Financial Statements and Independent Auditor's Report

GLOBAL CREDIT universal credit organization CJSC

31 December 2019

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Grant Thornton

Independent auditor's report

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To the shareholders of GLOBAL CREDIT universal credit organization CJSC

Opinion

We have audited the financial statements of GLOBAL CREDIT universal credit organization CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Allowance for expected credit loss

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

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

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

- We read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Company's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Company and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Company's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as at 31 December 2019. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Company, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2019, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Armen Hovhannisyan

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

20 March 2020

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	7	7,476,492	4,400,622
Interest and similar expense	7	(2,156,024)	(1,569,103)
Net interest income		5,320,468	2,831,519
Fee and commission income	8	78,972	55,671
Fee and commission expense	8	(65,484)	(44,152)
Net fee and commission income		13,488	11,519
Net trading income	9	6,314	7,261
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		893,941	26,933
Other income	10	375,553	349,772
Impairment losses	11	(5,179,519)	(1,808,504)
Staff costs	12	(402,893)	(386,454)
Other expenses	13	(670,175)	(412,511)
Profit before income tax		357,177	619,535
Income tax expense	14	(93,877)	(115,350)
Profit for the year		263,300	504,185
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net unrealized gains from changes in fair value		1,168,342	155,256
Net gains realized to statement of profit or loss		(888,913)	(25,593)
Net changes in allowance for expected credit losses		(2,929)	4,503
Income tax relating to components of other comprehensive income		(47,333)	(25,933)
Net gains on financial instruments at FVOCI		229,167	108,233
Other comprehensive income for the year, net of tax		229,167	108,233
Total comprehensive income for the year		492,467	612,418

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 65.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2019	31 December 2018
Assets			
Cash	15	101,543	108,279
Derivative financial assets	16	7,317	-
Amounts due from financial institutions	17	1,305,939	1,499,983
Investment securities			
- Investment securities at fair value through other comprehensive income	18	465,384	15,000
- Investment securities at fair value through other comprehensive income pledged under repurchase agreements	18	15,622,382	8,382,644
Loans and advances to customers	19	19,959,739	17,408,837
Prepaid income taxes		83,234	-
Property and equipment	20	307,553	78,226
Intangible assets	21	154,945	84,546
Repossessed assets	22	148,124	190,415
Other assets	23	115,510	72,285
Total assets		38,271,670	27,840,215
Liabilities and equity			
Liabilities			
Loans and borrowings	24	33,131,828	23,991,737
Debt securities issued	25	1,974,491	1,480,188
Derivative financial liabilities	16	720	-
Lease liabilities	29	229,321	-
Current income tax liabilities		-	78,126
Deferred income tax liabilities	14	91,761	1,570
Other liabilities	26	146,763	147,275
Total liabilities		35,574,884	25,698,896
Equity			
Share capital	27	2,000,000	1,500,000
Other reserves		355,172	126,005
Retained earnings		341,614	515,314
Total equity		2,696,786	2,141,319
Total liabilities and equity		38,271,670	27,840,215

The financial statements were signed on 20 March 2020 by:

Luiza Igraryan
Executive Director

Susanna Khachatryan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 65.

Statement of changes in equity

In thousand Armenian drams	Share capital	Fair value reserve	Retained earnings	Total
Balance As of 1 January 2019	1,500,000	126,005	515,314	2,141,319
Profit for the year	-	-	263,300	263,300
Other comprehensive income:				
Net unrealized gains from changes in fair value	-	1,168,342	-	1,168,342
Net gains realized to statement of profit or loss and other comprehensive income on disposal of investments at FVOCI	-	(888,913)	-	(888,913)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	(2,929)	-	(2,929)
Income tax relating to components of other comprehensive income	-	(47,333)	-	(47,333)
Total comprehensive income for the year	-	229,167	263,300	492,467
Increase in share capital	500,000	-	-	500,000
Dividends to shareholders	-	-	(437,000)	(437,000)
Total transactions with owners	500,000	-	(437,000)	63,000
Balance As of 31 December 2019	2,000,000	355,172	341,614	2,696,786
Balance As of 31 December 2017	1,500,000	14,731	482,060	1,996,791
Impact of adopting IFRS 9 (note 6)		3,041	(67,180)	(64,139)
Restated balance at 1 January 2018	1,500,000	17,772	414,880	1,932,652
Profit for the year	-	-	504,185	504,185
Other comprehensive income:				
Net unrealized gains from changes in fair value	-	155,256	-	155,256
Net gains realized to statement of profit or loss and other comprehensive income on disposal of FVOCI instruments	-	(25,593)	-	(25,593)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	4,503	-	4,503
Income tax relating to components of other comprehensive income	-	(25,933)	-	(25,933)
Total comprehensive income for the year	-	108,233	504,185	612,418
Dividends to shareholders	-	-	(403,751)	(403,751)
Total transactions with owners	-	-	(403,751)	(403,751)
Balance as of 31 December 2018	1,500,000	126,005	515,314	2,141,319

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 65.

Statement of cash flows

In thousand Armenian drams

	2019	2018
Cash flows from operating activities		
Interest received	7,311,013	4,179,998
Interest paid	(2,112,285)	(1,557,341)
Fee and commission received	78,972	55,671
Fee and commission paid	(65,484)	(44,152)
Net gains from Investment securities	893,941	26,933
Net trading (gains)/losses	(1,033)	7,261
Other income	375,386	349,772
Payments of employees	(424,961)	(374,165)
Other expenses	(532,773)	(379,343)
Cash flows from operating activities before changes in operating assets and liabilities	5,522,776	2,264,634
(Increase)/decrease in operating assets		
Derivative financial instruments	750	-
Loans and advances to customers	(7,184,609)	(6,593,584)
Other assets	(60,588)	(19,880)
Increase/(decrease) in operating liabilities		
Other liabilities	3,156	10,766
Net cash flow used in operating activities before income tax	(1,718,515)	(4,338,064)
Income tax paid	(212,379)	(101,187)
Net cash used in operating activities	(1,930,894)	(4,439,251)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(102,080)	(5,923)
Sale of property and equipment	167	-
Loans to financial institutions	190,828	(450,416)
Repossessed collateral	(454,718)	89,623
Investment securities	(7,282,538)	(5,934,123)
Net cash used in investing activities	(7,648,341)	(6,300,839)

Statement of cash flows (continued)

In thousand Armenian drams	2019	2018
Cash flow from financing activities		
Proceeds from debt securities issued	1,019,224	708,171
Repayment of bonds issued	(536,177)	(710,831)
Loans and borrowings received	11,296,194	11,395,664
Loans and borrowings repayment	(2,201,932)	(352,110)
Dividends paid	(437,000)	(403,751)
Increase in share capital	500,000	-
Repayment of lease liabilities	(66,384)	-
Net cash from financing activities	9,573,925	10,637,143
Net decrease in cash	(5,310)	(102,947)
Cash as at the beginning of the year	108,279	212,758
Effect of changes in allowance for expected credit losses	310	(85)
Effect of changes in exchange rates on cash	(1,736)	(1,447)
Cash at the end of the year (note 15)	101,543	108,279

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 65.

Notes to the financial statements

1 Principal activities

"Global Credit" UCO CJSC (the "Company") was established in 2010 as a result of merging of "Washington Capital" UCO CJSC and "Credit Union" UCO CJSC and is a closed joint stock company. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 26 October 2010 under license N 35, granted by the Central Bank of Armenia (the "CBA").

The Company's main activity is mortgage, business and consumer loan extension.

The Company's office is located in Yerevan. The Company does not have branches. The registered office of the Company is located at: Sasna Tsrer 2, area 251, Yerevan, Republic of Armenia.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability. Continuing with the robust expansion in 2018, annual economic growth remained strong in 2019. Main contributors to the economy were trade, services and manufacturing industries.

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income . Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

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

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 274,231 thousand were recognised and presented in the statement of financial position within ''Property and equipment".
- Additional lease liabilities of AMD 274,231 thousand were recognised and presented in the statement of financial position in a separate line.
- The adoption of IFRS 16 had no impact on the Company's retained earnings.

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

In thousand Armenian drams

Total operating lease commitments disclosed at 31 December 2018	16,596
Reasonable certain to be exercised lease term payments	320,856
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	-
Operating lease liabilities before discounting	337,452
Discounted using incremental borrowing rate	(63,221)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	274,231

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 9%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Other new standards and amendments described below and applied for the first time in 2019, did not have a material impact on the annual financial statements of the Company.

- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).*

3.5 Standards and interpretations not yet applied by the Company

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

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

Management does not anticipate a material impact on the Company's financial statements from these Amendments, they are presented below.

- Conceptual Framework for Financial Reporting
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform* (Ammenndment to IFRS 9 and IFRS 7)

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, refer to note 4.4.6.

Fee and commission income

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

Dividend income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interests. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the equity.

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

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

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

	31 December 2019	31 December 2018
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65

4.3 Taxation

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

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company 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 Company 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 Company'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 Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

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

4.4.3 Derecognition

Financial assets

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

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

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

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

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

In transactions in which the Company 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 Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.3), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 34.1.2.

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

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

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

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

The PD, the EAD and the LGD are further explained in note 34.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.3) and ECL are measured as follows.

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowances for ECL in the statement of financial position.

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

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

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.5 Cash

Cash comprise cash on hand and accounts in other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Loans and advances

Loans and advances are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.8 Investment securities

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

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.10 Securities lending and borrowing

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

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

4.11 Leases

As described in note 3.4, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

Company as a lessee

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

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

Measurement and recognition of leases

Company as a lessee

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

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

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

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

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

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

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

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

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

Accounting policy applicable before 1 January 2019

Operating - Company as lessee

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

4.12 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	Rate (%)
Computers	3	33.33
Vehicles	8	20
Other property and equipment	1-8	20-100

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are not depreciated.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.13 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in the group from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 "Operating Segments".

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.14 Intangible assets

I Intangible assets include computer software, licences and other. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 13 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Repossessed assets

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

4.16 Borrowings

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

4.17 Financial guarantees and loan commitments

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

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

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

4.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.19 Equity

Share capital

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

Retained earnings

Retained earnings Include retained earnings of current and previous periods and general reserve.

Dividends

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

Fair value reserve for investments securities at FVOCI

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

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 31).

Useful Life of property and equipment

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

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 30).

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 34.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 28.

Goodwill impairment

The Company assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units.

6 Transition disclosure

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2019 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2018	Reclassification	Remeasurement /ECL/	Remeasurement /Other/	IFRS 9 carrying amount 1 January 2019
Financial assets					
Amortised cost					
Cash and cash equivalents					
Opening balance	213,634				
Remeasurement		-	(876)	-	
Closing balance					212,758
Loans and advances to customers					
Opening balance	12,578,237				
Remeasurement		-	(64,511)	-	
Closing balance					12,513,726

In thousand Armenian drams	IAS 39 carrying amount 31 December 2018	Reclassification	Remeasurement /ECL/	Remeasurement /Other/	IFRS 9 carrying amount 1 January 2019
Other assets- other financial assets					
Opening balance	29,209				
Remeasurement		-	(5,597)	-	
Closing balance					23,612
Total amortised cost	12,821,080	-	(70,984)	-	12,750,096
Available-for-sale					
Investment securities					
Opening balance	370,317				
Remeasurement			N/A		
Closing balance					370,317
Investment securities –debt pledged under repurchase agreements					
Opening balance	3,018,562				
Remeasurement			-		
Closing balance					3,018,562
Total FVOCI	3,388,879	-	-	-	3,388,879
Financial liabilities					
Amortised cost					
Amounts due to CBA	12,938,601	-	-	-	12,938,601
Debt securities issued	1,482,211	-	-	-	1,482,211
Other liabilities	105,966	-	-	-	105,966
Total amortised cost	14,526,778	-	-	-	14,526,778

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows.

In thousand Armenian drams	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	14,731
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3,041
Opening balance under IFRS 9 (1 January 2018)	17,772
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	482,060
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(83,215)
Deferred tax in relation to the above	16,035
Opening balance under IFRS 9 (1 January 2018)	414,880
Total change in equity due to adopting IFRS 9	(64,139)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financial guarantee contracts as of 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

In thousand Armenian drams	Loan loss provision under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	-	876	876
Loans and advances to customers per IAS 39/financial assets at amortised cost under IFRS 9	424,692	64,511	489,203
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	3,041	3,041
Other assets	3,310	5,597	8,907
	428,002	74,025	502,027
Financial guarantee contracts issued	-	9,190	9,190
Total impairment allowance	428,002	83,215	511,217

7 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Loans and advances to customers	6,451,847	3,711,491
Investment securities at FVOCI	1,021,471	677,548
Reverse repurchase transactions	2,194	6,151
Interest income from term deposits	-	5,178
Cash	980	254
Total interest and similar income	7,476,492	4,400,622
Loans and borrowings	1,392,691	1,199,773
Repurchase transactions	632,735	240,057
Debt securities issued	109,124	129,273
Lease liabilities	21,474	-
Total interest and similar expense	2,156,024	1,569,103

8 Fee and commission income and expense

In thousand Armenian drams	2019	2018
Cash operations	71,942	45,135
Guarantees	4,650	7,150
Insurance agent activity	2,306	2,589
Factoring	12	729
Other fees and commissions	62	68
Total fee and commission income	78,972	55,671
Payment and settlement services	36,884	24,748
Bank transactions	19,167	9,804
Issuing bonds	9,433	9,600
Total fee and commission expense	65,484	44,152

9 Net trading income

In thousand Armenian drams	2019	2018
Gains less losses from trading in foreign currencies	4,209	7,261
Gains less losses from fair value changes of derivative financial instruments	7,347	-
Net loss from derivative financial instruments	(5,242)	-
Total net trading income	6,314	7,261

10 Other income

In thousand Armenian drams	2019	2018
Fines and penalties received	363,036	343,945
Gains less losses from foreign exchange translation of non-trading assets	2,223	-
Gains less losses from sale of property and equipment	167	-
Gains less losses from sale of other assets	-	846
Other income	10,127	4,981
Total other income	375,553	349,772

11 Impairment losses/(reversal)

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2019 Total
Cash	15	(310)	-	-	(310)
Amounts due from other financial institutions	17	3,216	-	-	3,216
Investment securities	18	(2,929)	-	-	(2,929)
Loans and advances to customers	19	566,319	239,674	4,337,804	5,143,797
Other assets	23	1,541	-	15,831	17,372
Financial guarantees	28	18,373	-	-	18,373
Total impairment losses		586,210	239,674	4,353,635	5,179,519

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2019 Total
Cash	15	85	-	-	85
Amounts due from other financial institutions	17	5,454	-	-	5,454
Investment securities at amortised cost	18	4,503	-	-	4,503
Loans and advances to customers	19	156,330	265,700	1,375,561	1,797,591
Other assets	23	(5,067)	-	9,488	4,421
Financial guarantees	28	(3,550)	-	-	(3,550)
Total impairment losses		157,755	265,700	1,385,049	1,808,504

12 Staff costs

In thousand Armenian drams	2019	2018
Compensations of employees, related taxes included	398,985	383,196
Staff training costs	1,002	2,266
Other staff costs	2,906	992
Total staff costs	402,893	386,454

13 Other expenses

In thousand Armenian drams	2019	2018
Loan collection service	128,281	52,436
Taxes, other than income tax, duties	110,028	45,617
Advertising costs	90,493	67,202
Depreciation of property and equipment and amortization of intangible assets	68,851	36,303
Fixed assets maintenance	43,076	10,876
Loan repayment costs	40,869	22,368
Office supplies	31,781	29,996
Financial mediator fees	19,680	11,668
Net loss from sale of repossessed collaterals	58,592	-
Goodwill impairment	7,734	-
Consulting and other services	4,500	35,322
Representative expenses	4,320	4,316
Business trip expenses	3,149	3,744
Operating lease*	-	55,320
Foreign currency translation net loss of non-trading assets	-	3,135
Other expenses	58,821	34,208
Total other expense	670,175	412,511

*The absence of comparable information is due to the application of IFRS 16 (refer to note 29).

14 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	51,019	161,700
Adjustments of current income tax of previous years	-	(10,432)
Deferred tax	42,858	(35,918)
Total income tax expense	93,877	115,350

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

In June 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia will be reduced from 20 to 18%. This change resulted in a gain of AMD 748 thousand related to the remeasurement of deferred tax assets and liabilities of the Company being recognised during the year ended 31 December 2019.

Deferred income tax is calculated using the principal tax rate of 18% (2018: 20%).

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

In thousand Armenian drams	2019	Effective rate (%)	2018	Effective rate (%)
Profit before tax	357,177		619,535	
Income tax at the rate of 20%	71,435	20	123,907	20
Non-deductible expenses	21,249	6	1,248	-
Foreign exchange losses	445	-	627	-
Adjustments of current tax for prior years	-	-	(10,432)	(2)
Impact of tax rate changes	748	-	-	-
Income tax expense	93,877	26	115,350	18

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2019		
				Net	Deferred tax asset	Deferred tax liability
Cash	(11)	(53)	-	(64)	-	(64)
Amounts due from financial institutions	70	8	-	78	78	-
Investments in securities	(29,615)	831	(47,333)	(76,117)	-	(76,117)
Loans and advances to customers	11,503	(44,949)	-	(33,446)	-	(33,446)
Property and equipment	2,151	9,652	-	11,803	11,803	-
Other assets	(1,400)	1,961	-	561	561	-
Loans and borrowings	2,431	(234)	-	2,197	2,197	-
Lease liabilities	-	(8,084)	-	(8,084)	-	(8,084)
Other liabilities	13,301	(1,990)	-	11,311	11,311	-
Deferred tax asset/(liability)	(1,570)	(42,858)	(47,333)	(91,761)	25,950	(117,711)

In thousand Armenian drams	31 December 2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2019		
					Net	Deferred tax asset	Deferred tax liability
Cash	-	175	(186)		(11)	-	(11)
Amounts due from financial institutions	-	-	70	-	70	70	-
Investments in securities	(7,150)	-	3,468	(25,933)	(29,615)	-	(29,615)
Loans and advances to customers	(29,759)	12,903	28,359	-	11,503	11,503	-
Property and equipment	-	-	2,151	-	2,151	2,151	-
Other assets	(286)	1,119	(2,233)	-	(1,400)	-	(1,400)
Loans and borrowings	229	-	2,202	-	2,431	2,431	-
Other liabilities	9,376	1,838	2,087	-	13,301	13,301	-
Deferred tax asset/(liability)	(27,590)	16,035	35,918	(25,933)	(1,570)	(29,456)	(31,026)

15 Cash

In thousand Armenian drams	31 December 2019	31 December 2018
Cash on hand	1,841	8,472
Current accounts with the banks	100,353	100,768
	102,194	109,240
Less loss allowance	(651)	(961)
Total cash	101,543	108,279

As of 31 December 2019 the amounts of correspondent accounts in total amount of AMD 75,250 thousand (75%) (2018: AMD 74,579 thousand (74%), one) were due from one commercial bank.

In the current accounts, the cash flows are pledged against loans from banks (refer to note 24).

Non-cash transactions performed during 2019 are represented by repayment of AMD 438,417 thousand loan by repossessed collateral (2018: AMD 121,971 thousand).

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

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as of 1 January 2019	961	876
Net remeasurement on ECL allowance for financial assets new provided or acquired	651	85
Net remeasurement of loss allowance	(961)	-
Balance at 31 December	651	961

16 Derivative financial instruments

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

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

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

In thousand Armenian drams	31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	1,719,603	7,317	720
Total derivative financial instruments	1,719,603	7,317	720

17 Amounts due from financial institutions

In thousand Armenian drams	31 December 2019	31 December 2018
Proceeds on reverse repurchase agreements	584,122	1,055,021
Loans to other financial institutions	730,487	450,416
	1,314,609	1,505,437
Less loss allowance on amounts due from financial institutions	(8,670)	(5,454)
Total amounts due from financial institutions	1,305,939	1,499,983

As of 31 December 2019 and 2018 loans to financial institutions and receivables on reverse repurchase agreements include loans to related party (refer to note 30).

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

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	Total
ECL allowance as of 1 January 2019	5,454	-
Net remeasurement of loss allowance	8,670	5,454
Net remeasurement on ECL allowance for financial assets new provided or acquired	(5,454)	-
Balance at 31 December	8,670	5,454

Fair value of securities under reverse repurchase agreements and carrying amount of loans provided as of 31 December 2019 are presented as follows:

In thousand Armenian drams	31 December 2019		31 December 2018	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state securities	632,089	584,122	1,059,980	1,055,021
Total assets pledged and loans under reverse repurchase agreements	632,089	584,122	1,059,980	1,055,021

18 Investment securities

In thousand Armenian drams	31 December 2019	31 December 2018
Investment securities		
Investment securities designated as at FVOCI – equity instruments	15,000	15,000
Investment securities designated as at FVOCI – debt instruments	450,384	-
Total investment securities measured at FVOCI	465,384	15,000
Investment securities measured at FVOCI pledged under repurchase agreements	15,622,382	8,382,644

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

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as at 1 January	7,544	3,041
Net remeasurement on loss allowance for financial assets new provided or acquired	4,615	4,503
Net remeasurement of loss allowance	(7,544)	-
Balance at 31 December	4,615	7,544

The above loss allowance is not recognised in the statement of financial position because the carrying amount of investment securities at FVOCI is their fair value.

All debt securities have fixed coupons.

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

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA state bonds	8.10-11.07%	2020-2047	9.3-11.8%	2019-2047

Unlisted equity investments consist of the Company's investments in "Coding Pro" CJSC and "AR MAGIC" CJSC, "Audio Guide" CJSC (the investment is 9,99% each).

19 Loans and advances to customers

In thousand Armenian drams	31 December 2019			31 December 2018		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	6,847,926	(54,196)	6,793,730	6,198,194	(5,314)	6,192,880
Consumer lending	4,185,765	(952,497)	3,233,268	1,403,186	(305,972)	1,097,214
Auto loans	8,556,048	(2,566,566)	5,989,482	6,361,054	(516,442)	5,844,612
Commercial lending						
Agriculture	1,800,137	(82,850)	1,717,287	1,811,235	(69,053)	1,742,182
Trade	1,121,112	(35,950)	1,085,162	1,382,172	(40,797)	1,341,375
Industry	516,600	(13,013)	503,587	663,521	(17,630)	645,891
Other	656,748	(19,525)	637,223	565,690	(21,007)	544,683
Total	23,684,336	(3,724,597)	19,959,739	18,385,052	(976,215)	17,408,837

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

During the year ended 31 December 2019 the Company obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 438,417 thousand (2018: AMD 121,971 thousand). The Company sells these assets in a short period (refer to note 21).

As of 31 December 2019 the weighted average effective interest rate on loans and advances to customers is 52.2% for loans in AMD (2018: 44.2%) and 17.7% for loans in USD (2018: 18.1%).

As of 31 December 2019 the Company's right of demand on loans to customers in the amount of AMD 6,399,074 thousand (2018: AMD 6,390,713 thousand) were pledged as collateral for loans and borrowings from other organizations in the amount of AMD 6,434,842 thousand (2018: AMD 6,443,917 thousand) (refer to note 24).

As of 31 December 2019 the Company has no borrower whose loans exceed 10% of equity (2018: one borrower).

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

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	231,489	155,228	441,011	827,728
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	7,678	(3,602)	(4,076)	-
Transfer to Lifetime ECL not credit-impaired	(8,120)	8,120	-	-
Transfer to Lifetime ECL credit-impaired	(92,805)	(46,517)	139,322	-
Net remeasurement of loss allowance	(30,018)	(59,008)	2,894,554	2,805,528
Net remeasurement on loss allowance for financial assets new provided or acquired	608,582	296,351	1,429,920	2,334,853
Net amounts written off during the year	-	-	(2,394,850)	(2,394,850)
Balance at 31 December	716,806	350,572	2,505,881	3,573,259

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January	74,237	6,463	67,787	148,487
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	1,248	-	(1,248)	-
Transfer to Lifetime ECL not credit-impaired	(691)	691	-	-
Transfer to Lifetime ECL credit-impaired	(6,066)	(6,463)	12,529	-
Net remeasurement of loss allowance	(49,597)	(62,671)	(9,170)	(121,438)
Net remeasurement on loss allowance for financial assets new provided or acquired	37,352	65,002	22,500	124,854
Net (amounts written off)/recoveries during the year	(2,205)	-	1,640	(565)
Balance at 31 December	54,278	3,022	94,038	151,338

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and deterioration in economic conditions. Further analysis of economic factors is outlined in note 34.1.

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	81,332	73,197	164,132	318,661
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	16,724	(16,724)	-	-
Transfer to Lifetime ECL not credit-impaired	(341)	341	-	-
Transfer to Lifetime ECL credit-impaired	(20,410)	(168,127)	188,537	-
Net remeasurement of loss allowance	(68,200)	150,769	840,965	923,534
Net remeasurement on loss allowance for financial assets new provided or acquired	222,384	115,772	362,947	701,103
Net amounts written off during the year	-	-	(1,115,570)	(1,115,570)
Balance at 31 December	231,489	155,228	441,011	827,728

				2018
In thousand Armenian drams	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as of 1 January	73,204	53,217	44,121	170,542
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	4,438	(3,184)	(1,254)	-
Transfer to Lifetime ECL not credit-impaired	(543)	543	-	-
Transfer to Lifetime ECL credit-impaired	(5,008)	(43,272)	48,280	-
Net remeasurement of loss allowance	(52,309)	(5,748)	154,075	96,018
Net remeasurement on loss allowance for financial assets new provided or acquired	54,455	4,907	17,574	76,936
Net amounts written off during the year	-	-	(195,009)	(195,009)
Balance at 31 December	74,237	6,463	67,787	148,487

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

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

20 Property and equipment

In thousand Armenian drams	Computer equipment	Right-of-use assets	Vehicles	Office equipment	Total
Cost					
at 1 January 2018	54,778	-	11,400	121,095	187,273
Additions	3,731	-	-	1,287	5,018
At 31 December 2018	58,509		11,400	122,382	192,291
Adjustment on adopting IFRS 16	-	274,231	-	-	274,231
Additions	18,812	-	-	3,466	22,278
Disposal	(8,574)	-	(3,500)	(5,777)	(17,851)
At 31 December 2019	68,747	274,231	7,900	120,071	470,949
Accumulated depreciation					
At 1 January 2018	29,184	-	9,961	40,242	79,387
Expenses for the year	9,992	-	1,439	23,247	34,678
At 31 December 2018	39,176	-	11,400	63,489	114,065
Expenses for the year	10,467	54,816	-	1,899	67,182
Disposal	(8,574)	-	(3,500)	(5,777)	(17,851)
At 31 December 2019	41,069	54,816	7,900	59,611	163,396
Carrying amount					
At 31 December 2019	27,678	219,415	-	60,460	307,553
At 31 December 2018	19,333	-	-	58,893	78,226

Fully depreciated items

As of 31 December 2019 fixed assets included fully depreciated assets in amount of AMD 16,684 thousand (2018: AMD 28,734 thousand).

Restrictions on title of fixed assets

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

21 Intangible assets

In thousand Armenian drams	Investments in intangible assets	Acquired software licenses	Goodwill	Total
Cost				
At 1 January 2018	-	22,471	69,602	92,073
Additions	-	905	-	905
At 31 December 2018	-	23,376	69,602	92,978
Additions	76,533	3,269	-	79,802
Impairment losses	-	-	(7,734)	(7,734)
At 31 December 2019	76,533	26,645	61,868	165,046
Accumulated amortization				
At 1 January 2018	-	6,807	-	6,807
Amortisation charge	-	1,625	-	1,625
At 31 December 2018	-	8,432	-	8,432
Amortisation charge	-	1,669	-	1,669
At 31 December 2019	-	10,101	-	10,101
Carrying amount				
At 31 December 2019	76,533	16,544	61,868	154,945
At 31 December 2018	-	14,944	69,602	84,546

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

22 Repossessed collateral

In thousand Armenian drams	31 December 2019	31 December 2018
Vehicles	94,759	-
Real estate	53,365	190,415
	148,124	190,415

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

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

23 Other assets

In thousand Armenian drams	31 December 2019	31 December 2018
Receivables and other proceeds	105,367	62,846
Less loss allowance	(5,381)	(3,840)
Total other financial assets	99,986	59,006
Prepayments	15,524	12,547
Other assets	-	732
Total non-financial assets	15,524	13,279
Total other assets	115,510	72,285

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

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as of 01 January	3,840	8,907
Net remeasurement on loss allowance for financial assets new provided or acquired	3,113	4,421
Net remeasurement of loss allowance	14,259	-
Net amounts written off during the year	(15,831)	(9,488)
Balance at 31 December	5,381	3,840

24 Loans and borrowings

In thousand Armenian drams	31 December 2019	31 December 2018
Loans from the Central Bank of Armenia	1,027,522	76,145
Loans from refinancing credit organizations	4,642,024	4,982,842
Bank loans under repurchase agreements (Note 1)	14,599,421	7,851,490
Bank loans and credit lines	8,726,441	6,473,387
Loans from RA Government through international programs	1,258,445	1,270,328
Borrowings from commercial and non-commercial organizations	2,396,978	2,536,768
Borrowings from shareholders	480,997	800,777
Total loans and borrowings	33,131,828	23,991,737

As of 31 December 2019 the weighted average effective interest rate for loans and borrowings in AMD was 7.7% (2018: 8.3%) and 7.5% (2018: 9.0%) for loans and borrowing in USD.

Loans under repurchase agreements are in AMD, with the weighted average effective interest rate amounting 6.4% (2018: 6.8%).

As of 31 December 2019 the Company has loans and borrowings from seven organizations (2018: eleven), whose loan and borrowings balances exceed 20% of equity. The total amount of such loans as of 31 December 2019 is AMD 14,877,503thousand (2018: AMD 22,376,286 thousand).

The Company's current accounts turnover and the shareholders' guarantees are collateralized for the Company loans and credit lines (refer to note 15).

As of 31 December 2019 the Company's right of demand on loans to customers in the amount of AMD 6,434,842 thousand (2018: AMD 6,443,917 thousand) were pledged as collateral for loans and borrowings in the amount of AMD 6,399,713 thousand (2018: AMD 6,309,713 thousand) (refer to note 19).

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

25 Debt securities issued

In thousand Armenian drams	31 December 2019	31 December 2018
Bonds	1,974,491	1,480,188
Total debt securities issued	1,974,491	1,480,188

As of 31 December 2019 bonds issued at the nominal value of AMD 1,959,400 thousand (2018: AMD 1,467,500 thousand) are listed in "NASDAQ OMX Armenia".

As of 31 December 2019 the average effective interest rates on debt securities issued was 9.7% for securities in AMD (2018: 10.2%) and 6.9% for securities in USD (2018: 8.2%).

The Company has not repurchased any of its own debt securities during the year (2018: either).

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

26 Other liabilities

In thousand Armenian drams	31 December 2019	31 December 2018
Payables	55,075	32,665
Due to personnel	36,474	63,550
Subsidized interests	21,840	32,768
Total other financial liabilities	113,389	128,983
ECL for guarantee*	24,013	5,640
Tax payable, other than income tax	9,361	12,652
Total other non-financial liabilities	33,374	18,292
Total other liabilities	146,763	147,275

*Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on loan commitments and financial guarantees refer to note 28.

27 Equity

As of 31 December 2019 the Company’s registered and paid-in share capital was AMD 2,000,000 thousand. In accordance with the Company’s statues, the share capital consists of 2,000,000 ordinary shares, all of which have a par value of AMD 1,000 each.

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

In thousand Armenian drams	2019		2018	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Gagik Vardanyan	670,599	33.53	502,949	33.53
Eduard Marutyan	666,628	33.33	499,971	33.33
Arayik Karapetyan	562,372	28.12	421,779	28.12
Karen Darbinyan	100,401	5.02	75,301	5.02
	2,000,000	100	1,500,000	100

As of 31 December 2019, the Company did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

In 2019 the shareholders of the Company increased its share capital by AMD 500,000 thousand.

The share capital of the Company was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

At the Shareholders' Meeting in July 2019, the Company declared dividends in respect of the year ended 31 December 2018, totaling AMD 437,000 thousand.

At the Shareholders' Meeting in April 2018, the Company declared dividends in respect of the year ended 31 December 2017, totaling AMD 403,751 thousand.

28 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2019	31 December 2018
Undrawn loan commitments	31,569	73,991
Guarantees	448,949	400,000
	480,518	473,991

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 19). The changes in the ECLs on financial guarantees are presented in other liabilities. An analysis of these changes as follow:

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as of 1 January	5,640	9,190
Net remeasurement on loss allowance for guarantees new provided or acquired	19,107	-
Net remeasurement of ECL allowance	(734)	(3,550)
Balance at 31 December	24,013	5,640

Operating lease commitments – Company as a lessee (Applicable before 01 January 2019)

In the normal course of business the Company enters into commercial lease agreements for for the building and office area.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	31 December 2018
Not later than 1 year	16,596
Total operating lease commitments	16,596

Insurance

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

29 Leases

The Company has leases for the head office. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 20).

Leases of for the building and office area are generally limited to a lease term of 5 years. Lease payments are generally fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets

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

Right-of-use assets leased	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Office areas	2	4 years	4 years	-	-	-	2

Lease liabilities

In thousand Armenian drams	31 December 2019
As of 1 January - effect of adoption of IFRS 16	274,231
Accretion of interest	21,474
Payments	(66,384)
Total lease liabilities as at 31 December	229,321

Lease liabilities are presented in the statement of financial position.

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9% (2018 n/a).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2019 (refer to note 33).

As of 31 December 2018, for the Company's operating lease commitments refer to note 28.

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. [In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

30 Transactions with related parties

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

The Company does not have ultimate controlling party.

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

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

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Receivables on reverse repurchase agreements				
At 1 January	1,055,021	-	-	-
Repayments during the year	(1,055,021)	-	3,671,876	-
Agreements signed during the year	584,122	-	(2,616,855)	-
At 31 December	584,122	-	1,055,021	-
Less loss allowance	(983)	-	(950)	-
Loans outstanding at 31 December	583,139	-	1,054,071	-
Loans to financial institutions				
Loans outstanding at 1 January gross	450,416	-	-	-
Loans issued during the year	730,487	-	450,416	-
Loan repayments during the year	(450,416)	-	-	-
Loans outstanding at 31 December, gross	730,487	-	450,416	-
Less loss allowance	(7,687)	-	(4,504)	-
Loans outstanding at 31 December	722,800	-	445,912	-
Loans and advances to customers				
Loans outstanding at 1 January gross	30,900	100,073	50,290	48,427
Loans issued during the year	-	45,000	-	66,730
Loan repayments during the year	(9,557)	(25,485)	(19,390)	(15,084)
Loans outstanding at 31 December, gross	21,343	119,588	30,900	100,073
Less loss allowance	-	(8,759)	(87)	(280)
Loans outstanding at 31 December	21,343	110,829	30,813	99,793
Loans and borrowings				
At 1 January	800,777	-	801,617	-
Received during the year	109,397	-	406,583	-
Repayments during the year	(429,177)	-	(407,423)	-
At 31 December	480,997	-	800,777	-

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of profit or loss and other comprehensive income				
Interest income on loans	2,598	9,976	3,735	9,165
Interest income on reverse repurchase agreements	2,193	-	6,151	-
Impairment (losses)/reversal	(3,129)	(8,479)	(5,038)	205
Interest expense on borrowings	(71,597)	-	(87,902)	-
Interest expense on lease	(21,474)	-	-	-
Operating lease expenses	-	-	(55,320)	-
Depreciation charge of right-of-use assets	(54,816)	-	-	-
Other expenses	(20,003)	-	(16,976)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and bonuses	89,912	115,796
Total key management compensation	89,912	115,796

The loans issued to related parties during the year are repayable monthly over 1-14 years and have interest rates of 6-18% (2018: 9-18%). The loans advanced are collateralised by real estate and guarantees.

31 Fair value measurement

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

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

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

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

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	101,543	-	101,543	101,543
Amounts due from financial institutions	-	1,305,939	-	1,305,939	1,305,939
Loans and advances to customers	-	20,557,457	-	20,557,457	19,959,739
Other assets	-	99,986	-	99,986	99,986
Financial liabilities					
Loans and borrowings	-	33,119,029	-	33,119,029	33,131,828
Debt securities issued	-	1,977,148	-	1,977,148	1,974,491
Lease liabilities	-	229,321	-	229,321	229,321
Other liabilities	-	113,389	-	113,389	113,389

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	108,279	-	108,279	108,279
Amounts due from financial institutions	-	1,499,983	-	1,499,983	1,499,983
Loans and advances to customers	-	17,668,484	-	17,668,484	17,408,837
Other assets	-	59,006	-	59,006	59,006
Financial liabilities					
Loans and borrowings	-	23,901,332	-	23,901,332	23,991,737
Debt securities Issued	-	1,448,040	-	1,448,040	1,480,188
Other liabilities	-	128,983	-	128,983	128,983

Amounts due from and to financial institutions

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

Loans and advances to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

Attracted loans and borrowings, issued securities

The fair value of attracted loans and borrowings from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms.

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2019
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities at FVOCI	-	16,087,766	-	16,087,766
Derivative financial assets	-	7,317	-	7,317
Total	-	16,095,083	-	16,095,083
Financial liabilities				
Derivative financial liabilities	-	720	-	720
Total	-	720	-	720
Net fair value	-	16,094,363	-	16,094,363

In thousand Armenian drams				31 December 2018
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities at FVOCI	-	8,397,644	-	8,397,644
Total	-	8,397,644	-	8,397,644
Net fair value	-	8,397,644	-	8,397,644

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

Derivatives

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

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

32 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2019					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Receivables on reverse repurchase agreements (note 17)	584,122	-	584,122	(584,122)	-	-
Total financial assets	584,122	-	584,122	(584,122)	-	-
Financial liabilities						
Securities pledged under repurchase agreements (notes 18, 24)	14,599,421	-	14,599,421	15,622,382	-	(1,022,961)
Total financial liabilities	14,599,421	-	14,599,421	15,622,382	-	(1,022,961)

In thousand Armenian drams	31 December 2018					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Receivables on reverse repurchase agreements (note 17)	1,055,021	-	1,055,021	(1,055,021)	-	-
Total financial assets	1,055,021	-	1,055,021	(1,055,021)	-	-
Financial liabilities						
Proceeds under repurchase agreements (Note 18, 24)	7,851,490	-	7,851,490	8,382,644	-	(531,154)
Total financial liabilities	7,851,490	-	7,851,490	8,382,644	-	531,154

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured in the statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing are measured at amortised cost

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 34.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2019						
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash	101,543	-	101,543	-	-	-	101,543
Derivative financial assets	7,317	-	7,317	-	-	-	7,317
Amounts due from financial institutions	1,305,939	-	1,305,939	-	-	-	1,305,939
Loans and advances to customers	344,308	2,991,552	3,335,860	9,083,787	7,540,092	16,623,879	19,959,739
Investment securities							
- Investment securities at fair value through other comprehensive income	-	-	-	15,000	450,384	465,384	465,384
Securities at fair value through other comprehensive income pledged under repurchase agreements	15,622,382	-	15,622,382	-	-	-	15,622,382
Other assets	99,986	-	99,986	-	-	-	99,986
	17,481,475	2,991,552	20,473,027	9,098,787	7,990,476	17,089,263	37,562,290
Liabilities							
Loans and borrowings	14,854,194	9,930,833	24,785,027	3,213,377	5,133,424	8,346,801	33,131,828
Debt securities issued	-	987,286	987,286	987,205	-	987,205	1,974,491
Derivative financial liabilities	720	-	720	-	-	-	720
Lease liabilities	4,075	44,825	48,900	180,421	-	180,421	229,321
Other liabilities	113,389	-	113,389	-	-	-	113,389
	14,972,378	10,962,944	25,935,322	4,381,003	5,133,424	9,514,427	35,449,749
Net position	2,509,097	(7,971,392)	(5,462,295)	4,717,784	2,857,052	7,574,836	2,112,541
Accumulated gap	2,509,097	(5,462,295)		(744,511)	2,112,541		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
							31 December 2018
Assets							
Cash	108,279	-	108,279	-	-	-	108,279
Amounts due from financial institutions	1,499,983	-	1,499,983	-	-	-	1,499,983
Loans and advances to customers	312,794	2,641,768	2,954,562	7,269,999	7,184,276	14,454,275	17,408,837
Investment securities							
- Investment securities at fair value through other comprehensive income	-	-	-	15,000	-	15,000	15,000
Securities at fair value through other comprehensive income pledged under repurchase agreements	8,382,644	-	8,382,644	-	-	-	8,382,644
Other assets	59,006	-	59,006	-	-	-	59,006
	10,362,706	2,641,768	13,004,474	7,284,999	7,184,276	14,469,275	27,473,749
Liabilities							
Loans and borrowings	7,932,342	8,229,358	16,161,700	5,549,373	2,280,664	7,830,037	23,991,737
Debt securities issued	-	496,438	496,438	983,750	-	983,750	1,480,188
Other liabilities	128,983	-	128,983	-	-	-	128,983
	8,061,325	8,725,796	16,787,121	6,533,123	2,280,664	8,813,787	25,600,908
Net position	2,301,381	(6,084,028)	(3,782,647)	751,876	4,903,612	5,655,488	1,872,841
Accumulated gap	2,301,381	(3,782,647)		(3,030,771)	1,872,841		

34 Risk management

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

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

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

Risk management structure

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

Board of Directors

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

Executive Director

The Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for the risk management in the process of loan provision.

Controller

Risk management processes throughout the Company are audited annually by the Controller function that examines both the adequacy of the procedures and the Company’s compliance with the procedures. Controller discusses the results of all assessments with management, and reports its findings and recommendations to the Company’s Board.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

34.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Company and reported to the Board of Directors regularly.

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

34.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 34.1.2.

In thousand Armenian drams			31 December 2019	
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
Standard	102,194	-	-	102,194
Gross carrying amount	102,194	-	-	102,194
Loss allowance	(651)	-	-	(651)
Net carrying amount	101,543	-	-	101,543
Amounts due from financial institutions				
Standard	1,314,609	-	-	1,314,609
Gross carrying amount	1,314,609	-	-	1,314,609
Loss allowance	(8,670)	-	-	(8,670)
Net carrying amount	1,305,939	-	-	1,305,939
Mortgage and consumer landing				
High grade	12,722,641	196,030	415,881	13,334,552
Standard grade	617,991	72,133	-	690,124
Substandard grade	-	785,403	-	785,403
Non-performing grade	-	-	4,779,660	4,779,660
Gross carrying amount	13,340,632	1,053,566	5,195,541	19,589,739
Loss allowance	(716,806)	(350,572)	(2,505,881)	(3,573,259)
Net carrying amount	12,623,826	702,994	2,689,660	16,016,480
Commercial landing				
High grade	3,739,502	66,099	99,138	3,904,739
Standard grade	18,480	718	-	19,198
Substandard grade	-	25,303	-	25,303
Non-performing grade	-	-	145,357	145,357
Gross carrying amount	3,757,982	92,120	244,495	4,094,597
Loss allowance	(55,660)	(1,640)	(94,038)	(151,338)
Net carrying amount	3,702,322	90,480	150,457	3,943,259
Investment securities at FVOCI (including pledged securities)				
Standard grade	16,622,382	-	-	16,622,382
Carrying amount (fair value)	16,622,382	-	-	16,622,382
Loss allowance	(4,615)			(4,615)
Other financial assets				
High grade	105,367	-	-	105,367
Gross carrying amount	105,367	-	-	105,367
Loss allowance	(5,381)	-	-	(5,381)
Net carrying amount	99,986	-	-	99,986
Loan commitments and financial guarantee				
High grade	480,518	-	-	480,518
	480,518	-	-	480,518
Loss allowance*	(24,013)	-	-	(24,013)

In thousand Armenian drams	31 December 2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
Standard	109,240	-	-	109,240
Gross carrying amount	109,240	-	-	109,240
Loss allowance	(961)	-	-	(961)
Net carrying amount	108,279	-	-	108,279
Amounts due from financial institutions				
Standard	1,505,437	-	-	1,505,437
Gross carrying amount	1,505,437	-	-	1,505,437
Loss allowance	(5,454)	-	-	(5,454)
Net carrying amount	1,499,983	-	-	1,499,983
Mortgage and consumer landing				
High grade	11,304,972	18,815	158,022	11,481,809
Standard grade	690,239	588	21,165	711,992
Substandard grade	-	651,077	105,762	756,839
Non-performing grade	-	-	1,011,794	1,011,794
Gross carrying amount	11,995,211	670,480	1,296,743	13,962,434
Loss allowance	(231,489)	(155,228)	(441,011)	(827,728)
Net carrying amount	11,763,722	515,252	855,732	13,134,706
Commercial landing				
High grade	4,147,411	-	65,275	4,212,686
Standard grade	80,480	-	353	80,833
Substandard grade	-	30,411	49,060	79,471
Non-performing grade	-	-	49,628	49,628
Gross carrying amount	4,227,891	30,411	164,316	4,422,618
Loss allowance	(74,237)	(6,463)	(67,787)	(148,487)
Net carrying amount	4,153,654	23,948	96,529	4,274,131
Investment securities at FVOCI (including pledged securities)				
Standard grade	8,397,644	-	-	8,397,644
Carrying amount (fair value)	8,397,644	-	-	8,397,644
Loss allowance	(7,544)			(7,544)
Other financial assets				
High grade	62,846	-	-	62,846
Gross carrying amount	62,846	-	-	62,846
Loss allowance	(3,840)	-	-	(3,840)
Net carrying amount	59,006	-	-	59,006
Loan commitments and financial guarantee				
High grade	473,991	-	-	473,991
	473,991	-	-	473,991
Loss allowance*	(5,640)	-	-	(5,640)

*The ECL allowance in these tables includes only ECL on guarantee, because the Company cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

34.1.2 Impairment assessment

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

Significant increase in credit risk

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

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

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

Criteria for Loans and advances to customers

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

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

Criteria for Amounts due to financial institutions

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

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

Criteria for Investment securities

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

- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

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

Credit risk grades

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

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

	Grade	12 month PD range
Mortgage and consumer landing	High, Standard	0.51-38.23%
	Substandard	29.75-86,8%
	Non-Performing	98-100%
Commercial landing	High, Standard	2.82-8.31%
	Non-Performing	17.9-72.46%

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

International external rating agency (S&P) rating	Grade	12 month PD
AAA to A-	Hight	0.001-0.04%
BBB+ to B-	Standard	0.052-7.48%
CCC+ to CC	Low	13.385-29.13%
D	Non-Performing	100%

Collective or individual assessment

Asset classes where the Company calculates ECL on an individual basis include:

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

The Company groups those assets for which ECL does not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

- Type of loan (for example, corporate, mortgage, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),

- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

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

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

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

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

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

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

- GDP growth
- Net current transfers from abroad
- Unemployment
- Nonperforming loans to total gross loans
- Industry growth
- Agriculture growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

34.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

Loan placements by economy branches are disclosed on note 19.

34.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Company did not hold any financial instruments for which no loss allowance is recognised because of collateral.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to Companys. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross loan portfolio of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Loans collateralized by real estate	4,206,347	6,354,568
Loans collateralized by inventories	2,332,903	1,545,612
Loans collateralized by fixed assets	201,982	102,971
Loans collateralized by vehicles	8,774,817	6,937,096
Loans collateralized by gold jewellery or other gold items	-	11,737
Loans collateralized by guarantees	2,739,147	1,124,269
Unsecured loans	3,911,216	1,210,195
Other collateral	1,517,924	1,098,604
Total loans and advances to customers (gross)	23,684,336	18,385,052

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

34.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

34.2.1 Market risk – Non-trading

Interest rate risk

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

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

As of 31 December 2019 the Company has not had financial assets and liabilities with variable interest rate.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effects of the assumed changes in interest rates as of 31 December 2019.

In thousand Armenian drams		2019				
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	(981,399)	-	-	(24,000)	(1,005,399)
AMD	(1)	1,085,517	-	-	25,773	1,111,290

In thousand Armenian drams						2018
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	(292,828)	-	-	-	(292,828)
AMD	(1)	312,453	-	-	-	312,453

Currency risk

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

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

In thousand Armenian drams	31 December 2019		31 December 2018	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	69,105	5	(9,618)
EUR	5	-	5	31

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash	81,030	20,513	-	101,543
Amounts due from financial institutions	1,305,939	-	-	1,305,939
Loans and advances to customers	16,588,346	3,371,393	-	19,959,739
Investment securities				
- Investment securities at fair value through other comprehensive income	465,384	-	-	465,384
Securities pledged under repurchase agreements	15,622,382	-	-	15,622,382
Other assets	99,986	-	-	99,986
	34,163,067	3,391,906	-	37,554,973

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Liabilities				
Loans and borrowings	30,362,167	2,769,661	-	33,131,828
Debt securities issued	1,008,754	965,737	-	1,974,491
Lease liabilities	229,321	-	-	229,321
Other liabilities	112,777	612	-	113,389
Total	31,713,019	3,736,010	-	35,449,029
Total impact of derivative financial instruments	(1,719,603)	1,726,200	-	6,597
Net position as of 31 December 2019	730,445	1,382,096	-	2,112,541
Commitments and contingent liabilities as of 31 December 2019	156,590	323,928	-	480,518
Total financial assets	23,937,560	3,535,938	251	27,473,749
Total financial liabilities	21,802,806	3,798,102	-	25,600,908
Net position as of 31 December 2018	2,134,754	(262,164)	251	1,872,841
Commitments and contingent liabilities As of 31 December 2018	398,177	70,174	-	473,991

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to Russian ruble.

34.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. Refer to note 33 for the expected maturities of these liabilities.

In thousand Armenian drams						31 December 2019
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
Non-derivative financial liabilities						
Loans and advances	14,854,215	9,992,457	3,528,584	6,863,093	35,238,349	33,131,828
Debt securities issued	-	1,066,080	1,149,781	-	2,215,861	1,974,491
Lease liabilities	5,532	60,852	204,684	-	271,068	229,321
Other liabilities	113,389	-	-	-	113,389	113,389
Total undiscounted non-derivative financial liabilities	14,973,136	11,119,389	4,883,049	6,863,093	37,838,667	35,449,029
Derivative financial liabilities						
Inflow	1,731,694	-	-	-	1,731,694	1,726,200
Outflow	(1,719,603)	-	-	-	(1,719,603)	(1,719,603)
Commitments and contingent liabilities	480,518	-	-	-	480,518	480,518

In thousand Armenian drams						31 December 2018
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
Non-derivative financial liabilities						
Loans and advances	7,946,484	8,690,776	6,831,046	2,566,293	26,034,599	23,991,737
Debt securities issued	-	610,785	1,117,613	-	1,728,398	1,480,188
Other liabilities	128,983	-	-	-	128,983	128,983
Total undiscounted non-derivative financial liabilities	8,075,467	9,301,561	7,948,659	2,566,293	27,891,980	25,600,908
Commitments and contingent liabilities	473,991	-	-	-	473,991	473,991

34.4 Operational risk

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

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

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

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

35 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	31 December 2019			
	Lease liabilities	**Debt securities issued**	**Long-term liabilities**	**Total**
As of 1 January 2019	274,231	1,480,188	23,991,737	25,746,156
Cash-flows	(66,384)	483,047	9,094,262	9,510,925
Amounts received	-	1,019,224	11,296,194	12,315,418
Amounts repaid	(66,384)	(536,177)	(2,201,932)	(2,804,493)
Non-cash	21,474	11,256	45,829	78,559
Foreign exchange gain	-	8,788	26,032	34,820
Interests accrued	21,474	2,468	19,797	43,739
As of 31 December 2019	229,321	1,974,491	33,131,828	35,335,640

In thousand Armenian drams	31 December 2018		
	Debt securities issued	**Long-term liabilities**	**Total**
As of 1 January 2018	1,482,211	12,938,601	14,420,812
Cash-flows	(2,660)	11,043,554	11,040,894
Amounts received	708,171	11,395,664	12,103,835
Amounts repaid	(710,831)	(352,110)	(1,026,941)
Non-cash	637	9,582	10,219
Foreign exchange (gain)/loss	(637)	(2,180)	(2,817)
Interests accrued	1,274	11,762	13,036
As of 31 December 2018	1,480,188	23,991,737	25,471,925

36 Capital adequacy

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

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

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

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

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2019 and 2018 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**31 December 2019**	**31 December 2018**
Tier 1 capital	2,369,623	2,247,865
Tier 2 capital	626,545	138,172
Total regulatory capital	2,996,168	2,386,037
Risk-weighted assets	19,582,790	16,499,017
Capital adequacy ratio	15.3%	14.5%

The Central Bank of the Republic of Armenia has established a minimum limit of AMD 1,000,000 thousand for the credit organizations' issuance securities and sale of foreign currency.

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

37. Segment reporting

In terms of IFRS 8 the Company’s operations are not separated to operating segments and are a complete business unit. The Company’s chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Company’s assets are mainly distributed in the territory of the Republic of Armenia. The Company’s income is derived from the Armenian sources.

38. Events after the reporting period

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time, it has already had a significant impact on the global economy and major financial markets. The developing situation with COVID-19 may have some impact on the volume of the operations of the Company. It may be expressed by the inability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships and other circumstances.

On 16 March 2020 the Government of the Republic of Armenia announced a state of emergency in the country to last until 15 May 2020. These financial statements do not reflect the potential impact of the above.