Amounts receivable under reverse repurchase agreements	6.4%	1.0%	1.3%	6.1%	-	1.4%
Loans to customers	12.1%	11.5%	6.6%	12.3%	11.5%	7.4%
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	7.2%	5.0%	2.5%	7.0%	4.1%	-
- Loans from banks and other financial institutions	7.9%	3.0%	-	8.2%	4.0%	1.6%
Current accounts and deposits from customers						
- Term deposits	8.6%	4.5%	1.6%	8.8%	4.5%	2.1%
- Current accounts	0.0%-5%	0.0%-1.5%	0.0%-0.25%	0.0%-5%	0.0%-1.5%	0.0%-0.25%
Debt securities issued	9.5%	5.1%	-	9.5%	5.2%	-
Lease Liability	11.9%	10.4%	-	11.9%	10.4%	-
Amounts payable under repurchase agreements	5.5%	3.0%	1.0%	5.6%	-	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020 and 2019, is as follows:

	2020	2019
	AMD'000	AMD'000
100 bp parallel fall	156,464	127,587
100 bp parallel rise	(156,464)	(127,587)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets measured at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2020 and 2019 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2020	2019
	Equity AMD'000	Equity AMD'000
100 bp parallel fall	329,999	263,025
100 bp parallel rise	(329,999)	(263,025)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	7,385,450	6,726,705	1,129,026	1,976,434	17,217,615
Investment securities measured at fair value through other comprehensive income	4,341,597	4,142,493	-	-	8,484,090
Investment securities measured at amortised cost	16,173,111	2,760,586	1,732,165	-	20,665,862
Loans and advances to banks and other financial institutions	3,593,754	7,853,508	6,195,846	176,130	17,819,238
Amounts receivable under reverse repurchase agreements	5,974,250	23,676	41,281	-	6,039,207
Loans to customers	56,805,530	24,715,314	11,327,176	1,674,540	94,522,560
Other financial assets	133,506	303,392	726	4,894	442,518
Total assets	94,407,198	46,525,674	20,426,220	3,831,998	165,191,090
LIABILITIES					
Deposits and balances from banks and other financial institutions	15,447,837	6,940,907	3,646,361	777,148	26,812,253
Current accounts and deposits from customers	33,089,397	30,606,680	2,229,051	848,389	66,773,517
Debt securities issued	253,572	13,162,963	-	-	13,416,535
Amounts payable under repurchase agreements	16,504,941	2,613,635	1,667,236	-	20,785,812
Lease liability	1,162,389	380,257	-	-	1,542,646
Other financial liabilities	393,017	92,269	781	1,095	487,162
Total liabilities	66,851,153	53,796,711	7,543,429	1,626,632	129,817,925
Currency SWAP contracts	-	15,093,498	(12,913,790)	(2,198,748)	(19,040)
Net position	27,556,045	7,822,461	(30,999)	6,618	35,354,125

The following table shows the currency structure of financial assets and liabilities as at 31 December 2019:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	7,991,075	1,877,796	944,097	3,524,069	14,337,037
Investment securities measured at fair value through other comprehensive income	2,644,898	3,858,817	-	2,259,105	8,762,820
Investment securities measured at amortized cost	16,224,096	5,308,512	1,567,767	-	23,100,375
Loans and advances to banks and other financial institutions	2,462,989	5,727,012	1,469,375	645,791	10,305,167
Amounts receivable under reverse repurchase agreements	4,723,190	-	44,073	-	4,767,263
Loans to customers	46,680,368	20,966,541	7,553,438	2,178,898	77,379,245
Other financial assets	461,301	376,738	1,018	6,566	845,623
Total assets	81,187,917	38,115,416	11,579,768	8,614,429	139,497,530
LIABILITIES					
Deposits and balances from banks and other financial institutions	12,305,088	2,949,750	3,385,660	1,489,244	20,129,742
Current accounts and deposits from customers	24,835,917	32,001,003	1,645,951	336,249	58,819,120
Debt securities issued	253,538	6,447,265	-	-	6,700,803
Amounts payable under repurchase agreements	10,918,439	-	5,374,256	-	16,292,695
Other financial liabilities	309,857	60,503	5,893	13,753	390,006
Total liabilities	48,622,839	41,458,521	10,411,760	1,839,246	102,332,366
Currency SWAP contracts	-	6,698,934	(1,049,362)	(5,645,260)	4,312
Net position	32,565,078	3,355,829	118,646	1,129,923	37,169,476

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2020 and 2019, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2020 AMD'000	2019 AMD'000
10% appreciation of USD against AMD	782,246	335,583
10% appreciation of EUR against AMD	(3,040)	11,865

A strengthening of the AMD against the above currencies at 31 December 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.

The maturity analysis for financial liabilities as at 31 December 2020 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	12,787,053	1,156,928	5,904,400	5,468,440	2,507,275	27,824,096	26,812,253
Current accounts and deposits from customers	28,567,537	6,838,851	10,125,984	17,859,742	5,836,671	69,228,785	66,773,517
Debt securities issued	2,706,310	105,916	133,443	2,868,652	8,438,228	14,252,549	13,416,535
Amounts payable under repurchase agreements	19,764,901	1,048,101	-	-	-	20,813,002	20,785,812
Other financial liabilities	68,120	62,397	85,962	270,683	-	487,162	487,162
Lease liability	23,837	47,674	71,512	143,025	1,948,442	2,234,490	1,542,646
Total financial liabilities	63,917,758	9,259,867	16,321,301	26,610,542	18,730,616	134,840,084	129,817,925
Credit related commitments	7,335,498	-	-	-	-	7,335,498	-

The maturity analysis for financial assets and liabilities as at 31 December 2019 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	5,271,911	1,869,006	6,508,140	4,258,630	3,262,679	21,170,366	20,129,742
Current accounts and deposits from customers	19,998,474	5,226,346	11,777,771	17,590,718	7,054,741	61,648,050	58,819,120
Debt securities issued	50,771	111,327	80,524	134,277	6,882,592	7,259,491	6,700,803
Amounts payable under repurchase agreements	13,619,189	2,689,797	-	-	-	16,308,986	16,292,695
Other financial liabilities	70,659	63,869	255,478	-	-	390,006	390,006
Lease liability	24,999	49,998	74,997	149,999	1,873,410	2,173,403	1,638,420
Total financial liabilities	39,036,003	10,010,343	18,696,910	22,133,624	19,073,422	108,950,302	103,970,786
Credit related commitments	4,370,145	-	-	-	-	4,370,145	-

Under Armenian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates as follows:

	2020	2019
	AMD'000	AMD'000
Demand and less than 1 month	2,349,133	4,431,096
From 1 to 3 months	6,635,397	4,918,600
From 3 to 6 months	8,696,817	11,001,153
From 6 to 12 months	16,066,818	16,746,920
From 1 to 5 years	3,569,692	4,010,004
More than 5 years	612,099	773,619
	37,929,956	41,881,392

In accordance with term deposit agreements with some corporate customers, the customers can withdraw their term deposits at any time, forfeiting the accrued interest. These deposits are classified in accordance with their stated maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2020	2019
	AMD'000	AMD'000
Demand and less than 1 month	2,826	379,644
From 1 to 3 months	35,285	122,031
From 3 to 6 months	1,159,091	415,283
From 6 to 12 months	1,065,813	52,695
From 1 to 5 years	439,584	792,838
More than 5 years	-	43,989
	2,702,599	1,806,480

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2020:

AMD'000	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	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	17,217,615	-	-	-	-	-	-	17,217,615
Investment securities measured at fair value through other comprehensive income	-	99,787	1,013,013	5,530,560	1,547,404	293,326	-	8,484,090
Investment securities measured at amortised cost	-	91,472	2,710,813	11,292,554	6,571,023	-	-	20,665,862
Loans and advances to banks and other financial institutions	9,633,715	-	6,955,175	1,230,348	-	-	-	17,819,238
Amounts receivable under reverse repurchase agreements	6,039,207	-	-	-	-	-	-	6,039,207
Loans to customers	3,525,564	10,813,553	16,350,644	47,552,434	15,955,875	-	324,490	94,522,560
Property, equipment and intangible assets	-	-	-	-	-	6,722,661	-	6,722,661
Right of use asset	-	-	-	-	-	1,493,835	-	1,493,835
Other assets	80,479	795,961	580,877	-	-	2,508,134	-	3,965,451
Total assets	36,496,580	11,800,773	27,610,522	65,605,896	24,074,302	11,017,956	324,490	176,930,519
LIABILITIES								
Derivative financial liabilities	19,040	-	-	-	-	-	-	19,040
Deposits and balances from banks and other financial institutions	12,778,502	1,125,462	10,891,601	1,450,600	566,088	-	-	26,812,253
Current accounts and deposits from customers	28,492,921	6,670,682	26,988,397	4,009,380	612,137	-	-	66,773,517
Debt securities issued	2,639,733	-	2,628,864	8,147,938	-	-	-	13,416,535
Amounts payable under repurchase agreements	19,740,461	1,045,351	-	-	-	-	-	20,785,812
Deferred tax liabilities	-	-	-	-	-	1,011,619	-	1,011,619
Current tax liabilities	-	661,305	-	-	-	-	-	661,305
Lease liability	10,767	22,888	105,296	718,811	684,884	-	-	1,542,646
Other liabilities	508,016	469,140	390,741	270,683	-	-	-	1,638,580
Total liabilities	64,189,440	9,994,828	41,004,899	14,597,412	1,863,109	1,011,619	-	132,661,307
Net position	(27,692,860)	1,805,945	(13,394,377)	51,008,484	22,211,193	10,006,337	324,490	44,269,212

* Overdue portion of outstanding overdue loans

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2019:

AMD'000	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	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	14,337,037	-	-	-	-	-	-	14,337,037
Investment securities measured at fair value through other comprehensive income	-	103,767	429,728	2,386,388	3,289,485	2,553,452	-	8,762,820
Investment securities measured at amortized cost	48,407	24,430	2,657,316	4,997,342	15,372,880	-	-	23,100,375
Loans and advances to banks and other financial institutions	5,838,748	672,774	3,071,255	197,062	525,328	-	-	10,305,167
Amounts receivable under reverse repurchase agreements	4,767,263	-	-	-	-	-	-	4,767,263
Loans to customers	1,299,614	7,593,112	29,557,074	24,867,694	12,663,639	-	1,398,112	77,379,245
Current tax asset	-	99,786	-	-	-	-	-	99,786
Property, equipment and intangible assets	-	-	-	-	-	5,810,745	-	5,810,745
Right of use asset	-	-	-	-	-	1,606,304	-	1,606,304
Derivative financial assets	4,312	-	-	-	-	-	-	4,312
Other assets	986,867	961,083	311,800	11,477	-	1,612,250	-	3,883,477
Total assets	27,282,248	9,454,952	36,027,173	32,459,963	31,851,332	11,582,751	1,398,112	150,056,531
LIABILITIES								
Deposits and balances from banks and other financial institutions	5,262,110	1,856,068	10,394,240	2,167,155	450,169	-	-	20,129,742
Current accounts and deposits from customers	19,941,943	5,040,631	28,215,926	4,803,012	817,608	-	-	58,819,120
Debt securities issued	24,000	30,803	-	6,646,000	-	-	-	6,700,803
Amounts payable under repurchase agreements	13,604,923	2,687,772	-	-	-	-	-	16,292,695
Deferred tax liabilities	-	-	-	-	-	1,389,630	-	1,389,630
Lease liability	16,409	39,975	177,129	748,839	656,068	-	-	1,638,420
Other liabilities	421,433	123,563	725,020	240,713	19,758	-	-	1,530,487
Total liabilities	39,270,818	9,778,812	39,512,315	14,605,719	1,943,603	1,389,630	-	106,500,897
Net position	(11,988,570)	323,860	(3,485,142)	17,854,244	29,907,729	10,193,121	1,398,112	43,555,634

* Overdue portion of outstanding overdue loans

26 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2020 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2019:12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2020 and 2019.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2020	2019
	AMD'000	AMD'000
	Unaudited	Unaudited
Core capital		
Core capital	39,110,639	35,967,146
Deductions	(3,599,948)	(2,853,618)
Total core capital	35,510,691	33,113,528
Additional capital		
Additional capital	551,352	1,014,444
Deductions	-	-
Total additional capital	551,352	1,014,444
Total capital	36,062,043	34,127,972
Total risk weighted assets, combining credit, market and operational risks	130,111,234	115,307,418
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	27.72%	29.60%

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of potential losses.

27 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2020 AMD'000	2019 AMD'000
Contracted amount		
Credit card commitments	3,648,645	2,689,456
Loan and credit line commitments	3,291,856	1,454,282
Guarantees and letters of credit	394,997	226,407
	7,335,498	4,370,145

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Credit card commitments, loan and credit line commitments are mainly in Stage 1 and measured at amortised cost as at 31 December 2020 and 2019. Credit card commitments, loans and credit line commitments are not credit impaired or past due.

28 Contingencies

(a) Insurance

The insurance industry in the Republic of 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 has property insurance and Banker's Blanket Bond (BBB) insurance with up to USD 3,000 thousand coverage.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

On 4 October 2017 a claim was submitted to the First Instance Court with demand of USD 22,301 thousand from the Bank because of the violation of the agreement concluded between the Bank and one of its clients. After double examinations of the claim in the First Instance Court and successful appellations by the Bank in the Court of Appeals of the Republic of Armenia, on 13 April 2020 the client submitted an appeal to the Cassation Court of Armenia. On 22 September 2020 the Cassation Court of Armenia rejected the cassation appeal and the claim was resolved in favour of the Bank.

(c) Taxation contingencies

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.

29 Related party transactions

(a) Control relationships

The Bank's parent company is FISTOCO LTD. The party with ultimate control over the Bank is Mr. Vartan Dilanyan.

No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with members of the Council and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020 AMD'000	2019 AMD'000
Members of the Council of the Bank	28,021	34,083
Members of the Management Board	654,956	757,489
	682,977	791,572

These amounts include cash and non-cash benefits in respect of members of the Council and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2020 and 2019 for transactions with members of the Council and the Management Board are as follows:

	2020	Average effective	2019	Average effective
	AMD'000	interest rate, %	AMD'000	interest rate, %
Statement of financial position				
ASSETS				
Loans issued (gross)	430,319	11.17%	270,541	9.79%
Loan impairment allowance	(3,216)	-	(1,255)	-
Other assets	2,808	-	-	-
LIABILITIES				
Deposits received	97,537	7.15%	123,738	5.93%
Current accounts	84,099	-	73,826	1.26%
Debt securities issued	81,854	5.06%	14,962	5.25%
Lending commitments	73,819	-	51,581	-

Amounts included in profit or loss in relation to transactions with members of the Council and the Management Board for the year ended 31 December are as follows:

	2020	2019
	AMD'000	AMD'000
Profit or loss		
Interest income	34,933	21,562
Interest expense	(11,215)	(9,159)
Impairment loss, net	(1,961)	(431)
Fee and commission income	907	1,060
Fee and commission expense	(74)	(120)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Shareholders		Entities under common control		Other		Total AMD'000
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
Statement of financial position							
ASSETS							
Cash and cash equivalents	44,191	-	-	-	-	-	44,191
Loans to customers	-	-	-	-	23,814	12.26%	23,814
LIABILITIES							
Deposits and balances from banks							
- Vostro accounts	65,332	-	-	-	-	-	65,332
Current accounts and deposits from customers							
- Current accounts	35,704	2.10%	-	-	31,258	0.25%	66,961
- Term deposits	-	-	-	-	53,833	8.15%	53,833
Debt securities issued	-	-	-	-	165,186	5.02%	325,946
Profit (loss)							
Interest income	-	-	-	-	2,721	-	2,721
Interest expense	-	-	-	-	(12,938)	-	(12,938)
Fee and commission income	-	473	-	-	171	-	644
Fee and commission expense	-	(24)	-	-	(18)	-	(42)

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Shareholders		Entities under common control		Other		Total AMD'000
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
Statement of financial position							
ASSETS							
Cash and cash equivalents	1,092	-	-	-	-	-	1,092
Loans to customers	-	-	-	-	24,946	11.20%	24,946
LIABILITIES							
Deposits and balances from banks							
- Vostro accounts	103,378	-	-	-	-	-	103,378
Current accounts and deposits from customers							
- Current accounts	35,704	2.1%	-	-	4,777	0.3%	40,481
- Term deposits	-	-	-	-	6,809	8.61%	6,809
Debt securities issued	-	-	-	-	159,882	5.24%	159,882
Profit (loss)							
Interest income	-	-	7,761	-	220	-	7,981
Interest expense	-	-	-	-	(8,314)	-	(8,314)
Fee and commission income	-	-	-	-	162	-	162
Fee and commission expense	-	-	-	-	(17)	-	(17)

Other related parties include transactions with companies under significant influence of Council and Management Board and their close family members.

The majority of balances resulting from transactions with other related parties mature within one year, except debt securities which mature within two years. Transactions with other related parties are not secured.

30 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2020 the estimated fair values of all financial instruments except for investment securities measured at amortised cost approximate their carrying amounts. As at 31 December 2020 investment securities measured at amortised cost with carrying amount of AMD 20,665,862 thousand had fair value of AMD 26,513,104 thousand (2019: investment securities measured at amortised cost with carrying amount of AMD 23,100,375 thousand had fair value of AMD 25,344,689 thousand) . The fair value measurement of investment securities measured at amortised cost is categorized under Level 2 in fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative liabilities	-	19,040	19,040
Investment securities			
- Debt and other fixed income instruments	-	8,190,764	8,190,764
- Equity instruments	293,326	-	293,326

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

AMD'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative liabilities	-	4,312	4,312
Investment securities			
- Debt and other fixed income instruments	-	6,209,368	6,209,368
- Equity instruments	2,553,452	-	2,553,452

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.