

Central Bank of the Republic of Armenia

International Financial Reporting Standards Consolidated financial statements

*for the year ended 31 December 2020
together with independent auditor's report*

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Independent auditor's report

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Independent auditor's report

To the Board of the Central Bank of the Republic of Armenia

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Board of the Central Bank of Armenia for the consolidated financial statements

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

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

The Board of the Central Bank of Armenia is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern;
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with the Board of the Central Bank of Armenia 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.

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner

Marchello Gelashvili

General Director

Eric Hayrapetyan

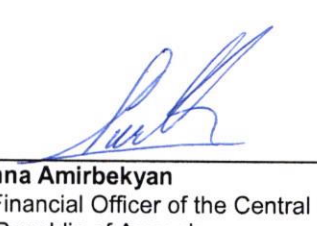
30 March 2021

Consolidated statement of comprehensive income**For the year ended 31 December 2020**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2020</i>	<i>2019</i>
Interest income	4	34,343,569	35,271,838
Interest expense	5	(22,836,209)	(21,092,209)
Net interest income		11,507,360	14,179,629
(Credit loss expense)/reversal of allowance for credit losses	12, 15, 19	(791,184)	198,529
Net interest income after credit loss allowance		10,716,176	14,378,158
Fee and commission income		490,216	608,934
Fee and commission expense		(1,470,161)	(1,304,349)
Net foreign exchange gain/(loss)	6	65,428,920	(1,455,792)
Net loss on derivatives	7	(3,826,806)	(477,632)
Net gain on financial instruments at fair value through profit or loss	8	9,120,334	14,501,951
Other income	9	4,956,533	4,226,258
Cost of production of banknotes, coins and numismatics	10	(1,481,880)	(828,921)
Other expenses	11	(18,833,509)	(17,895,318)
Profit before tax		65,099,823	11,753,289
Income tax expense		(2,186,836)	(1,993,458)
Profit for the year		62,912,987	9,759,831
Profit is attributable to:			
Owners of the Bank		62,849,377	9,693,618
Non-controlling interest		63,610	66,213
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net unrealised (loss)/gain from changes in fair value of debt financial assets measured through other comprehensive income		(407,164)	573,139
Changes in allowance for expected credit losses of debt financial assets at fair value through other comprehensive income	15	(31,682)	30,870
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(438,846)	604,009
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Net gain on equity instruments at fair value through other comprehensive income		668,345	7,977
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		668,345	7,977
Other comprehensive income for the year		229,499	611,986
Total comprehensive income for the year		63,142,486	10,371,817
Total comprehensive income is attributable to:			
Owners of the Bank		63,053,996	10,277,020
Non-controlling interest		88,490	94,797

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 30 March 2021 and were signed by:


Martin Galstyan
 Chairman of the Central Bank
 of the Republic of Armenia


Marianna Amirbekyan
 Chief Financial Officer of the Central Bank
 of the Republic of Armenia

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of financial position**As at 31 December 2020**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	31 December 2020	31 December 2019
Assets			
Foreign currency assets			
Cash		51,108,237	39,603,848
Placements with banks and other financial institutions	12	385,019,006	559,991,988
Financial instruments at fair value through profit or loss	13	930,471,867	773,358,342
Financial assets measured at fair value through other comprehensive income	15	3,459,465	2,702,167
Placements with the IMF	16	101,636,948	88,398,230
Other assets		182,954	171,875
Total foreign currency assets		1,471,878,477	1,464,226,450
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	704,534,763	433,882,868
Financial assets measured at fair value through other comprehensive income	15	78,543,693	87,872,142
Property and equipment	17	61,252,975	65,679,935
Intangible assets	18	2,897,059	3,020,744
Other assets	19	10,072,335	12,239,109
Total domestic currency assets		857,300,825	602,694,798
Total assets		2,329,179,302	2,066,921,248
Liabilities			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	508,273,268	376,281,455
Due to the Government of the Republic of Armenia	23	1,506,451	1,248,593
Derivative financial liabilities	14	143,121	81,100
Due to the IMF	16	247,496,568	240,948,903
Other borrowed funds	21	160,585,640	142,742,121
Other liabilities		1,442,932	945,056
Total foreign currency liabilities		919,447,980	762,247,228
Domestic currency liabilities			
Notes and coins in circulation		751,465,873	607,209,301
Deposits and accounts of financial and other institutions	20	310,400,907	347,119,824
Due to the Government of the Republic of Armenia	23	265,035,664	326,045,767
Debt securities issued	24	9,655,324	6,626,428
Other liabilities	22	4,521,819	4,408,557
Total domestic currency liabilities		1,341,079,587	1,291,409,877
Total liabilities		2,260,527,567	2,053,657,105
Equity			
Issued capital	25	100,000	100,000
General reserve		27,418,972	25,480,248
Promissory Note issued by the Government	25	66,055,949	73,810,843
Revaluation reserve for financial assets measured at fair value through other comprehensive income	25	2,626,918	2,422,299
Accumulated deficit		(28,568,054)	(89,478,707)
Net assets attributable to owners of the Bank		67,633,785	12,334,683
Non-controlling interest		1,017,950	929,460
Total equity		68,651,735	13,264,143
Total liabilities and equity		2,329,179,302	2,066,921,248

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2020**

	<i>Attributable to owners of the Bank</i>					<i>Total</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Issued capital</i>	<i>General reserve</i>	<i>Promissory note issued by the Government</i>	<i>Revaluation reserve for financial assets measured at fair value through other comprehensive income</i>	<i>Accumulated deficit</i>			
<i>In thousands of Armenian Drams</i>								
Balance at 1 January 2019	100,000	25,480,248	73,810,843	1,838,897	(99,172,325)	2,057,663	897,663	2,955,326
Increase of share in a subsidiary	–	–	–	–	–	–	(63,000)	(63,000)
Profit for the year	–	–	–	–	9,693,618	9,693,618	66,213	9,759,831
Other comprehensive income	–	–	–	583,402	–	583,402	28,584	611,986
Total comprehensive income for the year	–	–	–	583,402	9,693,618	10,277,020	94,797	10,371,817
Balance at 31 December 2019	100,000	25,480,248	73,810,843	2,422,299	(89,478,707)	12,334,683	929,460	13,264,143
Profit distribution	–	1,938,724	(7,754,894)	–	(1,938,724)	(7,754,894)	–	(7,754,894)
Profit for the year	–	–	–	–	62,849,377	62,849,377	63,610	62,912,987
Other comprehensive income	–	–	–	204,619	–	204,619	24,880	229,499
Total comprehensive income for the year	–	–	–	204,619	62,849,377	63,053,996	88,490	63,142,486
Balance at 31 December 2020	100,000	27,418,972	66,055,949	2,626,918	(28,568,054)	67,633,785	1,017,950	68,651,735

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2020**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2020</i>	<i>2019</i>
Cash flows from operating activities			
Profit before tax		65,099,823	11,753,289
<i>Adjustments to reconcile profit for the year to net cash flows</i>			
Depreciation and amortisation	11, 17, 18	3,858,750	4,231,048
Loss/(gain) from disposals and write-off of property and equipment		1,387,375	(11,458)
Change in interests receivable		(623,393)	(972,116)
Change in interests payable		(380,556)	408,405
Net (gain)/loss from foreign exchange translation	6	(63,453,637)	1,982,331
Net loss/(gain) from re-measurement of financial instruments at fair value		2,835,330	(2,273,133)
Credit loss expense / (Reversal of allowance for credit losses)	12, 15, 19	791,184	(198,529)
Income tax paid		(1,664,628)	(2,096,085)
Cash flows from operating activities before changes in operating assets and liabilities		7,850,248	12,823,752
<i>Net (increase)/decrease in operating assets</i>			
Placements with banks and other financial institutions in foreign currency		21,286,198	11,774,996
Financial instruments at fair value through profit or loss and derivative financial instruments		(74,408,589)	(72,633,468)
Placements and investments with banks and financial other institutions in domestic currency		(269,799,443)	9,880,361
Other assets		2,497,585	1,856,851
<i>Net increase/(decrease) in operating liabilities</i>			
Notes and coins in circulation		144,256,572	40,502,834
Deposits and accounts of financial and other institutions		65,659,763	112,422,725
Due to the Government of the Republic of Armenia		(59,089,285)	136,197,289
Proceeds from issuance of debt securities		3,000,664	3,512,226
Repayment of debt securities issued		–	(4,710,600)
Other liabilities		(586,515)	849,946
Net cash flows (used in)/from operating activities		(159,332,802)	252,476,912
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(788,976)	(890,980)
Proceeds from sale of property and equipment		81,764	41,512
Proceeds from sale and redemption of financial assets measured at fair value through other comprehensive income		1,170,000	1,308,092
Net cash flows from investing activities		462,788	458,624
Cash flows from financing activities			
Loans received		14,258,245	6,346,555
Loans redeemed		(39,375,111)	(34,421,137)
Lease payments		(89,123)	(82,489)
Net cash flows used in financing activities		(25,205,989)	(28,157,071)
Effect of exchange rate changes on cash and cash equivalents		42,993,016	(3,586,638)
Net (decrease)/increase in cash and cash equivalents		(141,082,987)	221,191,827
Cash and cash equivalents at the beginning of the year	28	577,159,377	355,967,550
Cash and cash equivalents at the end of the year	28	436,076,390	577,159,377
Supplementary information			
Interest received		33,720,176	34,299,722
Interest paid		(23,216,765)	(20,683,804)

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

1. General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2020 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank" or the "Central Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law *On the Central Bank of the Republic of Armenia* (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2020 was 765.

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the prime objective of the Bank is ensuring price stability and financial stability in the Republic of Armenia. In order to ensure price stability the Central Bank develops, approves and implements monetary policy programs. In addition to its prime objective, other objectives include:

- ▶ Ensure the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia;
- ▶ Create and develop of an effective payment and settlement system;
- ▶ Issue the national currency of the Republic of Armenia and regulate its circulation;
- ▶ Organise and regulate anti-money laundering and anti-terrorism financing activities;
- ▶ Secure the conditions necessary for protecting the rights and lawful interests of consumers in the financial system;
- ▶ Ensure free and fair economic competition in the financial system and etc.

To accomplish its objectives the Central Bank:

- ▶ Acts as financial agent and advisor of the Government of the Republic of Armenia (the "Government");
- ▶ Licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- ▶ Uses and manages international reserves of the Republic of Armenia and etc.

The Bank's largest subsidiaries as of 31 December 2020 are listed below:

Name	Country of incorporation	Principal activity	Controlled, %		Date of establishment
			2020	2019	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	56.25	56.25	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/delivery of cash	100.00	100.00	April 1998
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100.00	100.00	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance	100.00	100.00	December 2013
"Stak Processing" CJSC	Republic of Armenia	infrastructure support	100.00	100.00	December 2017
"Stak Money Transfer" CJSC	Republic of Armenia	Payment and settlement services	100.00	100.00	December 2017
		Payment and settlement services	100.00	100.00	December 2017

Following to the Group's policy disclosed in Note 30, in March 2020 the Group announced its intention to dispose its investment in the subsidiary engaged in cash delivery/transportation activities through liquidation. As of 31 December 2020 the subsidiary was still under liquidation process.

In fall 2020 the Group decided to merge the operations of its two subsidiaries engaged in payment and settlement services. The merger transaction took place in January 2021.

1. General information (continued)

(a) Armenian economic environment and effect of COVID-19 pandemic

The Bank acted in an environment of the sluggish economic activity and weak domestic demand due to negative impact and heightened uncertainty caused by the announced military situation in Armenia on 27 September, the outbreak and a consequent escalations of coronavirus pandemic.

Since the beginning of the year, the Central Bank of Armenia, in order to stimulate aggregate demand, gradually reduced the level of its main instrument, the refinancing rate, by a total of 1.25 percentage points, contributing to macro-stability, and gradual convergence of inflation to the target. Other support measures, such as payment holidays and easing of certain regulatory restrictions, were introduced by the Bank to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

However, positive expectations about recovery of global demand, the all-time high levels of liquidity in international financial markets, as well as a number of supply factors, have driven the price increases in the international food and commodity markets and hence, contributed to the imported inflation acceleration in Armenia at the end of the year. On the other hand, amid uncertainty related to the economic and political outlook, Armenian dram depreciated against the US dollar, especially starting from November 2020. Consequently, the 12-month inflation has increased significantly and nearly approached the target level, reaching 3.7% at the end of the year, creating some concerns about the possible increase in inflation expectation, resulting in increase of the refinancing rate by 1.0 percentage point at the end of the year.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

(b) Estimation uncertainty

To the extent that information is available as at 31 December 2020, the Group has reflected revised estimates of expected future cash flows in its ECL assessment and estimation of fair values of financial instruments (Note 30).

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2020 for the Bank and its subsidiaries.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial assets at fair value through other comprehensive income, and financial instruments categorised at fair value through profit or loss, including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(c) Form of presentation of the financial statements

In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

(d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Assessment of impairment

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's expected credit losses ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Group's internal credit grading model, which assigns PDs to the individual grades;
- ▶ The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL ("LTECL") basis and the qualitative assessment;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults ("PD"), exposure at defaults ("EAD") and loss given defaults (LGD);
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund (the "IMF")

In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the Law of the Republic of Armenia on Membership of the Republic of Armenia in the International Monetary Fund, International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes, the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depository function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

(f) Adoption of new or revised standards and Interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

2. Summary of significant accounting policies (continued)

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power to direct relevant activities of the investees that significantly affect their returns;
- ▶ Exposure, or rights, to variable returns from its involvement with the investees; and
- ▶ The ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(h) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

2. Summary of significant accounting policies (continued)

(h) Foreign currency translation and presentation of foreign currency items (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of comprehensive income.

As at 31 December 2020 and 31 December 2019, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2020	31 December 2019
AMD / 1 US dollar	522.59	479.70
AMD / 1 Euro	641.11	537.26
AMD / 1 GBP	709.47	629.13
AMD / 1 SDR (Special Drawing Rights)	752.67	663.34
AMD / 1 JPY	5.06	4.40
AMD / 1 RUB	7.02	7.77

(i) Cash and cash equivalents

For cash flows statement perspective cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(j) Financial instruments – key measurement terms

The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category "Financial instruments at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading, including interest income on trading debt securities are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit and loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives embedded in liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ 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 (SPPI).

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Accounting for zero interest rate loans

The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

(k) Leases

i. Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included in line "Other liability" in these consolidated financial statements.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. Operating – Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(l) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

2. Summary of significant accounting policies (continued)

(m) Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repo”) are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated 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. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell (“reverse repo agreements”) are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

(n) Securities lending and borrowing

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

(o) Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred.

(p) Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income for the current year.

(q) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	2020	2019
Land and buildings		
- Buildings	30-80 years	30-80 years
- Building technical systems	3-20 years	3-20 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

2. Summary of significant accounting policies (continued)

(r) Non-current assets classified as held for sale

Non-current assets are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

(s) Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

(t) Impairment

Impairment of financial assets

Information on impairment assessment of financial assets is presented in Note 30.

Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

(u) Provisions

Provisions are recognised when the Group 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.

(v) Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

(w) Issued capital

Issued capital represents the authorised capital of the Bank, which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as Promissory Note issued by the Government in the Equity of the Group.

2. Summary of significant accounting policies (continued)

(x) Profit allocation

The profit of the Group determined based on its consolidated financial statements shall be allocated as follows:

- a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;
- b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Group remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Group to be paid to the state budget shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous (Note 25).

(y) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(z) Interest income and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(aa) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

3. New accounting pronouncements (continued)

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

In August 2020 the IASB issued Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group will apply IBOR reform Phase 2 from 1 January 2021.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

4. Interest income

In thousands of Armenian Drams

	2020	2019
Interest income from foreign currency assets		
Nostro accounts	639,647	2,754,182
Term deposits	225,797	382,698
Placements with the IMF	13,096	24,634
Other	41,685	70,469
Total interest income from foreign currency assets	920,225	3,231,983
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	32,151,420	30,722,771
Financial assets measured at fair value through other comprehensive income	1,271,924	1,317,084
Total interest income from domestic currency assets	33,423,344	32,039,855
Total interest income calculated using effective interest rate	34,343,569	35,271,838

5. Interest expense

In thousands of Armenian Drams

	2020	2019
Interest expense on foreign currency liabilities		
Other borrowed funds	3,314,406	3,676,153
Due to the IMF	1,332,940	2,518,184
Total interest expense on foreign currency liabilities	4,647,346	6,194,337
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	16,914,428	13,737,026
Debt securities issued	664,147	677,398
Deposits and accounts of financial and other institutions	402,717	281,005
Other	207,571	202,443
Total interest expense on domestic currency liabilities	18,188,863	14,897,872
Total interest expense	22,836,209	21,092,209

6. Net foreign exchange gain/(loss)

<i>In thousands of Armenian Drams</i>	2020	2019
Net gain/(loss) from foreign exchange translation	63,453,637	(1,982,331)
Net gain on spot transactions	1,975,283	526,539
Total net foreign exchange gain/(loss)	65,428,920	(1,455,792)

Included in the net gain/(loss) from revaluation of monetary assets and liabilities is a foreign exchange translation gain of AMD 84,405,394 thousand on financial instruments at fair value through profit or loss (2019: loss in the amount of AMD 7,563,296 thousand).

7. Net loss on derivatives

<i>In thousands of Armenian Drams</i>	2020	2019
Net loss on forward contract with the Government (Note 27)	(3,461,039)	(453,848)
Net (loss)/gain on swaps	(395,885)	5,851
Net gain/(loss) on futures	30,118	(29,635)
Total net loss on derivatives	(3,826,806)	(477,632)

In accordance with the agreement dated 5 January 2007 with the Government, the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year, which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Bank as a result of such foreign currency exchange operations is accounted for as result on derivatives. Starting from 1 January 2021 foreign currency denominated state budget main inflows and outflows will be exchanged at market rate on the date of the transaction.

8. Net gain on financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	2020	2019
Net gain on foreign securities under own management	9,083,463	14,508,756
Net loss on assets under trust management	–	(33,271)
Net gain on money market instruments under own management	36,871	44,229
Trust management fees	–	(17,763)
Total net gain on financial instruments at fair value through profit or loss	9,120,334	14,501,951

9. Other income

<i>In thousands of Armenian Drams</i>	2020	2019
Numismatic coins	1,467,887	725,162
Financial agency fee	427,496	163,865
Other	3,061,150	3,337,231
Total other income	4,956,533	4,226,258

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2020, the amount of AMD 2,453,011 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2019: AMD 2,460,686 thousand).

10. Cost of production of banknotes, coins and numismatics

<i>In thousands of Armenian Drams</i>	2020	2019
Production of numismatic coins sold during the year	1,234,814	618,159
Production of banknotes and coins	247,066	210,762
Total cost of production of banknotes, coins and numismatics	1,481,880	828,921

11. Other expenses

<i>In thousands of Armenian Drams</i>	2020	2019
Employee compensation, staff training and related payments	8,033,175	8,292,421
Depreciation and amortisation	3,858,750	4,231,048
Repairs and maintenance	1,560,537	1,672,598
Security and insurance expenses	497,493	562,394
Expenses on development and maintenance of payment system	457,576	467,193
Professional services	57,436	136,632
Other	4,368,542	2,533,032
Total other expenses	18,833,509	17,895,318

During the year ended 31 December 2020 and 31 December 2019, the expenses included into "Other" line represent subscription fees, communication expenses, utilities, rent expenses and stationary of the Bank and its subsidiaries. For the year ended 31 December 2020 "Other" line also includes property and equipment write-off amount as disclosed in Note 17.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2020 and 31 December 2019 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions**Placements with banks and other financial institutions in foreign currency**

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	380,277,935	534,601,773
Term deposits	4,173,434	25,536,096
Margin requirements of derivatives	637,304	2,015
Impairment allowance	(69,667)	(147,896)
Total placements with banks and other financial institutions in foreign currency	385,019,006	559,991,988

Concentration of placements with banks and other financial institutions in foreign currency

As at 31 December 2020 the Group had placements in two banks with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2020 amounted to AMD 295,730,920 thousand (31 December 2019: placements with three banks amounted to AMD 458,250,623 thousand).

Allowance for impairment of placements with banks and other financial institutions in foreign currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
Gross carrying value as at 1 January 2020	560,139,884	560,139,884
New assets originated or purchased	381,508,352	381,508,352
Assets repaid	(556,559,563)	(556,559,563)
At 31 December 2020	385,088,673	385,088,673

12. Placements and investments with banks and other financial institutions (continued)**Placements with banks and other financial institutions in foreign currency (continued)**

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
ECL as at 1 January 2020	147,896	147,896
New assets originated or purchased	4,412	4,412
Assets repaid	(65,406)	(65,406)
Changes to models and inputs used for ECL calculations	(17,235)	(17,235)
At 31 December 2020	69,667	69,667

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2019 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
Gross carrying value as at 1 January 2019	348,152,134	348,152,134
New assets originated or purchased	556,509,344	556,509,344
Assets repaid	(344,521,594)	(344,521,594)
At 31 December 2019	560,139,884	560,139,884

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements with banks and other financial institutions in foreign currency		
ECL as at 1 January 2019	85,277	85,277
New assets originated or purchased	72,815	72,815
Assets repaid	(85,268)	(85,268)
Changes to models and inputs used for ECL calculations	75,072	75,072
At 31 December 2019	147,896	147,896

Placements and investments with banks and other financial institutions in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Placements and investments with banks and other financial institutions in domestic currency		
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	140,847,175	127,976,053
Repurchase agreements and other overnight facilities	345,952,769	126,669,774
Mortgage refinancing	106,377,016	90,373,958
Deposits and current accounts placed in commercial banks	87,282,360	63,926,423
Investments measured at amortised cost	24,305,412	24,082,487
Other loans	3,208,943	3,447,368
Impairment allowance	(3,438,912)	(2,593,195)
Total placements and investments with banks and other financial institutions in domestic currency	704,534,763	433,882,868

Concentration of placements and investments with banks and other financial institutions in domestic currency

As at 31 December 2020 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2019: two banks).

12. Placements and investments with banks and other financial institutions (continued)

Placements and investments with banks and other financial institutions in domestic currency (continued)

The Group accepted securities on reverse repurchase agreements as collateral, which the Group is permitted to sell or repledge. As at 31 December 2020 amounts receivable under reverse repurchase agreements are with 12 resident bank (31 December 2019: 6 resident banks) and are collateralised by the following securities:

<i>In thousands of Armenian Drams</i>	<i>Fair value as at 31 December 2020</i>	<i>Fair value as at 31 December 2019</i>
Treasury bonds of the Government	306,786,374	116,749,671
Eurobonds issued by the Government	11,951,592	5,354,434
Corporate bonds	43,406,326	10,350,452
Total	362,144,292	132,454,557

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks and other financial institutions under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- ▶ **SME Support.** The objective of the SME support Programs of the World Bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations. During 2017 one more loan was received from EIB within the framework of the "Armenia APEX II Loan for SMEs and MIDCAPs" Program. The conditions of this loan are mostly the same as that of the first phase. The main difference is climate change component inclusion that requires some actions from the side of sub-borrowers to improve the impact on the environment. During 2020 one more loan was received from EIB under "Private Sector Facility" Loan Program (EIB-III). The objective of the program is agriculture, tourism and production sectors development as well as export stimulation in the Republic of Armenia. During 2016 a new loan was received under "Support for the financing of the Energy Efficiency in MSME sector" Program. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO₂-emissions as well as to enhance the competitiveness of the enterprises.
- ▶ **Development of the Renewable Energies.** The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- ▶ **Development of sustainable housing market.** The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2020 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 14 domestic banks (31 December 2019: 13 domestic banks) and 9 financial institutions (31 December 2019: 9 financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2019: 10 years). As at 31 December 2020 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 106,094,093 thousand (31 December 2019: AMD 90,766,893 thousand).

12. Placements and investments with banks and other financial institutions (continued)

Placements and investments with banks and other financial institutions in domestic currency (continued)

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2020 the management of the Group has classified investments in the amount of AMD 24,305,412 thousand as investments measured at amortised cost (31 December 2019: AMD 24,082,487 thousand as investments measured at amortised cost). Such decision was made due to the business model of managing these investments – to hold financial assets in order to collect contractual cash flows.

Other loans are secured by real estate in the amount of AMD 2,657,699 thousand (31 December 2019: AMD 2,830,489 thousand), movable property and other assets in the amount of AMD 124,105 thousand (31 December 2019: AMD 126,009 thousand).

Allowance for impairment of placements and investments with banks and other financial institutions in domestic currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
Gross carrying value as at 1 January 2020	436,476,063	436,476,063
New assets originated or purchased	472,592,109	472,592,109
Assets repaid	(201,094,497)	(201,094,497)
At 31 December 2020	707,973,675	707,973,675

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
ECL as at 1 January 2020	2,593,195	2,593,195
New assets originated or purchased	870,474	870,474
Assets repaid	(299,699)	(299,699)
Changes to models and inputs used for ECL calculations	274,942	274,942
At 31 December 2020	3,438,912	3,438,912

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2019 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
Gross carrying value as at 1 January 2019	446,449,344	446,449,344
New assets originated or purchased	217,104,057	217,104,057
Assets repaid	(227,077,338)	(227,077,338)
At 31 December 2019	436,476,063	436,476,063

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency		
ECL as at 1 January 2019	2,801,183	2,801,183
New assets originated or purchased	632,756	632,756
Assets repaid	(222,275)	(222,275)
Changes to models and inputs used for ECL calculations	(618,469)	(618,469)
At 31 December 2019	2,593,195	2,593,195

13. Financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Assets		
Debt and other fixed-income instruments in foreign currency		
Foreign bonds	825,951,385	763,710,331
Foreign money market instruments	104,520,482	9,648,011
Total financial instruments at fair value through profit or loss in foreign currency	930,471,867	773,358,342

As at 31 December 2020 and 31 December 2019 foreign securities at fair value include:

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Government bonds	737,180,656	639,177,514
State agency bonds	–	24,001,326
Other securities	88,770,729	100,531,491
Total	825,951,385	763,710,331

Debt securities at fair value through profit or loss are quoted securities issued by governments of European countries and US treasury bills, securities issued by state agencies, foreign banks and other financial institutions.

14. Derivative financial instruments

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Derivative financial liabilities		
Foreign currency swap contracts in local market	70,825	–
Foreign currency swap contracts in foreign market	66,743	–
Foreign currency futures contracts in foreign market	5,553	1,645
Forward contract with the Government (Note 7)	–	79,455
Total derivative financial liabilities	143,121	81,100

15. Investment securities

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Financial assets measured at fair value through other comprehensive income in foreign currency		
Equity investments – unquoted		
Foreign securities	2,615,495	1,937,372
SWIFT	3,211	3,211
Total equity investments	2,618,706	1,940,583
Debt instruments		
Corporate bonds in foreign currency	840,759	761,584
Total debt investments	840,759	761,584
Total financial assets measured at fair value through other comprehensive income in foreign currency	3,459,465	2,702,167
Financial assets measured at fair value through other comprehensive income in domestic currency		
Debt instruments		
Securities of the Government of the Republic of Armenia	11,578,230	13,189,425
Promissory note of the Government (Note 25)	66,055,949	73,810,843
Total debt instruments	77,634,179	87,000,268
Equity investments		
Other investments	909,514	871,874
Total equity investments	909,514	871,874
Total financial assets measured at fair value through other comprehensive income in domestic currency	78,543,693	87,872,142
Total financial assets measured at fair value through other comprehensive income	82,003,158	90,574,309

15. Investment securities (continued)

As at 31 December 2020 and 31 December 2019 within foreign securities there are equity securities classified as financial assets measured at fair value through other comprehensive income in foreign currency, which represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

As at 31 December 2020 and 31 December 2019 debt securities denominated in domestic currency and classified as financial assets measured at fair value through other comprehensive income in domestic currency represent coupon securities issued by the Government of the Republic of Armenia. As at 31 December 2020 and 31 December 2019 debt securities denominated in foreign currency and classified as financial assets measured at fair value through other comprehensive income in foreign currency represent coupon securities issued by one of Armenian banks.

Debt investment securities are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

As at 31 December 2020 carrying value of a non-interest bearing on-demand promissory note issued by the Government amounts to AMD 66,055,949 thousand (2019: 73,810,843 AMD thousand). The management believes that the carrying amount of the promissory note approximates its fair value (Note 25).

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2020	13,189,425	13,189,425
New assets originated or purchased	23,853	23,853
Assets repaid	(1,635,048)	(1,635,048)
At 31 December 2020	11,578,230	11,578,230

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2020	34,320	34,320
New assets originated or purchased	132	132
Assets repaid	(4,133)	(4,133)
Changes to models and inputs used for ECL calculations	28,270	28,270
At 31 December 2020	58,589	58,589

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2019 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2019	13,707,676	13,707,676
New assets originated or purchased	742,495	742,495
Assets repaid	(1,260,746)	(1,260,746)
At 31 December 2019	13,189,425	13,189,425

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2019	60,164	60,164
New assets originated or purchased	1,940	1,940
Assets repaid	(1,964)	(1,964)
Changes to models and inputs used for ECL calculations	(25,820)	(25,820)
At 31 December 2019	34,320	34,320

15. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2020 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
Gross carrying value as at 1 January 2020	761,584	761,584
New assets originated or purchased	79,175	79,175
At 31 December 2020	840,759	840,759

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
ECL as at 1 January 2020	6,973	6,973
New assets originated or purchased	1,335	1,335
Changes to models and inputs used for ECL calculations	6,078	6,078
At 31 December 2020	14,386	14,386

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2019 is as follows:

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
Gross carrying value as at 1 January 2019	1,067,864	1,067,864
Assets repaid	(306,280)	(306,280)
At 31 December 2019	761,584	761,584

<i>In thousands of Armenian Drams</i>	Stage 1	Total
Debt securities at FVOCI in foreign currency		
ECL as at 1 January 2019	11,999	11,999
Assets repaid	(3,018)	(3,018)
Changes to models and inputs used for ECL calculations	(2,008)	(2,008)
At 31 December 2019	6,973	6,973

16. Operations with the International Monetary Fund

Assets due from the IMF

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Placements with the IMF		
Membership quota in the IMF (subscription)	96,943,896	85,438,192
SDR holdings in the IMF	4,690,218	2,953,756
Accrued interest	2,834	6,282
Total placements with the IMF	101,636,948	88,398,230

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The 75% of the quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory note issued to the IMF by the Bank. As at 31 December 2020 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 96,943,896 thousand at the year-end official exchange rate of Armenian Dram to SDR (2019: SDR 128,800 thousand or AMD 85,438,192 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

16. Operations with the International Monetary Fund (continued)

Assets due from the IMF (continued)

Movements in SDR holdings account during the years ended 31 December 2020 and 31 December 2019 were as follows:

<i>In thousands of Armenian Drams</i>	2020	2019
Balance of SDR holdings as at 1 January	2,953,756	2,887,490
Addition of SDRs	40,947,302	37,649,890
Repayment of loans to the IMF:		
<i>On behalf of the Bank:</i>		
PRGT	(4,476,013)	(4,182,497)
EFF	(19,595,543)	(17,289,350)
<i>On behalf of the Government:</i>		
PRGT	(16,150,746)	(13,514,842)
Payment of loan related commission	—	(76,712)
Other income	9,701	—
Other fees	(764)	(913)
Payment of interest for use of the IMF resources:		
<i>On behalf of the Bank</i>	(1,243,503)	(2,003,820)
Payment of interest for use of funds received under SDR allocation	(182,800)	(611,525)
Income on SDR holdings	16,791	23,945
Translation differences	2,412,037	72,090
Balance of SDR holdings as at 31 December	4,690,218	2,953,756

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

Liabilities due to the IMF

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Securities account	95,000,000	159,285,304
Adjustment account for AMD liabilities to the IMF	23,091,131	(823,199)
Account 1	51,438,805	9,436,432
Account 2	2,547	2,590
SDR allocation	66,226,424	58,366,397
ECF:	11,515,851	14,341,411
<i>Carrying value</i>	11,315,776	13,795,377
<i>Deferred income</i>	200,075	546,034
Interest accrued	221,810	339,968
Total liabilities due to the IMF	247,496,568	240,948,903

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2020 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 95,000,000 thousand (31 December 2019: AMD 159,285,304 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2020 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2020 the ECF bears no interest (2019: 0%). The loans outstanding as at 31 December 2020 mature in June 2021 – June 2023 (31 December 2019: June 2020 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2020 mature in March 2021 – June 2027 (31 December 2019: March 2020 – June 2027).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

17. Property and equipment

<i>In thousands of Armenian Drams</i>	<i>Land and buildings</i>	<i>Networks, computer and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Right of use assets</i>	<i>Total</i>
Cost						
Balance as at 1 January 2019	75,506,282	23,199,768	682,951	12,849	–	99,401,850
Impact of adopting IFRS 16	–	–	–	–	482,988	482,988
Additions	–	710,342	33,110	209,466	25,346	978,264
Disposals	(888,809)	(175,310)	(88,674)	–	(2,640)	(1,155,433)
Balance as at 31 December 2019	74,617,473	23,734,800	627,387	222,315	505,694	99,707,669
Additions	–	515,241	–	189,795	30,051	735,087
Disposals and write-off	(2,171,743)	(1,391,037)	(10,138)	–	(1,774)	(3,574,692)
Balance as at 31 December 2020	72,445,730	22,859,004	617,249	412,110	533,971	96,868,064
Depreciation						
Balance as at 1 January 2019	16,448,507	13,696,853	515,571	–	–	30,660,931
Charge for the period	2,419,263	1,220,232	44,250	–	102,501	3,786,246
Disposals	(159,832)	(172,230)	(84,741)	–	(2,640)	(419,443)
Balance as at 31 December 2019	18,707,938	14,744,855	475,080	–	99,861	34,027,734
Charge for the period	2,199,854	1,064,349	36,376	–	99,548	3,400,127
Disposals and write-off	(750,703)	(1,052,387)	(9,327)	–	(355)	(1,812,772)
Balance as at 31 December 2020	20,157,089	14,756,817	502,129	–	199,054	35,615,089
Carrying amount						
At 31 December 2020	52,288,641	8,102,187	115,120	412,110	334,917	61,252,975
At 31 December 2019	55,909,535	8,989,945	152,307	222,315	405,833	65,679,935

As a result of large-scale military operations provoked by Azerbaijan in fall 2020 the Bank has written off property and equipment with the carrying amount of AMD 1,415,090 thousand.

18. Intangible assets

<i>In thousands of Armenian Drams</i>	<i>Computer software</i>	<i>Contracts in progress</i>	<i>Total</i>
Cost			
Balance as at 1 January 2019	4,278,236	1,073,675	5,351,911
Additions	694,758	35,000	729,758
Disposals	(91,382)	–	(91,382)
Balance as at 31 December 2019	4,881,612	1,108,675	5,990,287
Additions	335,568	–	335,568
Disposals	(827)	–	(827)
Balance as at 31 December 2020	5,216,353	1,108,675	6,325,028
Amortisation			
Balance as at 1 January 2019	2,561,188	–	2,561,188
Charge for the period	444,802	–	444,802
Disposals	(36,447)	–	(36,447)
Balance as at 31 December 2019	2,969,543	–	2,969,543
Charge for the period	458,623	–	458,623
Disposals	(197)	–	(197)
Balance as at 31 December 2020	3,427,969	–	3,427,969
Carrying amount			
At 31 December 2020	1,788,384	1,108,675	2,897,059
At 31 December 2019	1,912,069	1,108,675	3,020,744

19. Other assets in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Numismatic coins	6,563,894	7,596,449
Prepayments and receivables	2,246,227	3,108,299
Other	1,262,214	1,545,359
Impairment allowance	–	(10,998)
Total other assets	10,072,335	12,239,109

Other financial assets amounting to AMD 800,217 thousand included in prepayments and receivables as at 31 December 2019 were repaid during 2020. Reversal of allowance for credit losses relating to other financial assets during 2020 is equal to AMD 7,986 thousand (2019: reversal of allowance for credit losses AMD 22,290 thousand).

20. Deposits and accounts of financial and other institutions

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	483,273,909	373,816,783
Current accounts of related parties	304,266	1,475,390
Current accounts of other legal entities	24,695,093	989,282
Total foreign currency liabilities	508,273,268	376,281,455
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	299,345,038	343,857,702
Current accounts and term deposit of related parties	9,464,497	284,157
Current accounts of other legal entities	1,591,372	975,287
Other deposits	–	2,002,678
Total domestic currency liabilities	310,400,907	347,119,824
Total deposits and accounts of financial and other institutions	818,674,175	723,401,279

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2020 two counterparty banks had balances, individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions, amounting to AMD 335,788,998 thousand (31 December 2019: three banks with total balance of AMD 390,862,187 thousand).

21. Other borrowed funds

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Due to the KfW	68,130,265	59,582,037
Due to the EIB	60,195,486	51,891,908
Due to the World Bank	20,968,206	20,267,749
Due to the ADB	7,288,058	6,590,621
Other	4,003,625	4,409,806
Total other borrowed funds	160,585,640	142,742,121

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2021 to 2048 (31 December 2019: from 2020 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2021 to 2035 (31 December 2019: from 2020 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2021 to 2044 (31 December 2019: from 2020 to 2044).

21. Other borrowed funds (continued)

The loan due to the EIB is provided by the European Investment Bank for financing agriculture and tourism sectors through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2021 to 2030 (31 December 2019: from 2020 to 2030).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2021 till 2025 (31 December 2019: from 2020 to 2025). As at 31 December 2020 the balance outstanding under this loan facility is AMD 4,003,625 thousand (31 December 2019: AMD 4,409,806 thousand).

22. Other liabilities in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Other liabilities in domestic currency		
Payables	2,305,013	2,133,087
Demand deposits of employees	1,103,853	1,251,847
Other liabilities	1,112,953	1,023,623
Total other liabilities in domestic currency	4,521,819	4,408,557

23. Due to the Government of the Republic of Armenia

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Foreign currency liabilities		
Current accounts of the Government	1,506,451	1,248,593
Total foreign currency liabilities	1,506,451	1,248,593
Domestic currency liabilities		
Term deposits	202,637,377	285,000,475
Current accounts of the Government	62,398,287	41,045,292
Total domestic currency liabilities	265,035,664	326,045,767
Total due to the Government of the Republic of Armenia	266,542,115	327,294,360

Term deposits of the Government have maturity of less than 3 months and interest rate is ranging from 4.93% to 5.64% (31 December 2019: from 5.25% to 5.93%).

24. Debt securities issued

As at 31 December 2020 the subsidiary company of the Group had in issue coupon bonds with AMD 9,500,000 thousand par value and 3 years maturity (31 December 2019: coupon bonds with AMD 6,500,000 thousand par value and 3 years maturity).

As at 31 December 2020 the average annual yield on these bonds is from 7.25% to 8.30% (31 December 2019: from 7.36% to 8.13%). The carrying value of the issued bonds as at 31 December 2020 is AMD 9,655,324 thousand (31 December 2019: AMD 6,626,428 thousand).

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

The size of the capital is established by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

25. Management of capital (continued)

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations. Promissory Note issued by the Government represents a contribution made by the Government by the way of issuing a non-interest bearing on demand promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Group exceed the aggregate amount of its reserves.

According to the Law, during 2020 the profit for the financial year of 2019 has been allocated in the following way:

- ▶ 20% to the general reserve;
- ▶ 80% to the promissory note issued by the Government.

As a result the Government has issued new non-interest bearing promissory note at the amount of AMD 66,055,949 (2019: AMD 73,810,843 thousand). Profit allocation and issue of the new promissory note were non-cash transactions.

Revaluation reserve for financial assets measured at fair value through other comprehensive income in the amount of AMD 2,626,918 thousand (positive effect) as at 31 December 2020 (31 December 2019: AMD 2,422,299 thousand (positive effect) represents difference between the fair value of the Group's financial assets measured at fair value through other comprehensive income as at the reporting date and their fair value at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2020 related to the Group's non-current assets amount to AMD 542,276 thousand (31 December 2019: AMD 488,542 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

<i>In thousands of Armenian Drams</i>	2020	2019
Key management including the Board members	316,936	319,776
Total	316,936	319,776

Total amount of loans issued to the members of the key management outstanding as at 31 December 2020 is AMD 240,704 thousand (31 December 2019: AMD 173,288 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2020 is AMD 116,533 thousand (31 December 2019: AMD 194,873 thousand). During the year ended 31 December 2020 the Group recognized interest expenses in amount of AMD 19,622 thousand and interest income in amount of AMD 7,123 thousand from the transactions with the key management (31 December 2019: 25,540 AMD thousand and 5,790 AMD thousand). In accordance with the Bank's internal regulations, loans cannot be provided to the Bank's employees who have deposits with the Bank.

27. Related party transactions (continued)

Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2020		31 December 2019	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income (Note 15)	11,578,230	11.5%	13,189,425	11.4%
	11,578,230		13,189,425	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	73,810,843		73,810,843	
Profit distribution	(7,754,894)		–	
Balance at 31 December	66,055,949		73,810,843	
Assets at 31 December	77,634,179		87,000,268	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	265,035,664	4.9%	326,045,767	4.9%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,506,451		1,248,593	
Liabilities at 31 December	266,542,115		327,294,360	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

<i>In thousands of Armenian Drams</i>	2020	2019
Balance at 1 January	285,000,475	135,487,725
Additions	1,477,000,000	1,033,000,000
Interest charge	16,787,029	13,324,977
Redemption (including interest payment)	(1,576,150,127)	(896,812,227)
Balance at 31 December	202,637,377	285,000,475

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Government are as follows:

<i>In thousands of Armenian Drams</i>	2020	2019
Consolidated statement of comprehensive income		
Interest income from Government securities (Note 4)	1,271,924	1,317,084
Interest expense (Note 5)	(16,914,428)	(13,737,026)
Net foreign exchange loss	(660,013)	(59,234)
Net loss on forward contract with the Government (Note 7)	(3,461,039)	(453,848)

Transactions with other related parties

The information in the tables below relates to the balances and results of transactions with the entities, in the governing body of which the Bank has its representatives.

<i>In thousands of Armenian Drams</i>	31 December 2020		31 December 2019	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Current accounts and term deposits (domestic currency) (Note 20)	9,464,497	5.25%	284,157	5.5%
Current accounts (foreign currency) (Note 20)	304,266	0.0%	1,475,390	0.0%
Total	9,768,763		1,759,547	

27. Related party transactions (continued)

Transactions with other related parties (continued)

The movement of deposits and current accounts of transactions with other related parties was as follows:

<i>In thousands of Armenian Drams</i>	2020	2019
Balance at 1 January	1,759,547	1,794,975
Additions	701,779,586	119,887,747
Interest charge	121,060	28,256
Redemption (including interest payment)	(693,891,430)	(119,951,431)
Balance at 31 December	9,768,763	1,759,547

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

<i>In thousands of Armenian Drams</i>	31 December 2020	31 December 2019
Cash	51,108,237	39,603,848
Nostro accounts (Note 12)	380,277,935	534,601,773
SDR holdings in the IMF (Note 16)	4,690,218	2,953,756
Total cash and cash equivalents	436,076,390	577,159,377

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In thousands of Armenian Drams</i>	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
Government bonds (Note 13)	737,180,656	–	–	737,180,656	639,177,514	–	–	639,177,514
State agency bonds (Note13)	–	–	–	–	24,001,326	–	–	24,001,326
Other securities (Note13)	88,770,729	–	–	88,770,729	100,531,491	–	–	100,531,491
Money market instruments (Note13)	–	104,520,482	–	104,520,482	–	9,648,011	–	9,648,011
Investment securities measured at fair value through other comprehensive income								
Foreign securities (Note15)	285,955	2,329,540	–	2,615,495	219,577	1,717,795	–	1,937,372
Securities of the Government of the Republic of Armenia (Note15)	–	11,578,230	–	11,578,230	–	13,189,425	–	13,189,425
Promissory note issued by the Government (Note15)	–	66,055,949	–	66,055,949	–	73,810,843	–	73,810,843
Corporate bonds in foreign currency (Note15)	–	840,759	–	840,759	–	761,584	–	761,584
Total assets with recurring fair value measurements	826,237,340	185,324,960	–	1,011,562,300	763,929,908	99,127,658	–	863,057,566

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

In thousands of Armenian Drams	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value								
Financial liabilities								
Foreign currency futures contracts in foreign market (Note14)	5,553	–	–	5,553	1,645	–	–	1,645
Forward contract with the Government (Note14)	–	–	–	–	–	–	79,455	79,455
Foreign currency swap contracts in local market (Note14)	–	–	70,825	70,825	–	–	–	–
Foreign currency swap contracts in foreign market (Note14)	–	66,743	–	66,743	–	–	–	–
Total liabilities with recurring fair value measurements	5,553	66,743	70,825	143,121	1,645	–	79,455	81,100

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020:

In thousands of Armenian Drams	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note13)	104,520,482	DCF	BIS interest rate
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15)	2,329,540	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note15)	840,759	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	11,578,230	DCF	Government bonds yield curve
Promissory note issued by the Government (Note15)	66,055,949	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	185,324,960		
In thousands of Armenian Drams	Fair value	Valuation technique	Inputs used
Liabilities carried at fair value			
Financial liabilities			
Derivative financial liabilities			
Foreign currency swap contracts in foreign market (Note14)	66,743	DCF	USD OIS curve FX spot rates FX forward points
Total recurring fair value measurements at Level 2	66,743		

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019:

<i>In thousands of Armenian Drams</i>	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note13)	9,648,011	DCF	BIS interest rate
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15)	1,717,795	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note15)	761,584	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	13,189,425	DCF	Government bonds yield curve
Promissory note issued by the Government (Note15)	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	99,127,658		

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2020:

<i>In thousands of Armenian Drams</i>	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities (swap)	70,825	DCF	1) AMD risk-free rate	1) 5.83%	1) +110/-110 b.p.	1) (5,586)/5,318

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2019:

<i>In thousands of Armenian Drams</i>	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities (Forward contract with the Government)	79,455	DCF	1) AMD risk-free rate	1) 5.60%	1) +100/-100 b.p.	1) (6,796)/6,866
			2) USD risk-free rate	2) 3.17%	2) +100/-100 b.p.	2) 6,973/(7,047)
			3) EUR risk-free rate	3) 0.97%	3) + 15/-15 b.p.	3) 6.8/(6.8)
			4) USD/AMD spot rate at the year-end	4) 479.70	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 537.26	5) n/a	5) n/a
			6) Expected net amount of external debt – USD	6) USD 18,856 thousand	6) ± 10%	6) (7,423)/7,423
			7) Expected net amount of external debt – EUR	7) EUR 100 thousand	7) ± 10%	7) (81)/81

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The above tables disclose sensitivity to valuation inputs for derivative financial liabilities and derivative financial assets, if changing one or more of the unobservable inputs to reflect whether reasonably possible alternative assumptions would change fair value significantly. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of financial assets not measured at fair value are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2020		31 December 2019	
	Level 2	Carrying value	Level 2	Carrying value
Financial assets				
Placements with banks and other financial institutions in foreign currency				
Nostro accounts	380,277,935	380,276,878	534,601,773	534,601,093
Term deposits	4,257,941	4,104,824	25,490,105	25,388,880
Margin requirements of derivatives	637,304	637,304	2,015	2,015
Placements and investments with banks and other financial institutions in domestic currency				
Repurchase agreements and other overnight facilities	345,952,769	345,952,769	126,669,774	126,669,774
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	142,528,780	138,082,116	126,172,483	125,805,219
Mortgage refinancing	106,708,374	106,346,889	91,827,494	90,352,136
Deposits and current accounts placed in commercial banks	87,282,360	86,772,875	63,899,322	63,580,371
Other loans and investments	25,785,975	27,380,114	26,159,797	27,475,368
Total	1,093,431,438	1,089,553,769	994,822,763	993,874,856

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2020		31 December 2019	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
Current accounts of the Government	1,506,451	1,506,451	1,248,593	1,248,593
Domestic currency liabilities				
Current accounts of the Government	62,398,287	62,398,287	41,045,292	41,045,292
Term deposits	202,564,143	202,637,377	285,098,705	285,000,475
Debt securities issued	9,657,601	9,655,324	6,756,066	6,626,428
Total	276,126,482	276,197,439	334,148,656	333,920,788

29. Fair value of financial instruments (continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, assessment, treatment, monitoring and reporting, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is responsible for the risk exposures relating to his or her duties. The Group 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 risk management process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The Board is ultimately accountable for risk management; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board

The Board is accountable for the overall risk management approach and for approving the strategies and principles.

Institutional framework

International reserves of the Republic of Armenia are the Bank's claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Group. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

The Bank has a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

Administration and control

According to the Bank's structure, the Financial Markets Directorate is responsible for Armenia's international reserves management. The Financial Operations Department is in charge of operations related to day-to-day management of reserves. The Risk Management Department is responsible for risk assessment, providing support for development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a monthly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairman. The Risk Management Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and makes that information publicly available.

Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of adequate liquidity and security of reserves while ensuring of profit maximisation. For this purpose, the Risk Management Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

30. Risk management (continued)

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations or because of credit quality deterioration. The Group manages and controls credit risk by setting limits on counterparty eligibility and on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Group evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price formula which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Maximum credit risk without collateral or other credit enhancement

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

30. Risk management (continued)

Credit quality per class of financial assets

Financial assets of the Group, except equity investments are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

In thousands of Armenian Drams	Credit rating	31 December 2020		31 December 2019	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
Nostro accounts	P-1	378,347,677	98.3	532,987,070	95.2
	P-2	124,129	0.0	–	–
	P-3	1,055,570	0.3	917,020	0.2
	NP	680,551	0.2	479,581	0.1
	Unrated	70,008	0.0	218,102	0.0
Term deposits	P-1	–	–	16,802,086	3.0
	Unrated	1,310,245	0.3	5,291,040	0.9
	NP	2,863,189	0.7	3,442,970	0.6
Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	637,304	0.2	2,015	0.0
Impairment allowance		(69,667)		(147,896)	
Total placements with banks and other financial institutions in foreign currency		385,019,006	100.0	559,991,988	100.0
Financial instruments at fair value through profit and loss					
Government bonds	Aaa	651,746,838	70.0	554,666,536	71.7
	Aa1-Aa3	85,433,818	9.0	84,510,978	11.0
State agency bonds and other securities	Aaa	–	–	24,001,326	3.1
Other securities	Aaa	88,770,729	10.0	92,376,738	11.9
	Aa1-Aa3	–	–	8,154,753	1.1
Money market instruments	Unrated*	104,520,482	11.0	9,648,011	1.2
Total financial instruments at fair value through profit and loss		930,471,867	100.0	773,358,342	100.0
Financial assets measured at fair value through other comprehensive income, excluding equity investments					
Securities of the Government of the Republic of Armenia	B1	11,578,230	14.7	–	0.0
Securities of the Government of the Republic of Armenia	Ba3	–	0.0	13,189,425	15.0
Promissory note issued by the Government	B1	66,055,949	84.2	–	0.0
Promissory note issued by the Government	Ba3	–	0.0	73,810,843	84.1
Corporate bonds in foreign currency	Unrated	840,759	1.1	761,584	0.9
Total financial assets measured at fair value through other comprehensive income, excluding equity investments		78,474,938	100.0	87,761,852	100.0

*As at 31 December 2020 money market instruments included in the unrated credit category represent securities issued by the Bank for International Settlements.

As at 31 December 2020 current accounts and term deposits included in the unrated credit rating category amounting to AMD 62,886 thousand and AMD 1,310,245 thousand respectively (31 December 2019: AMD 207,768 and 5,291,040 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

30. Risk management (continued)

Credit quality per class of financial assets

In thousands of Armenian Drams		Credit rating	31 December 2020		31 December 2019	
			Amount	% in financial assets	Amount	% in financial assets
Placements and investments with banks and other financial institutions in domestic currency						
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	13,204,400	9.4	6,122,724	4.8	
	Not due at the date of authorisation of the consolidated financial statements for issue	127,642,775	90.6	121,853,329	95.2	
Total		140,847,175	100.0	127,976,053	100.0	
Mortgage refinancing	Settled after the end of the reporting period	5,442,659	5.1	4,349,372	4.8	
	Not due at the date of authorisation of the consolidated financial statements for issue	100,934,357	94.9	86,024,586	95.2	
Total		106,377,016	100.0	90,373,958	100.0	
Deposits and current accounts in commercial banks	Settled after the end of the reporting period	13,993,998	16.0	7,457,060	11.7	
	Not due at the date of authorisation of the consolidated financial statements for issue	73,288,362	84.0	56,469,363	88.3	
Total		87,282,360	100.0	63,926,423	100.0	
Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	345,952,769	100.0	126,669,774	100.0	
Total		345,952,769	100.0	126,669,774	100.0	
Investments measured at amortised cost	Settled after the end of the reporting period	547,614	2.3	2,549,404	10.6	
	Not due at the date of authorisation of the consolidated financial statements for issue	23,757,798	97.7	21,533,083	89.4	
Total		24,305,412	100.0	24,082,487	100.0	
Other loans		3,208,943	100.0	3,447,368	100.0	
Total		3,208,943	100.0	3,447,368	100.0	
Impairment allowance		(3,438,912)		(2,593,195)		
Total placements and investments with banks and other financial institutions in domestic currency		704,534,763	–	433,882,868	–	

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

30. Risk management (continued)

Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> 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 <i>Exposure at Default</i> 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 <i>Loss Given Default</i> 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 ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group 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. Based on the above process, the Group groups its assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When assets are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2.
Stage 2:	When an asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.
Stage 3:	Assets considered credit-impaired. The Group records an allowance for the LTECL.
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 revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when the counterparty's rating downgrades lower than the rating predefined by the Group. Regardless of the change in credit grades in all cases when the borrower becomes 90 days past due on its contractual payments, financial instrument is considered as defaulted.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group 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:

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ The borrower requesting emergency funding from the Group;
- ▶ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- ▶ A covenant breach not waived by the Group;
- ▶ The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- ▶ Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

30. Risk management (continued)

Impairment assessment (continued)

It is the Group'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 six 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.

PD estimation process

For the counterparties that have ratings assigned by the international rating agencies Annual Transition Matrix of Moody's rating company is used.

For the counterparties that do not have ratings assigned by the international rating agencies the probability of default is assessed based on internal Financial Stability Index using extrapolation of rated counterparties' probability of default.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Loss given default

For each group of financial assets the recovery rates corresponding to the debt seniority status of respective financial instruments (Moody's) or recovery rates of the country of domicile (IMF) are used to calculate the LGD rate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the counterparty's credit rating has changed since initial recognition pursuant to the internal principles of risk management.

The assessment of significant increase in credit risk for exposures of local commercial banks and financial institutions, with no international credit ratings, is based on performance of individual exposure and overall financial stability index of commercial banks and financial institutions. Macro prudential analysis on systemic risk dimensions consist another tool to consider the feasibility to reclassify certain asset from Stage 1 to Stage 2.

Regardless of the change in credit grades the credit risk is deemed to have increased significantly since initial recognition if contractual payments are more than 30 days past due.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP growth;
- ▶ Unemployment rates;
- ▶ CPI;
- ▶ International reserves;
- ▶ Monetary policy rate;
- ▶ Equity Index Price;
- ▶ Foreign exchange rates;
- ▶ Credit/GDP ratio;
- ▶ Other macroeconomic factors depending on the specificities of each country.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Offsetting financial assets and financial liabilities

As at 31 December 2020 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions.

30. Risk management (continued)

Offsetting financial assets and financial liabilities (continued)

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the consolidated statement of financial position:

<i>In thousands of Armenian Drams</i>	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position Financial instruments	Net amount
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31 December 2020

Financial assets

Repurchase agreements and
other overnight facilities
(Note 12)

	345,952,769	—	345,952,769	345,952,769	—
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Total	345,952,769	—	345,952,769	345,952,769	—
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<i>In thousands of Armenian Drams</i>	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position Financial instruments	Net amount
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31 December 2019

Financial assets

Repurchase agreements and
other overnight facilities
(Note 12)

	126,669,774	—	126,669,774	126,669,774	—
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Total	126,669,774	—	126,669,774	126,669,774	—
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The geographical concentration of the Group's assets and liabilities is set out below:

<i>In thousands of Armenian Drams</i>	31 December 2020				31 December 2019			
	Armenia	OECD	CIS and other countries	Total	Armenia	OECD	CIS and other countries	Total
Assets								
Cash	51,108,237	—	—	51,108,237	39,603,848	—	—	39,603,848
Placements with banks and other financial institutions in foreign currency	4,325,169	379,108,638	1,585,199	385,019,006	8,866,115	547,390,347	3,735,526	559,991,988
Placements and investments with banks and other financial institutions in domestic currency	704,534,763	—	—	704,534,763	433,882,868	—	—	433,882,868
Financial instruments at fair value through profit or loss	—	930,471,867	—	930,471,867	—	773,358,342	—	773,358,342
Financial assets measured at fair value through other comprehensive income	79,384,452	2,618,706	—	82,003,158	88,633,726	1,940,583	—	90,574,309
Placements with the IMF	—	101,636,948	—	101,636,948	—	88,398,230	—	88,398,230
Property and equipment and intangible assets	64,150,034	—	—	64,150,034	68,700,679	—	—	68,700,679
Other assets	10,072,335	71,109	111,845	10,255,289	12,239,109	60,029	111,846	12,410,984
Total assets	913,574,990	1,413,907,268	1,697,044	2,329,179,302	651,926,345	1,411,147,531	3,847,372	2,066,921,248
Liabilities								
Notes and coins in circulation	751,465,873	—	—	751,465,873	607,209,301	—	—	607,209,301
Deposits and accounts of financial and other institutions	818,064,536	18,545	591,094	818,674,175	722,819,276	13,072	568,931	723,401,279
Derivative financial liabilities	70,825	72,296	—	143,121	79,455	1,645	—	81,100
Due to the Government	266,542,115	—	—	266,542,115	327,294,360	—	—	327,294,360
Due to the IMF	—	247,496,568	—	247,496,568	—	240,948,903	—	240,948,903
Other borrowed funds	—	153,297,582	7,288,058	160,585,640	—	136,151,500	6,590,621	142,742,121
Debt securities issued	9,655,324	—	—	9,655,324	6,626,428	—	—	6,626,428
Other liabilities	4,678,594	639,968	646,189	5,964,751	4,557,977	177,340	618,296	5,353,613
Total liabilities	1,850,477,267	401,524,959	8,525,341	2,260,527,567	1,668,586,797	377,292,460	7,777,848	2,053,657,105
Net assets	(936,902,277)	1,012,382,309	(6,828,297)	68,651,735	(1,016,660,452)	1,033,855,071	(3,930,476)	13,264,143

30. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2020 and 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

31 December 2020							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	751,465,873	–	–	–	–	–	751,465,873
Deposits and accounts of financial and other institutions	818,702,938	–	–	–	–	–	818,702,938
Derivative financial liabilities	143,121	–	–	–	–	–	143,121
Due to the Government	95,790,052	172,005,247	–	–	–	–	267,795,299
Due to the IMF	–	1,056,590	25,383,822	59,452,305	993,657	163,080,453	249,966,827
Other borrowed funds	543,943	63,310	21,748,095	80,357,139	72,192,146	–	174,904,633
Debt securities issued	–	3,124,500	480,000	7,088,750	–	–	10,693,250
Total non-discounted financial liabilities	1,666,645,927	176,249,647	47,611,917	146,898,194	73,185,803	163,080,453	2,273,671,941

31 December 2019							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	607,209,301	–	–	–	–	–	607,209,301
Deposits and accounts of financial and other institutions	721,432,655	–	2,100,625	–	–	–	723,533,280
Derivative financial liabilities	81,100	–	–	–	–	–	81,100
Due to the Government	56,578,091	150,046,431	125,058,221	–	–	–	331,682,743
Due to the IMF	–	1,110,868	23,094,242	65,167,801	11,972,325	143,675,049	245,020,285
Other borrowed funds	738,484	–	16,943,615	73,311,020	70,873,733	–	161,866,852
Debt securities issued	–	124,500	387,000	7,149,500	–	–	7,661,000
Total non-discounted financial liabilities	1,386,039,631	151,281,799	167,583,703	145,628,321	82,846,058	143,675,049	2,077,054,561

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, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios.

30. Risk management (continued)

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.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black-Litterman and Markowitz models with certain constraints are used.

For monitoring and managing risk, the Risk Management Department within the Financial Markets Directorate uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2020 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousands of Armenian Drams</i>	2020		2019	
	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>
Currency				
AMD	+110	(587,436)	+100	(617,272)
AMD	-110	642,517	-100	671,185
USD	100	14,433	+35	(19,763)
USD	-25	1,353	-35	7,868

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2020 and 31 December 2019, based on the assumption of changing interest rates. Amounts included in the table below are disclosed in the presentation currency.

	2020		2019	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>
Currency				
USD	+100/-40	(4,151,813)/1,660,725	+100/-100	(4,380,747)/4,380,747
EUR	+60/-60	(651,992)/651,992	+50/-50	(503,299)/503,299
GBP	+80/-80	(86,624)/86,624	+20/-20	(26,083)/26,083

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2020 and 31 December 2019.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2020 and 31 December 2019 based on the assumption of changing interest rates on borrowings obtained by the Group:

<i>In thousands of Armenian Drams</i>	2020		2019	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/(increase) of equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/(increase) of equity</i>
Currency				
USD	+/-252	658,102/(658,102)	+/-145	299,205/(299,205)
SDR	+/-70	617,372/(617,372)	+/-41	394,759/(394,759)
EUR	+/-20	1,044/(1,044)	—	—

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

30. Risk management (continued)

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 sets the clear principles of currency allocation, whereas the Investment Committee determines and revises the actual weights of respective currencies.

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

<i>In thousands of Armenian Drams</i>	2020		2019	
	Increase in currency rate in %	Increase/ (decrease) of profit and equity	Increase in currency rate in %	Increase/ (decrease) of profit and equity
Currency				
USD	5.00%	24,889,215	3.00%	18,882,379
EUR	8.50%	13,728,477	6.50%	11,089,753
GBP	11.00%	3,025,918	9.00%	3,316,392
JPY	8.50%	2,731,413	6.50%	1,034,228
RUB	16.00%	(25,649)	13.00%	50,093
SDR	7.00%	(10,720,337)	5.00%	(7,957,065)
<i>In thousands of Armenian Drams</i>	2020		2019	
	Decrease in currency rate in %	Increase/ (decrease) of profit and equity	Decrease in currency rate in %	Increase/ (decrease) of profit and equity
Currency				
USD	-5.00%	(24,889,215)	-3.00%	(18,882,379)
EUR	-8.50%	(13,728,477)	-6.50%	(11,089,753)
GBP	-11.00%	(3,025,918)	-9.00%	(3,316,392)
JPY	-8.50%	(2,731,413)	-6.50%	(1,034,228)
RUB	-16.00%	25,649	-13.00%	(50,093)
SDR	-7.00%	10,720,337	-5.00%	7,957,065

The expected change in the exchange rates was determined by the Group by analysing annual standard deviations based on the historical market data of respective exchange rates.

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Currently Armenia's foreign public debt is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- ▶ Participation in the shareholders' meetings;
- ▶ Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries);
- ▶ Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries;
- ▶ Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate;
- ▶ Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

<i>In thousands of Armenian Drams</i>	31 December 2020		
	Current	Non-current	Total
Assets			
Cash	51,108,237	–	51,108,237
Placements with banks and other financial institutions in foreign currency	382,189,873	2,829,133	385,019,006
Financial instruments at fair value through profit or loss	930,471,867	–	930,471,867
Placements and investments with banks and other financial institutions in domestic currency	475,937,559	228,597,204	704,534,763
Financial assets measured at fair value through other comprehensive income	67,531,128	14,472,030	82,003,158
Placements with the IMF	4,693,052	96,943,896	101,636,948
Property and equipment	–	61,252,975	61,252,975
Intangible assets	–	2,897,059	2,897,059
Other assets	9,237,744	1,017,545	10,255,289
Total assets	1,921,169,460	408,009,842	2,329,179,302
Liabilities			
Notes and coins in circulation	751,465,873	–	751,465,873
Deposits and accounts of other financial institutions	818,674,175	–	818,674,175
Derivative financial liabilities	143,121	–	143,121
Due to the Government	266,542,115	–	266,542,115
Due to the IMF	25,553,548	221,943,020	247,496,568
Other borrowed funds	19,824,309	140,761,331	160,585,640
Debt securities issued	3,155,324	6,500,000	9,655,324
Other liabilities	5,193,920	770,831	5,964,751
Total liabilities	1,890,552,385	369,975,182	2,260,527,567
Net position as at 31 December 2020	30,617,075	38,034,660	68,651,735

<i>In thousands of Armenian Drams</i>	31 December 2019		
	Current	Non-current	Total
Assets			
Cash	39,603,848	–	39,603,848
Placements with banks and other financial institutions in foreign currency	556,489,586	3,502,402	559,991,988
Financial instruments at fair value through profit or loss	773,358,342	–	773,358,342
Placements and investments with banks and other financial institutions in domestic currency	224,131,595	209,751,273	433,882,868
Financial assets measured at fair value through other comprehensive income	75,374,736	15,199,573	90,574,309
Placements with the IMF	2,960,039	85,438,191	88,398,230
Property and equipment	–	65,679,935	65,679,935
Intangible assets	–	3,020,744	3,020,744
Other assets	11,576,011	834,973	12,410,984
Total assets	1,683,494,157	383,427,091	2,066,921,248
Liabilities			
Notes and coins in circulation	607,209,301	–	607,209,301
Deposits and accounts of other financial institutions	723,401,279	–	723,401,279
Derivative financial liabilities	81,100	–	81,100
Due to the Government	327,294,360	–	327,294,360
Due to the IMF	23,072,079	217,876,824	240,948,903
Other borrowed funds	14,940,400	127,801,721	142,742,121
Debt securities issued	126,428	6,500,000	6,626,428
Other liabilities	4,889,874	463,739	5,353,613
Total liabilities	1,701,014,821	352,642,284	2,053,657,105
Net position as at 31 December 2019	(17,520,664)	30,784,807	13,264,143

32. Changes in liabilities arising from financing activities

<i>In thousands of Armenian Drams</i>	<i>Due to IMF</i>	<i>Other borrowed funds</i>	<i>Lease liabilities</i>	<i>Total liabilities from financing activities</i>
Carrying amount at 1 January 2019	266,323,100	152,032,617	482,988	418,838,705
Loans received	–	6,346,555	–	6,346,555
Loans redeemed	(21,471,847)	(12,949,290)	–	(34,421,137)
Lease payments	–	–	(82,489)	(82,489)
Foreign currency translation	(3,855,835)	(2,536,524)	–	(6,392,359)
Other	(46,515)	(151,237)	25,346	(172,406)
Carrying amount at 31 December 2019	240,948,903	142,742,121	425,845	384,116,869
Carrying amount at 1 January 2020	240,948,903	142,742,121	425,845	384,116,869
Loans received	–	14,258,245	–	14,258,245
Loans redeemed	(24,071,556)	(15,303,555)	–	(39,375,111)
Lease payments	–	–	(89,123)	(89,123)
Foreign currency translation	30,802,225	18,632,037	–	49,434,262
Other	(183,004)	256,792	30,050	103,838
Carrying amount at 31 December 2020	247,496,568	160,585,640	366,772	408,448,980

The “Other” line includes the effect of accrued but not yet paid interest. The Group classifies interest paid as cash flows from operating activities.