

Byblos Bank Armenia cjsc
Interim Financial Statements
for the three-month period ended
31 March 2020

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Byblos Bank Armenia ejsc
*Interim Statement of Profit or Loss and Other Comprehensive Income for the three-month period ended 31
 March 2020*

	Notes	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
Interest income calculated using the effective interest method	5	1,725,911	1,716,678
Interest expense	5	(974,481)	(972,076)
Net interest income	5	751,430	744,602
Fee and commission income		33,666	28,917
Fee and commission expense		(26,217)	(18,598)
Net fee and commission income		7,449	10,319
Net foreign exchange (loss)/gain		(98,531)	21,508
Net realised gain on investment securities		474,475	-
Other operating (expenses)/income, net		(42,548)	379,030
Operating income		1,092,275	1,155,459
Impairment (losses)/recovery on investment securities and other financial assets, loans to customers and loan commitments	6	(171,564)	26,807
Personnel expenses		(211,652)	(161,085)
Other general administrative expenses	7	(163,140)	(152,884)
Profit before income tax		545,919	868,297
Income tax expense	8	(110,003)	(176,329)
Profit for the period		435,916	691,968
Other comprehensive (loss)/income for the period, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve for investment securities:			
- net change in fair value		58,504	(164,160)
- net amount reclassified to profit or loss		(425,075)	-
Other comprehensive (loss)/income for the period, net of income tax		(366,571)	(164,160)
Total comprehensive income for the period		69,345	527,808

The financial statements as set out on pages 2 to 65 were approved by management on 15 April 2020 and were signed on its behalf by:

 Hayk Stepanyan
 Chief Executive Officer

 Ani Sargsyan
 Head of Finance and Administration

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Byblos Bank Armenia ejsc
Interim Statement of Financial Position as at 31 March 2020

	Notes	31 March 2020 AMD'000	31 December 2019 AMD'000
ASSETS			
Cash and cash equivalents	9	15,890,328	15,249,753
Amounts receivable under reverse repurchase agreements	10	1,033,759	6,687,361
Loans to banks	11	11,256,190	17,013,239
Loans to customers	12	38,644,756	34,517,722
Investment securities	13	33,942,769	34,981,288
Right-of-use assets	14	545,513	491,361
Property, equipment and intangible assets	15	1,497,174	1,411,137
Repossessed assets	12	910,395	832,586
Other assets		378,657	284,363
Total assets		104,099,541	111,468,810
LIABILITIES			
Deposits and balances from banks		762,381	694,701
Current accounts and deposits from customers	16	60,472,652	68,172,012
Other borrowed funds	17	3,791,332	3,757,424
Subordinated loans from Parent	17,18	7,818,409	7,659,172
Current tax liabilities		241,093	137,877
Deferred tax liabilities		376,546	505,369
Lease liability		474,646	479,726
Other liabilities		380,488	349,880
Total liabilities		74,317,547	81,756,161
EQUITY			
Share capital	19	26,249,100	26,249,100
Share premium		257,149	257,149
Fair value reserve for investment securities		2,024,967	2,391,538
Retained earnings/(accumulated losses)		1,250,778	814,862
Total equity		29,781,994	29,712,649
Total liabilities and equity		104,099,541	111,468,810

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

Byblos Bank Armenia cjsc
Interim Statement of Cash Flows for the three-month period
ended 31 March 2020

	Notes	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
CASH FLOWS USED IN OPERATING ACTIVITIES			
Interest receipts		1,130,342	1,084,361
Interest payments		(983,291)	(845,924)
Fee and commission receipts		33,242	29,000
Fee and commission payments		(26,211)	(18,628)
Net receipts from operations with investment securities		474,475	-
Net receipts from foreign exchange		21,882	14,923
Tax payments (other than income tax)		(2,471)	(95,485)
Salaries and other payments to employees		(199,608)	(149,788)
Other general administrative expenses payments		(115,387)	(102,942)
Other payments		(29,809)	(45,652)
(Increase)/decrease in operating assets			
Investment securities		1,209,139	(1,464,621)
Amounts receivable under reverse repurchase agreements		5,657,238	803,609
Loans to banks		6,219,930	(1,122,537)
Loans to customers		(2,751,392)	2,059,418
Other assets		(35,738)	201,042
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		714	(201,730)
Current accounts and deposits from customers		(9,861,168)	(246,946)
Other liabilities		(58,315)	4,234
Net cash flows from operations before income tax		683,571	(97,666)
Income tax		(55,144)	-
Net cash flows from operations		628,427	(97,666)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(295,161)	(4,295)
Net cash flows used in investing activities		(295,161)	(4,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other borrowed funds		(58,096)	(276,019)
Lease payments		(17,493)	-
Net cash flows used in financing activities		(75,589)	(276,019)
Net increase/(decrease) in cash and cash equivalents		257,677	(377,980)
Effect of changes in exchange rates on cash and cash equivalents		382,446	(40,097)
Effect of changes in credit loss allowance on cash and cash equivalents		452	(63)
Cash and cash equivalents at the beginning of the year*		15,249,753	11,197,943
Cash and cash equivalents at the end of the period	9	15,890,328	10,779,803

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

Byblos Bank Armenia cjsc
Interim Statement of Changes in Equity for the three-month period ended 31 March 2020

AMD'000	Share capital	Share premium	Revaluation reserve for investment securities	Retained earnings/ (accumulated losses)	Total
Balance as at 1 January 2019	26,249,100	257,149	1,359,192	(719,868)	27,145,573
Total comprehensive income					
Profit for the period	-	-	-	691,968	691,968
Other comprehensive (loss)/income					
Fair value reserve for available-for-sale financial assets:					
- net change in fair value, net of deferred tax	-	-	(164,160)	-	(164,160)
- net amount reclassified to profit or loss, net of deferred tax	-	-	-	-	-
Total other comprehensive (loss)/income	-	-	(164,160)	-	(164,160)
Total comprehensive income for the period	-	-	(164,160)	691,968	527,808
Balance as at 31 March 2019	26,249,100	257,149	1,195,032	(27,900)	27,673,381
Balance as at 1 January 2020	26,249,100	257,149	2,391,538	814,862	29,712,649
Total comprehensive income					
Profit for the period	-	-	-	435,916	435,916
Other comprehensive (loss)/income					
Fair value reserve for investment securities:					
- net change in fair value, net of deferred tax	-	-	58,504	-	58,504
- net amount reclassified to profit or loss, net of deferred tax	-	-	(425,075)	-	(425,075)
Total other comprehensive (loss)/income	-	-	(366,571)	-	(366,571)
Total comprehensive income for the period	-	-	(366,571)	435,916	69,345
Balance as at 31 March 2020	26,249,100	257,149	2,024,967	1,250,778	29,781,994

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

1 Background

(a) Organisation and operations

Byblos Bank Armenia cjsc (the Bank) was established in 2007 under the laws of the Republic of Armenia.

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

The Bank's registered head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The Bank has two branches.

The majority of the assets and liabilities are located in the Republic of Armenia.

The Bank is wholly-owned by Byblos Bank SAL. The ultimate controlling party is a single individual Francois Bassil.

Related party transactions are described in detail in Note 24.

(b) Armenian business environment

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

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

2 Basis of preparation

(a) Statement of compliance

The condensed interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Bank's last annual financial statements as at and for the year ended 31 December 2019 ("last annual financial statements").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 20(b).

Assumptions and estimations uncertainty

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

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 20(b);
- estimates of fair values of financial assets and liabilities – Note 25;
- fair value of forward and option instruments of loans from a related party and subordinated loans from Parent – Notes 17 and 18.

3 Changes in accounting policies and presentation

IFRS 16

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

(a) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

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

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

As a lessee, the Bank leases new office space starting from November 2019. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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

(c) As a lessor

The Bank does not lease out its investment property, including own property and right-of-use assets. The accounting policies applicable to the Bank as a lessor are not different from those under IAS 17 and the Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

4 Significant accounting policies

Except for the changes disclosed in Note 3, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

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

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

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

(b) Cash and cash equivalents

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

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

For information on when financial assets are credit-impaired, see Note 4(e)(iv).

Presentation

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

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

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

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 4(c)).

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition**Financial assets**

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

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

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 4(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

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

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

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

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

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

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

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

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

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

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

iv. Impairment

See also Note 20 (b).

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 20(b)).

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

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

Measurement of ECL

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

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

See also Note 20(b).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 4(e)(ii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 20(b)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

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

- the market’s assessment of creditworthiness as reflected in the bond yields.
- the rating agencies’ assessments of creditworthiness.
- the country’s ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as ‘lender of last resort’ to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

Non-integral financial guarantee contracts

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

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

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

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

v. Designation at fair value through profit or loss**Financial assets**

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(f) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

(g) Loans to customers

‘Loans to customers’ caption in the statement of financial position include loans to customers measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Investment securities

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

- debt securities measured at FVOCI (see Note 4(e)(i)); and
- equity investment securities designated as at FVOCI (see Note 4(e)(i)).

(i) Deposits, debt securities issued and subordinated liabilities

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

(j) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows: at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 4(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

For other loan commitments the Bank recognises a loss allowance (see Note 4(e)(iv)) in accordance with IFRS 9.

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

(k) Property and equipment**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

– buildings	50 years
– computers and communication equipment	1-5 years
– fixtures and fittings	5-10 years
– motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(l) Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1-10 years.

(m) Repossessed assets

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

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

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

(n) Impairment of non-financial assets

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

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

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

(o) Provisions

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

(p) Share capital**(i) Ordinary shares**

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

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(iii) Dividends

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

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

(q) Taxation

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

5 Net interest income

	1 January 2020	1 January 2019
	31 March 2020	31 March 2019
	AMD'000	AMD'000
Interest income calculated using the effective interest method		
Loans to customers	785,992	788,631
Investment securities	754,773	711,388
Loans to banks	110,902	124,752
Amounts receivable under reverse repurchase agreements	65,128	86,966
Other	9,116	4,941
	1,725,911	1,716,678
Interest expense		
Current accounts and deposits from customers	747,341	744,156
Subordinated loans from Parent	122,761	125,016
Other borrowed funds	77,799	85,488
Deposits and balances from banks	13,616	17,416
Lease	12,415	-
Amounts payable under repurchase agreements	549	-
	974,481	972,076
	751,430	744,602

6 Impairment recovery/(losses) on investment securities and other financial assets, loans to customers and loan commitments

	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
Loans to customers and loan commitments	(208,606)	37,808
Investment securities and other financial assets	37,042	(11,001)
	(171,564)	26,807

7 Other general administrative expenses

	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
Depreciation and amortisation	32,964	17,073
Maintenance of computer software	21,593	14,167
Advertising and marketing	20,724	26,699
Repairs and maintenance	15,581	8,645
Insurance	12,803	10,380
Professional services	9,451	10,097
Taxes other than on income	8,862	32,798
Security	7,920	6,537
Trainings	5,535	519
Lease	4,741	-
Communications and information services	4,658	4,468
Membership expenses	1,894	1,894
Office supplies	1,765	1,454
Maintenance of cars	1,724	1,388
Legal services	680	880
Travel expenses	-	2,288
Other	12,245	13,597
	163,140	152,884

8 Income taxes

	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
Current year tax expense	(158,359)	(186,832)
Origination and reversal of temporary differences	48,356	10,503
Total income tax expense	(110,003)	(176,329)

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

Reconciliation of effective tax rate for the three-month periods ended 31 March:

	31 March 2020 AMD'000	%	31 March 2019 AMD'000	%
Profit before income tax	545,919		868,297	
Tax at the applicable tax rate	(98,265)	(18)	(173,659)	(20)
Non-deductible costs	(11,738)	(2)	(2,670)	(0)
	(110,003)	(20)	(176,329)	(20)

(a) Deferred tax assets and liabilities

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

Movements in temporary differences during the three-month periods ended 31 March 2020 and 2019 are presented as follows:

31 March 2020 AMD'000	1 January 2020	Recognized in profit or loss	Recognized in other comprehensive income	31 March 2020
Cash and cash equivalents	(5,525)	1,738	-	(3,787)
Investment securities	(525,003)		80,467	(444,536)
Investment securities	21,006	(1,623)		19,383
Amounts receivable under reverse repurchase agreements	(12,037)	10,176	-	(1,861)
Loans to banks	(20,323)	10,336	-	(9,987)
Loans to customers	49,140	28,172	-	77,312
Property, equipment and intangible assets	(9,030)	(244)	-	(9,274)
Other assets	5,470	844	-	6,314
Other liabilities	(9,067)	(1,043)	-	(10,110)
	(505,369)	48,356	80,467	(376,546)

31 March 2019 AMD'000	1 January 2019	Recognized in profit or loss	Recognized in other comprehensive income	31 March 2019
Cash and cash equivalents	(1,901)	1,110	-	(791)
Investment securities	(296,283)		41,682	(254,601)
Amounts receivable under reverse repurchase agreements	(11,291)	1,606	-	(9,685)
Loans to banks	(18,207)	(2,467)	-	(20,674)
Loans to customers	170,123	13,082	-	183,205
Property, equipment and intangible assets	(8,951)	(270)	-	(9,221)
Other assets	5,649	(817)	-	4,832
Other liabilities	(8,947)	(1,741)	-	(10,688)
	(169,808)	10,503	41,682	(117,623)

(b) Income tax recognized in other comprehensive income/(loss)

The tax effects relating to components of other comprehensive income for the three-month periods ended 31 March 2020 and 2019 comprise the following:

AMD'000	31 March 2020			31 March 2019		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of investment securities at FVOCI	71,346	(12,842)	58,504	(205,842)	41,682	(164,160)
Net change in fair value of investment securities at FVOCI transferred to profit or loss	(518,384)	93,309	(425,075)	-	-	-
Other comprehensive income/(loss)	(447,038)	80,467	(366,571)	(205,842)	41,682	(164,160)

9 Cash and cash equivalents

	31 March 2020 AMD'000	31 December 2019 AMD'000
Cash on hand	385,350	324,818
Nostro accounts with the CBA, including obligatory reserves	13,315,115	11,724,645
Nostro accounts with other banks		
- OECD banks	1,174,748	2,041,951
- Other foreign banks	1,014,860	1,158,545
- Largest 5 Armenian banks	-	-
- Other Armenian banks	1,123	1,114
Total nostro accounts with other banks	2,190,731	3,201,610
Total gross cash and cash equivalents	15,891,196	15,251,073
Credit loss allowance	(868)	(1,320)
Total net cash and cash equivalents	15,890,328	15,249,753

No cash and cash equivalents are past due.

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

Nostro accounts with the CBA

Nostro accounts with the CBA are related to settlement activity and are available for withdrawal at the end of the year.

Banks are required to maintain a cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 18% of the amounts attracted in foreign currency. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams and in foreign currency, the sanctions may apply.

As at 31 March 2020 included in nostro accounts with the CBA, is the amount of obligatory reserve equivalent to AMD 8,342,512 thousand for amounts attracted in Armenian drams and foreign currency (31 December 2019: AMD 7,230,667 thousand).

10 Amounts receivable under reverse repurchase agreements

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Amounts receivable from 5 largest Armenian banks	-	1,416,450
Amounts receivable from other Armenian banks	1,033,759	5,270,911
	1,033,759	6,687,361

As at 31 March 2020 the Bank has no bank (31 December 2019: one), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2019 is AMD 3,109,130 thousand.

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks. None of them are past due.

Collateral

As at 31 March 2020 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 1,075,076 thousand (31 December 2019: AMD 7,205,553 thousand).

11 Loans to banks

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Credit card settlement deposit with the CBA	70,000	170,000
Loans and deposits with other banks		
- Largest 5 Armenian banks	-	4,797,986
- Other Armenian banks	11,159,502	12,022,086
- OECD banks	83,637	79,255
Total loans and deposits with other banks	11,243,139	16,899,327
Total gross loans to banks	11,313,139	17,069,327
Credit loss allowance	(56,949)	(56,088)
Total net loans to banks	11,256,190	17,013,239

No amounts due from banks are past due.

As at 31 March 2020 included in loans and deposits with OECD banks is AMD 83,637 thousand (31 December 2019: AMD 79,255 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Credit card settlement deposit with the CBA

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

(b) Concentration of loans to banks

As at 31 March 2020 the Bank has one bank (31 December 2019: two), whose balances exceeded 10% of equity. The gross value of these balances as at 31 March 2020 is AMD 5,052,717 thousand (31 December 2019: AMD 9,602,610 thousand).

12 Loans to customers

	31 March 2020 AMD'000	31 December 2019 AMD'000
Loans to customers at amortised cost		
Loans to corporate customers		
Loans to large corporates	23,359,321	19,330,935
Loans to small and medium sized companies	1,678,544	1,776,456
Total loans to corporate customers	25,037,865	21,107,391
Loans to retail customers		
Mortgage loans	12,559,759	12,157,771
Consumer loans secured by real estate	847,831	889,732
Credit card loans	617,397	589,058
Consumer loans with salary domiciliation	325,779	327,608
Individual entrepreneur and other small businesses loans	250,136	235,839
Auto loans	220,649	238,469
Other	146,372	61,185
Total loans to retail customers	14,967,923	14,499,662
Gross loans to customers at amortised cost	40,005,788	35,607,053
Credit loss allowance	(1,361,032)	(1,089,331)
Net loans to customers at amortised cost	38,644,756	34,517,722

(a) Credit quality of loans to customers

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

	31-Mar-20			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	21,865,286	-	-	21,865,286
Impaired loans:				
- overdue less than 90 days	-	-	-	-
- overdue 91-360 days	-	-	634,680	634,680
- overdue more than 360 days	-	-	859,355	859,355
Total impaired loans	-	-	1,494,035	1,494,035
Credit loss allowance	(271,343)	-	(993,311)	(1,264,654)
Total net loans to large corporate customers	21,593,943	-	500,724	22,094,667
Loans to small and medium size companies				
Loans without individual signs of impairment	1,678,544	-	-	1,678,544
Impaired loans:				
- overdue more than 360 days	-	-	-	-
Total impaired loans	-	-	-	-
Credit loss allowance	(7,480)	-	-	(7,480)
Total net loans to small and medium size companies	1,671,064	-	-	1,671,064
Gross loans to corporate customers	23,543,830	-	1,494,035	25,037,865
Total credit loss allowance on corporate customers	(278,823)	-	(993,311)	(1,272,134)

	31-Mar-20			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Total net loans to corporate customers	23,265,007	-	500,724	23,765,731
Loans to retail customers				
Mortgage loans				
- not overdue	11,926,237	-	-	11,926,237
- not overdue in the Bank, but in Stage 2	-	226,698	-	226,698
- overdue less than 30 days	158,252	12,537	-	170,789
- overdue 31-90 days	-	67,918	-	67,918
- overdue 91-180 days	-	-	69,994	69,994
- overdue 181-270 days	-	-	25,137	25,137
- overdue more than 271 days	-	-	72,986	72,986
	12,084,489	307,153	168,117	12,559,759
Credit loss allowance	(24,532)	(26,342)	(17,306)	(68,180)
Total net mortgage loans	12,059,957	280,811	150,811	12,491,579
Consumer loans secured by real estate				
- not overdue	760,657	-	-	760,657
- not overdue in Bank, but in Stage 2	-	29,699	-	29,699
- overdue less than 30 days	9,169	5,944	-	15,113
- overdue 31-90 days	-	2,823	-	2,823
- overdue 91-180 days	-	-	27,395	27,395
- overdue 181-270 days	-	-	286	286
- overdue more than 271 days	-	-	11,858	11,858
	769,826	38,466	39,539	847,831
Credit loss allowance	(1,450)	(1,937)	(2,475)	(5,862)
Total net consumer loans secured by real estate	768,376	36,529	37,064	841,969
Credit cards				
- not overdue	583,883	-	-	583,883
- not overdue in Bank, but in Stage 2	-	3,544	-	3,544
- overdue less than 30 days	18,941	-	-	18,941
- overdue 31-90 days	-	11,029	-	11,029
	602,824	14,573	-	617,397
Credit loss allowance	(7,175)	(1,449)	-	(8,624)
Total net credit cards	595,649	13,124	-	608,773
Consumer loans with salary domiciliation				
- not overdue	311,533	-	-	311,533
- not overdue in Bank, but in Stage 2	-	5,257	-	5,257
- overdue less than 30 days	5,275	1,269	-	6,544
- overdue 31-90 days	-	1,453	-	1,453
- overdue 91-180 days	-	-	992	992
	316,808	7,979	992	325,779
Credit loss allowance	(1,702)	(1,409)	(992)	(4,103)
Total net consumer loans with salary domiciliation	315,106	6,570	-	321,676
Auto loans				
- not overdue	216,369	-	-	216,369
- overdue less than 30 days	776	-	-	776
- overdue 31-90 days	-	1,576	-	1,576
- overdue 181-270 days	-	-	1,016	1,016
- overdue more than 271 days	-	-	912	912
	217,145	1,576	1,928	220,649
Credit loss allowance	(362)	(59)	(237)	(658)
Total net auto loans	216,783	1,517	1,691	219,991
Individual entrepreneur and other small businesses loans				
- not overdue	239,367	-	-	239,367

	31-Mar-20			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
- not overdue in the Bank, but in Stage 2	-	22	-	22
- overdue less than 30 days	-	10,747	-	10,747
	239,367	10,769	-	250,136
Credit loss allowance	(959)	(512)	-	(1,471)
Total net individual entrepreneur loans	238,408	10,257	-	248,665
Other retail loans				
- not overdue	146,372	-	-	146,372
	146,372	-	-	146,372
Credit loss allowance	-	-	-	-
Total net other retail loans	146,372	-	-	146,372
Gross retail loans	14,376,831	380,516	210,576	14,967,923
Total credit loss allowance on retail loans	(36,180)	(31,708)	(21,010)	(88,898)
Total net retail loans	14,340,651	348,808	189,566	14,879,025
Total net loans to customers	37,605,658	348,808	690,290	38,644,756

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

	31 December 2019			Total loans AMD'000
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	17,904,616	-	-	17,904,616
Impaired loans:				
- overdue less than 90 days	-	609,159	-	609,159
- overdue more than 360 days	-	-	817,160	817,160
Total impaired loans	-	609,159	817,160	1,426,319
Credit loss allowance	(189,906)	(80,926)	(727,273)	(998,105)
Total net loans to large corporate customers	17,714,710	528,233	89,887	18,332,830
Loans to small and medium size companies				
Loans without individual signs of impairment	1,776,456	-	-	1,776,456
Impaired loans:				
- overdue more than 360 days	-	-	-	-
Total impaired loans	-	-	-	-
Credit loss allowance	(16,899)	-	-	(16,899)
Total net loans to small and medium size companies	1,759,557	-	-	1,759,557
Gross loans to corporate customers	19,681,072	609,159	817,160	21,107,391
Total credit loss allowance on corporate customers	(206,805)	(80,926)	(727,273)	(1,015,004)
Total net loans to corporate customers	19,474,267	528,233	89,887	20,092,387
Loans to retail customers				
Mortgage loans				
- not overdue	11,668,788	-	-	11,668,788
- not overdue in the Bank, but in Stage 2	-	233,006	-	233,006
- overdue less than 30 days	38,446	-	-	38,446
- overdue 31-90 days	-	65,763	-	65,763
- overdue 91-180 days	-	-	49,702	49,702
- overdue 181-270 days	-	-	53,061	53,061
- overdue more than 271 days	-	-	49,005	49,005
	11,707,234	298,769	151,768	12,157,771
Credit loss allowance	(16,205)	(24,874)	(15,588)	(56,667)
Total net mortgage loans	11,691,029	273,895	136,180	12,101,104
Consumer loans secured by real estate				
- not overdue	790,366	-	-	790,366
- not overdue in Bank, but in Stage 2	-	31,571	-	31,571
- overdue less than 30 days	11,678	2,749	-	14,427
- overdue 31-90 days	-	19,241	-	19,241
- overdue 91-180 days	-	-	15,710	15,710
- overdue 181-270 days	-	-	7,434	7,434
- overdue more than 271 days	-	-	10,983	10,983
	802,044	53,561	34,127	889,732
Credit loss allowance	(1,273)	(2,476)	(2,137)	(5,886)
Total net consumer loans secured by real estate	800,771	51,085	31,990	883,846

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total loans
	AMD'000	AMD'000	AMD'000	AMD'000
Credit cards				
- not overdue	566,874	-	-	566,874
- not overdue in Bank, but in Stage 2	-	8,238	-	8,238
- overdue less than 30 days	10,575	-	-	10,575
- overdue 31-90 days	-	3,371	-	3,371
	577,449	11,609	-	589,058
Credit loss allowance	(5,955)	(1,142)	-	(7,097)
Total net credit cards	571,494	10,467	-	581,961
Consumer loans with salary domiciliation				
- not overdue	314,218	-	-	314,218
- not overdue in Bank, but in Stage 2	-	8,371	-	8,371
- overdue less than 30 days	3,955	-	-	3,955
- overdue 31-90 days	-	1,064	-	1,064
	318,173	9,435	-	327,608
Credit loss allowance	(1,194)	(1,481)	-	(2,675)
Total net consumer loans with salary domiciliation	316,979	7,954	-	324,933
Auto loans				
- not overdue	235,629	-	-	235,629
- overdue less than 30 days	412	-	-	412
- overdue 91-180 days	-	-	1,016	1,016
- overdue more than 271 days	-	-	1,412	1,412
	236,041	-	2,428	238,469
Credit loss allowance	(326)	-	(298)	(624)
Total net auto loans	235,715	-	2,130	237,845
Individual entrepreneur and other small businesses loans				
- not overdue	227,540	-	-	227,540
- not overdue in the Bank, but in Stage 2	-	8,299	-	8,299
	227,540	8,299	-	235,839
Credit loss allowance	(1,001)	(377)	-	(1,378)
Total net individual entrepreneur and other small businesses loans	226,539	7,922	-	234,461
Other retail loans				
- not overdue	61,185	-	-	61,185
	61,185	-	-	61,185
Credit loss allowance	-	-	-	-
Total net other retail loans	61,185	-	-	61,185
Gross retail loans	13,929,666	381,673	188,323	14,499,662
Total credit loss allowance on retail loans	(25,954)	(30,350)	(18,023)	(74,327)
Total net retail loans	13,903,712	351,323	170,300	14,425,335
Total net loans to customers	33,377,979	879,556	260,187	34,517,722

(b) Analysis of collateral**(i) Loans to corporate customers**

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

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

31 March 2020		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral: assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Cash and deposit	141,121		141,121
Real estate	11,091,729	-	11,091,729
Corporate shares	6,279,735		6,279,735
No collateral	5,752,422		-
Total loans without individual signs of impairment	23,265,007	-	17,512,585
Overdue or impaired loans			
Real estate	480,524	480,524	-
Other	20,200	20,200	-
Total overdue or impaired loans	500,724	500,724	-
Total loans to corporate customers	23,765,731	500,724	17,512,585
31 December 2019		Fair value of collateral: for collateral: assessed as of loan reporting date	Fair value of collateral: for collateral: assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Cash and deposit	141,121	-	141,121
Real estate	12,824,749	-	12,824,749
Corporate shares	5,892,336	-	5,892,336
No collateral	616,061	-	-
Total loans without individual signs of impairment	19,474,267	-	18,858,206
Overdue or impaired loans			
Real estate	597,920	597,920	-
Other	20,200	20,200	-
Total overdue or impaired loans	618,120	618,120	-
Total loans to corporate customers	20,092,387	618,120	18,858,206

The tables above excludes overcollateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Securities received from individuals, such as shareholders of SME borrowers, are not

considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

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

(ii) Loans to retail customers

Mortgage loans and consumer loans secured by real estate are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans and consumer loans secured by real estate with a loan-to-value ratios of a maximum of 70% and 50% respectively at the date of loan issuance. Individual entrepreneur loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

(iii) Repossessed collateral

During the three-month period ended 31 March 2020, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 96,124 thousand (the three-month period ended 31 March 2019: AMD 32,682 thousand). Part of the repossessed collateral in the amount of AMD 18,513 thousand was sold during the three-month period ended 31 March 2020 (the three-month period ended 31 March 2019: AMD 135,168 thousand sold or transferred to property, plant and equipment).

As at 31 March 2020 and 31 December 2019, the repossessed collateral comprises:

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Real estate	910,395	832,586
Total repossessed collateral	910,395	832,586

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

(c) Asset under lien

As at 31 March 2020, loans to customers with a gross value of AMD 2,694,958 thousand (31 December 2019: AMD 2,354,696 thousand) serve as collateral for deposits and balances from banks and other borrowed funds.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Finance and other services	7,216,873	6,791,454
Energy and gas	5,047,774	-
Processing of agricultural produce	4,262,977	4,234,178
Real estate	3,470,851	3,372,497
Construction	2,453,696	4,262,615
Trade	1,574,600	1,463,679
Manufacturing	1,011,094	982,968

	31 March 2020 AMD'000	31 December 2019 AMD'000
Loans to retail customers	14,967,923	14,499,662
	40,005,788	35,607,053
Credit loss allowance	(1,361,032)	(1,089,331)
	38,644,756	34,517,722

(e) Significant credit exposures

As at 31 March 2020 the Bank has three borrowers or group of connected borrowers (31 December 2019: three), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 March 2020 is AMD 14,266,186 thousand (31 December 2019: AMD 12,984,642 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 20 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Investment securities

	31 March 2020 AMD'000	31 December 2019 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	30,955,618	31,836,609
- Securities of international financial institutions	904,988	891,373
- Corporate bonds issued by largest 5 Armenian bank	1,636,687	1,832,488
- Corporate bonds of other Armenian financial institutions	432,316	407,658
	33,929,609	34,968,128
Equity instruments		
- Corporate shares	13,160	13,160
	33,942,769	34,981,288
Credit loss allowance	(107,685)	(116,701)
Carrying amount – fair value	33,942,769	34,981,288

None of investment securities are past due.

(a) Non-quoted equity investment securities designated at FVOCI

At 1 January 2018, the Bank designated certain investments shown in the following table as equity securities as at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term.

Name	Country of incorporation	Main activity	% Controlled		31 March 2020 AMD'000	31 December 2019 AMD'000
			31 March 2020	31 December 2019		
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

None of these investments was disposed of during the three-month period ended 31 March 2020, no dividend income recognized in the three-month period ended 31 March 2020 and there were no transfers of any cumulative gain or loss within equity relating to these investments.

The management believes that estimated fair values of these instruments approximates to their costs as at 31 March 2020 and 31 December 2019.

14 Lease

The Bank leases a building for 10 years without an automatic option to renew the lease after that date. Information about leases for which the Bank is a lessee is presented below.

(a) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented below.

	31 March 2020		31 December 2019	
	Land and buildings	Total	Land and buildings	Total
	AMD'000	AMD'000	AMD'000	AMD'000
Balance at 1 January 2019	491,361	491,361	-	-
Depreciation charge	(12,242)	(12,242)	(9,013)	(9,013)
Additions to right-of-use assets	66,394	66,394	500,374	500,374
Balance at the end of the reporting period	545,513	545,513	491,361	491,361

(b) Amounts recognized in profit and loss

	1 January 2020	1 January 2019
	31 March 2020 AMD'000	31 March 2019 AMD'000
Interest on lease liabilities	<u>(12,415)</u>	<u>-</u>

(c) Amounts recognised in statement of cash flows

	1 January 2020	1 January 2019
	31 March 2020 AMD'000	31 March 2019 AMD'000
Lease payments	<u>(17,493)</u>	<u>-</u>

15 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2020	1,427,126	340,776	272,764	41,311	201,116	2,283,093
Additions	-	58,881	47,728	-	150	106,759
Disposals	-	-	-	-	-	-
Balance at 31 March 2020	1,427,126	399,657	320,492	41,311	201,266	2,389,852
Depreciation and amortization						
Balance at 1 January 2020	(242,146)	(277,148)	(238,037)	(16,790)	(97,835)	(871,956)
Depreciation and amortization for the period	(4,799)	(8,747)	(4,869)	(1,671)	(636)	(20,722)
Disposals	-	-	-	-	-	-
Balance at 31 March 2020	(246,945)	(285,895)	(242,906)	(18,461)	(98,471)	(892,678)
Carrying amount						
At 31 March 2020	1,180,181	113,762	77,586	22,850	102,795	1,497,174
Cost						
Balance at 1 January 2019	1,405,293	306,484	265,627	44,265	165,871	2,187,540
Additions	21,833	43,879	12,403	10,512	35,245	123,872
Disposals	-	(9,587)	(5,266)	(13,466)	-	(28,319)
Balance at 31 December 2019	1,427,126	340,776	272,764	41,311	201,116	2,283,093
Depreciation and amortization						
Balance at 1 January 2019	(222,951)	(261,269)	(224,642)	(24,315)	(97,103)	(830,280)
Depreciation and amortization for the year	(19,195)	(25,045)	(18,407)	(5,941)	(732)	(69,320)
Disposals	-	9,166	5,012	13,466	-	27,644
Balance at 31 December 2019	(242,146)	(277,148)	(238,037)	(16,790)	(97,835)	(871,956)
Carrying amount						
At 31 December 2019	1,184,980	63,628	34,727	24,521	103,281	1,411,137

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the three-month period ended 31 March 2020 (2019: nil).

16 Current accounts and deposits from customers

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Current accounts and demand deposits		
- Retail	7,582,681	13,874,002
- Corporate	1,684,192	1,490,969
Term deposits		
- Retail	38,831,184	39,837,356
- Corporate	12,374,595	12,969,685
	60,472,652	68,172,012

As at 31 March 2020 the Bank maintained customer deposit balances of AMD 1,229,956 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2019: AMD 428,787 thousand).

As at 31 March 2020 the Bank has two customers (2019: four), whose balances exceeded 10% of equity. The gross value of these balances as at 31 March 2020 is AMD 6,560,651 thousand (2019: AMD 18,489,629 thousand).

17 Other borrowed funds

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Loan from a related party	3,131,535	3,038,930
Loans from National Mortgage Company	576,446	634,241
Other	83,351	84,253
	3,791,332	3,757,424

(a) Convertible borrowing

On 19 January 2017 the Bank received a loan from the related party of USD 6,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 4 years. The loan contains mandatory conversion clause, representing forward financial instrument. Management believes that the fair value of this instrument is not material as at 31 March 2020 and 31 December 2019.

18 Subordinated loans from Parent

On 30 April 2015, on 30 September 2016 and on 13 December 2016 the Bank obtained subordinated loans from the Parent of USD 5,000 thousand, EUR 9,375 thousand and USD 5,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 10 years, at the option of the holder. The loans contain mandatory, voluntary and accelerated conversion options, representing forward and option financial instruments, respectively.

Subordinated loan issued on 30 April 2015 was converted into shares applying accelerated conversion option (see Note 19(a)).

Management believes that the fair value of these instruments is not material as at 31 March 2020 and 31 December 2019.

19 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 262,491 ordinary shares (31 December 2019: 262,491 shares). All shares have a nominal value of AMD 100,000.

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

(b) Nature and purpose of reserves

Fair value reserve for investment securities

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date no reserves are available for distribution (2018: nil).

20 Risk management

(a) Risk management policies and procedures

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

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

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. The Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

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

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

(b) Financial risk review

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

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments).

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by independent appraisal companies or the Bank's specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits. Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

Credit risk - Amounts arising from ECL**Inputs, assumptions and techniques used for estimating impairment**

See accounting policy in Note 4(e)(iv).

Significant increase in credit risk

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

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

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

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and

- backstop of 30 days past due.

Credit risk grades

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

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

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

Generating the term structure of PD

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

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 48 months.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the

financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

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

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

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts, changes in exchange rates and prices in real estate market.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4(e)(iii).

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

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

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4(e)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

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

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

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty

industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

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

- instrument type;
- collateral type.

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

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

31 March 2020		External benchmarks used	
AMD'000	Exposure	PD	LGD
Debt investment securities at FVOCI	33,929,609	S&P default study	Moody's recovery studies
Loans to corporate customers	5,471,068	S&P default study	Moody's recovery studies
Loans to corporate customers	18,294,663	S&P default study	-
31 December 2019		External benchmarks used	
AMD'000	Exposure	PD	LGD
Debt investment securities at FVOCI	34,968,128	S&P default study	Moody's recovery studies
Loans to corporate customers	473,487	S&P default study	Moody's recovery studies
Loans to corporate customers	19,618,900	S&P default study	-

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for the three-month period ended 31 March 2020.

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Balance at 1 January	(1,320)	-	-	(1,320)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	1,320	-	-	1,320
New financial assets originated or purchased	(868)	-	-	(868)
Balance at 31 March	(868)	-	-	(868)

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to banks at amortized cost				
Balance at 1 January	(56,088)	-	-	(56,088)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	528	-	-	528
New financial assets originated or purchased	(1,389)	-	-	(1,389)
Balance at 31 March	(56,949)	-	-	(56,949)

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(206,805)	(80,926)	(727,273)	(1,015,004)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	80,926	(80,926)	-
Net remeasurement of loss allowance	(7,370)	-	(185,112)	(192,482)
New financial assets originated or purchased	(64,648)	-	-	(64,648)
Write-offs*	-	-	-	-
Balance at 31 March	(278,823)	-	(993,311)	(1,272,134)

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(25,954)	(30,350)	(18,023)	(74,327)
Transfer to Stage 1	(259)	259	-	-
Transfer to Stage 2	158	(158)	-	-
Transfer to Stage 3	3	4,438	(4,441)	-
Net remeasurement of loss allowance	(8,104)	(10,295)	(4,786)	(23,185)
New financial assets originated or purchased	(2,024)	(376)	-	(2,400)
Write-offs*	-	4,774	6,240	11,014
Balance at 31 March	(36,180)	(31,708)	(21,010)	(88,898)

* Prior year write-offs figure is net of recoveries for the period.

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at 1 January	(116,701)	-	-	(116,701)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	9,016	-	-	9,016
New financial assets originated or purchased	-	-	-	-
Other	-	-	-	-
Balance at 31 March	(107,685)	-	-	(107,685)

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

The below tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for the year ended 31 December 2019.

AMD'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Balance at 1 January	(144)	-	-	(144)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	144	-	-	144
New financial assets originated or purchased	(1,320)	-	-	(1,320)
Balance at 31 December	(1,320)	-	-	(1,320)

AMD'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans to banks at amortized cost				
Balance at 1 January	(2,377)	-	-	(2,377)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(49,196)	-	-	(49,196)
New financial assets originated or purchased	(4,515)	-	-	(4,515)
Balance at 31 December	(56,088)	-	-	(56,088)

AMD'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – corporate customers				
Balance at 1 January	(335,953)	-	(3,898,487)	(4,234,440)
Transfer to Stage 1	12,459	-	-	12,459
Transfer to Stage 2	-	(12,459)	-	(12,459)
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	230,398	(29,195)	(100,960)	100,243
New financial assets originated or purchased	(113,709)	(39,272)	-	(152,981)
Write-offs*	-	-	3,272,174	3,272,174
Balance at 31 December	(206,805)	(80,926)	(727,273)	(1,015,004)

AMD'000	31-Dec-19			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Balance at 1 January	(47,763)	(73,246)	(47,082)	(168,091)
Transfer to Stage 1	(14,040)	11,899	2,141	-
Transfer to Stage 2	390	(1,157)	767	-
Transfer to Stage 3	240	11,674	(11,914)	-
Net remeasurement of loss allowance	37,389	25,654	(11,393)	51,650
New financial assets originated or purchased	(7,542)	(6,635)	-	(14,177)
Write-offs*	5,372	1,461	49,458	56,291
Balance at 31 December	(25,954)	(30,350)	(18,023)	(74,327)

* Prior year write-offs figure is net of recoveris for the period.

AMD'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at 1 January	(174,203)	-	-	(174,203)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	83,404	-	-	83,404
New financial assets originated or purchased	(25,902)	-	-	(25,902)
Other	-	-	-	-
Balance at 31 December	(116,701)	-	-	(116,701)

The following table provides reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on debt financial assets' and 'impairment losses on loan commitments and financial guarantees' line items in the statement of profit or loss and other comprehensive income.

Reconciliation for the three-month period ended 31 March 2020:

AMD'000	Cash and cash equivalents	Loans to banks at amortised cost	Loans to customers at amortised cost - corporate customers	Loans to customers at amortised cost - retail customers	Debt investment securities at FVOCI	Other assets	Total
Net remeasurement of loss allowance	1,320	528	(192,482)	(23,185)	9,016	28,435	(176,368)
New financial assets originated or purchased	(868)	(1,389)	(64,648)	(2,400)	-	-	(69,305)
Subtotal	452	(861)	(257,130)	(25,585)	9,016	28,435	(245,673)
Recoveries of amounts previously written off	-	-	-	74,109	-	-	74,109
Total	452	(861)	(257,130)	48,524	9,016	28,435	(171,564)

Reconciliation for the year ended 31 December 2019:

AMD'000	Cash and cash equivalents	Loans to banks at amortised cost	Loans to customers at amortised cost - corporate customers	Loans to customers at amortised cost - retail customers	Debt investment securities at FVOCI	Other assets	Total
Net remeasurement of loss allowance	144	(49,196)	100,243	51,650	83,404	(36,011)	150,234
New financial assets originated or purchased	(1,320)	(4,515)	(152,981)	(14,177)	(25,902)	-	(198,895)
Subtotal	(1,176)	(53,711)	(52,738)	37,473	57,502	(36,011)	(48,661)
Recoveries of amounts previously written off	-	-	754	91,539	-	-	92,293
Total	(1,176)	(53,711)	(51,984)	129,012	57,502	(36,011)	43,632

Significant changes in the gross carrying amount of retail and corporate portfolios during the three-month period ended 31 March 2020 that contributed to changes in loss allowance were as follows:

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – corporate customers – gross carrying amount				
Balance at 1 January	19,681,072	609,159	817,160	21,107,391
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(609,159)	609,159	-
New financial assets originated or purchased	5,514,571	-	-	5,514,571
Financial assets that have been fully or partially repaid	(1,651,813)	-	67,716	(1,584,097)
Write-offs	-	-	-	-
Balance at 31 March	23,543,830	-	1,494,035	25,037,865

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost - retail customers – gross carrying amount				
Balance at 1 January	13,929,666	381,673	188,323	14,499,662
Transfer to Stage 1	4,324	(4,324)	-	-
Transfer to Stage 2	(59,178)	59,178	-	-
Transfer to Stage 3	(744)	(60,636)	61,380	-
New financial assets originated or purchased	898,207	7,469	-	905,676
Financial assets that have been fully or partially repaid	(395,444)	1,930	(32,887)	(426,401)
Write-offs	-	(4,774)	(6,240)	(11,014)
Balance at 31 March	14,376,831	380,516	210,576	14,967,923

Significant changes in the gross carrying amount of retail and corporate portfolios during the year ended 31 December 2019 that contributed to changes in loss allowance were as follows:

AMD'000	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortised cost – corporate customers – gross carrying amount				
Balance at 1 January	21,611,827	-	4,139,597	25,751,424
Transfer to Stage 1	(327,997)	327,997	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New financial assets originated or purchased	10,906,900	392,745	-	11,299,645
Financial assets that have been fully or partially repaid	(12,509,658)	(111,583)	(50,260)	(12,671,501)
Write-offs	-	-	(3,272,177)	(3,272,177)
Balance at 31 December	19,681,072	609,159	817,160	21,107,391

AMD'000	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortised cost - retail customers – gross carrying amount				
Balance at 1 January	12,732,395	436,283	226,687	13,395,365
Transfer to Stage 1	89,036	(79,738)	(9,298)	-
Transfer to Stage 2	(104,406)	109,086	(4,680)	-
Transfer to Stage 3	(71,522)	(71,870)	143,392	-
New financial assets originated or purchased	3,816,821	83,440	-	3,900,261
Financial assets that have been fully or partially repaid	(2,527,286)	(94,065)	(118,323)	(2,739,674)
Write-offs	(5,372)	(1,463)	(49,455)	(56,290)
Balance at 31 December	13,929,666	381,673	188,323	14,499,662

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 31 March 2020. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: Stage 1, Stage 2, Stage 3 are included in Note 4(e)(iv).

AMD'000	31 March 2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Cash and cash equivalents				
Rated Ca	884,818	-	-	884,818
Rated B- to BBB-	131,079	-	-	131,079
Not rated	14,489,949	-	-	14,489,949
	15,505,846	-	-	15,505,846
Loss allowance	(868)	-	-	(868)
Carrying amount	15,504,978	-	-	15,504,978
Loans to banks at amortised cost				
Rated AA-	83,637	-	-	83,637
Rated B- to B+	5,052,717	-	-	5,052,717

AMD'000	31 March 2020			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Not rated	6,176,785	-	-	6,176,785
	11,313,139	-	-	11,313,139
Loss allowance	(56,949)	-	-	(56,949)
Carrying amount	11,256,190	-	-	11,256,190
<i>Loans to customers at amortised cost – corporate customers</i>				
Loans without individual signs of impairment	23,543,830	-	-	23,543,830
Overdue less than 91-360 days	-	-	634,680	634,680
Overdue more than 360 days	-	-	859,355	859,355
	23,543,830	-	1,494,035	25,037,865
Loss allowance	(278,823)	-	(993,311)	(1,272,134)
Carrying amount	23,265,007	-	500,724	23,765,731
<i>Loans to customers at amortised cost – retail customers*</i>				
Not overdue	14,184,418	265,220	-	14,449,638
Overdue less than 30 days	192,413	30,497	-	222,910
Overdue 31-90 days	-	84,799	-	84,799
Overdue 91-180 days	-	-	98,381	98,381
Overdue 181-270 days	-	-	26,439	26,439
Overdue more than 271 days	-	-	85,756	85,756
	14,376,831	380,516	210,576	14,967,923
Loss allowance	(36,180)	(31,708)	(21,010)	(88,898)
Carrying amount	14,340,651	348,808	189,566	14,879,025
<i>Debt investment securities at FVOCI</i>				
Rated A-	904,988	-	-	904,988
Rated BB- to B+	32,811,106	-	-	32,811,106
Not rated	213,515	-	-	213,515
	33,929,609	-	-	33,929,609
Loss allowance	(107,685)	-	-	(107,685)
Carrying amount – fair value	33,929,609	-	-	33,929,609

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 31 December 2019.

AMD'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<i>Cash and cash equivalents</i>				
Rated Ca3	1,149,539	-	-	1,149,539
Rated B- to BBB-	10,033	-	-	10,033
Not rated	13,766,683	-	-	13,766,683
	14,926,255	-	-	14,926,255
Loss allowance	(1,320)	-	-	(1,320)
Carrying amount	14,924,935	-	-	14,924,935
<i>Loans to banks at amortised cost</i>				
Rated AA-	79,255	-	-	79,255
Rated B- to B+	11,521,646	-	-	11,521,646

AMD'000	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Not rated	5,468,426	-	-	5,468,426
	17,069,327	-	-	17,069,327
Loss allowance	(56,088)	-	-	(56,088)
Carrying amount	17,013,239	-	-	17,013,239
<i>Loans to customers at amortised cost – corporate customers</i>				
Loans without individual signs of impairment	19,681,072	-	-	19,681,072
Overdue less than 90 days	-	609,159	-	609,159
Overdue more than 360 days	-	-	817,160	817,160
	19,681,072	609,159	817,160	21,107,391
Loss allowance	(206,805)	(80,926)	(727,273)	(1,015,004)
Carrying amount	19,474,267	528,233	89,887	20,092,387
<i>Loans to customers at amortised cost – retail customers*</i>				
Not overdue	13,864,600	289,485	-	14,154,084
Overdue less than 30 days	65,066	2,749	-	67,816
Overdue 31-90 days	-	89,439	-	89,439
Overdue 91-180 days	-	-	66,428	66,428
Overdue 181-270 days	-	-	60,495	60,495
Overdue more than 271 days	-	-	61,400	61,400
	13,929,666	381,673	188,323	14,499,662
Loss allowance	(25,954)	(30,350)	(18,023)	(74,327)
Carrying amount	13,903,712	351,323	170,300	14,425,335
<i>Debt investment securities at FVOCI</i>				
Rated A-	891,373	-	-	891,373
Rated BB- to B+	33,873,273	-	-	33,873,273
Not rated	203,482	-	-	203,482
	34,968,128	-	-	34,968,128
Loss allowance	(116,701)	-	-	(116,701)
Carrying amount – fair value	34,968,128	-	-	34,968,128

* Expected credit losses under IFRS 9 for loans to customers include ECL for undrawn loan commitments.

Collateral held and other credit enhancements

At 31 March 2020 and 31 December 2019, the Bank had the financial instruments for which no loss allowance is recognised because of collateral.

	Exposure as at 31 March 2020 AMD'000	Exposure as at 31 December 2019 AMD'000
Amounts receivable under reverse repurchase agreements	1,033,759	6,687,361
Loans to corporate customers	2,246,853	1,864,913
Loans to retail customers	146,372	61,185

During the period, there was no change in the Bank's collateral policies.

Concentrations of credit risk

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

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

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Assets		
Cash and cash equivalents	15,504,978	14,924,935
Amounts receivable under reverse repurchase agreements	1,033,759	6,687,361
Loans to banks	11,256,190	17,013,239
Loans to customers	38,644,756	34,517,722
Investment securities	33,942,769	34,981,288
Other financial assets	13,330	17,087
Total maximum exposure	100,395,782	108,141,632

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 12.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 22.

As at 31 March 2020 the Bank has two debtors or groups of connected debtors (as at 31 December 2019: two), credit risk exposure to whom exceeded 10 percent maximum credit risk exposure. The credit risk exposure for these counterparties as at 31 March 2020 is AMD 44,340,733 thousand (as at 31 December 2019: AMD 43,731,209 thousand).

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

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

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

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This

is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy	Net amount
				Financial instruments	
Amounts receivable under reverse repurchase agreements	1,033,759	-	1,033,759	1,033,759	-
Total financial assets	1,033,759	-	1,033,759	1,033,759	-

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

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy	Net amount
				Financial instruments	
Amounts receivable under reverse repurchase agreements	6,687,361	-	6,687,361	6,687,361	-
Total financial assets	6,687,361	-	6,687,361	6,687,361	-

(c) Market risk

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

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

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

(i) Interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows as at 31 March 2020:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 March 2020							
ASSETS							
Cash and cash equivalents	2,156,958	-	-	-	-	13,733,370	15,890,328
Amounts receivable under reverse repurchase agreements	1,033,759	-	-	-	-	-	1,033,759
Loans to banks	6,087,273	-	-	5,015,280	83,637	70,000	11,256,190
Loans to customers	2,232,986	3,884,235	13,453,065	17,242,582	1,831,888	-	38,644,756
Investment securities	4,320,550	180,908	3,792,066	16,565,339	9,070,746	13,160	33,942,769
Other financial assets	-	-	-	-	-	13,330	13,330
	15,831,526	4,065,143	17,245,131	38,823,201	10,986,271	13,829,860	100,781,132
LIABILITIES							
Deposits and balances from banks	32,232	-	8,429	667,655	-	54,065	762,381
Current accounts and deposits from customers	22,861,661	14,841,928	13,150,843	6,224,682	600	3,392,938	60,472,652
Other borrowed funds	35,507	36,349	3,192,808	406,473	120,195	-	3,791,332
Subordinated loans from Parent	-	6,571	-	-	7,811,838	-	7,818,409
Lease liability	5,215	5,215	12,010	142,911	309,295	-	474,646
Other financial liabilities	-	-	-	-	-	304,945	304,945
	22,934,615	14,890,063	16,364,090	7,441,721	8,241,928	3,751,948	73,624,365
	(7,103,089)	(10,824,920)	881,041	31,381,480	2,744,343	10,077,912	27,156,767

A summary of the interest gap position for major financial instruments is as follows as at 31 December 2019:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Cash and cash equivalents	3,138,123	-	-	-	-	12,111,630	15,249,753
Amounts receivable under reverse repurchase agreements	6,687,361	-	-	-	-	-	6,687,361
Loans to banks	11,984,330	-	-	4,779,654	79,255	170,000	17,013,239
Loans to customers	1,659,078	2,116,030	6,233,182	22,597,537	1,911,895	-	34,517,722
Investment securities	104,400	4,378,562	2,792,018	17,948,959	9,744,189	13,160	34,981,288
Other financial assets	-	-	-	-	-	17,087	17,087
	23,573,292	6,494,592	9,025,200	45,326,150	11,735,339	12,311,877	108,466,450
LIABILITIES							
Deposits and balances from banks	-	18,616	8,429	667,656	-	-	694,701
Current accounts and deposits from customers	19,656,114	13,627,357	19,900,851	6,257,868	600	8,729,222	68,172,012
Other borrowed funds	97,617	30,539	68,529	3,420,072	140,667	-	3,757,424
Subordinated loans from Parent	127,919	-	-	-	7,531,253	-	7,659,172
Lease liability	5,080	5,214	10,924	137,048	321,460	-	479,726
Other financial liabilities	-	-	-	-	-	284,520	284,520
	19,886,730	13,681,726	19,988,733	10,482,644	7,993,980	9,013,742	81,047,555
	3,686,562	(7,187,134)	(10,963,533)	34,843,506	3,741,359	3,298,135	27,418,895

Average effective interest rates

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

	31 March 2020			31 December 2019		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Amounts receivable under reverse repurchase agreements	5.4%	2.0%	-	5.6%	2.3%	-
Loans to banks	5.4%	6.5%	0.6%	5.6%	3.4%	1.0%
Loans to customers	12.2%	7.5%	7.3%	12.4%	8.0%	7.3%
Investment securities	9.7%	6.4%	-	9.9%	6.4%	-
Currency swap	5.5%	-	-	-	-	-
Interest bearing liabilities						
Deposits and balances from banks	7.9%	-	-	7.9%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.4%	1.0%	-	1.6%	0.6%	-
- Term deposits	8.7%	4.3%	2.2%	9.2%	4.3%	2.2%
Other borrowed funds	8.7%	8.3%	-	8.8%	8.3%	-
Subordinated loans from parent	-	6.5%	6.5%	-	6.5%	6.5%

Interest rate sensitivity analysis

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

	31 March 2020 AMD'000	31 December 2019 AMD'000
100 bp parallel fall	111,508	(29,654)
100 bp parallel rise	(111,508)	29,654

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

	31 March 2020		31 December 2019	
	Net profit or loss AMD'000	Equity AMD'000	Net profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	844,716	-	962,947
100 bp parallel rise	-	(844,716)	-	(962,947)

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	6,739,902	7,311,340	1,702,073	137,013	15,890,328
Amounts receivable under reverse repurchase agreements	831,838	201,921	-	-	1,033,759
Loans to banks	1,471,395	5,082,118	4,702,677	-	11,256,190
Loans to customers	9,357,891	29,150,694	136,171	-	38,644,756
Investment securities	32,444,538	1,498,231	-	-	33,942,769
Other financial assets	6,977	6,323	30	-	13,330
Total assets	50,852,541	43,250,627	6,540,951	137,013	100,781,132
LIABILITIES					
Deposits and balances from banks	762,381	-	-	-	762,381
Current accounts and deposits from customers	19,385,346	39,599,614	1,358,274	129,418	60,472,652
Other borrowed funds	659,797	3,131,535	-	-	3,791,332
Subordinated loans from Parent	-	2,625,307	5,193,102	-	7,818,409
Lease liability	474,646	-	-	-	474,646
Other financial liabilities	248,622	52,955	3,368	-	304,945
Total liabilities	21,530,792	45,409,411	6,554,744	129,418	73,624,365
Net position	29,321,749	(2,158,784)	(13,793)	7,595	27,156,767
Effect of derivatives	1,711,580	(1,765,645)	-	-	(54,065)
Net position after the effect of derivatives	31,033,329	(3,924,429)	(13,793)	7,595	27,102,702

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	5,211,819	4,198,082	5,798,064	41,788	15,249,753
Amounts receivable under reverse repurchase agreements	6,495,339	192,022	-	-	6,687,361
Loans to banks	1,571,168	14,905,918	536,153	-	17,013,239
Loans to customers	9,152,652	25,226,672	138,398	-	34,517,722
Investment securities	33,493,215	1,488,073	-	-	34,981,288
Other financial assets	8,970	8,105	9	3	17,087
Total assets	55,933,163	46,018,872	6,472,624	41,791	108,466,450
LIABILITIES					
Deposits and balances from banks	694,701	-	-	-	694,701
Current accounts and deposits from customers	22,894,857	43,873,875	1,367,092	36,188	68,172,012
Other borrowed funds	718,494	3,038,930	-	-	3,757,424
Subordinated loans from Parent	-	2,536,666	5,122,506	-	7,659,172
Lease liability	479,726	-	-	-	479,726
Other financial liabilities	241,546	42,707	267	-	284,520
Total liabilities	25,029,324	49,492,178	6,489,865	36,188	81,047,555
Net position	30,903,839	(3,473,306)	(17,241)	5,603	27,418,895

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

	31 March 2020	31 December 2019
	AMD'000	AMD'000
10% appreciation of USD against AMD	(392,443)	(347,331)
10% appreciation of EUR against AMD	(1,379)	(1,724)

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 March 2020							
Non-derivative liabilities							
Deposits and balances from banks	88,380	-	-	35,335	795,655	919,370	762,381
Current accounts and deposits from customers	14,226,553	12,107,92	15,222,004	13,744,484	6,636,125	61,937,090	60,472,652
Other borrowed funds	11,285	32,599	178,593	3,298,786	642,598	4,163,861	3,791,332
Subordinated loans from Parent	-	-	257,814	254,034	10,615,987	11,127,835	7,818,409
Lease liability	5,833	11,663	17,495	35,864	695,072	765,927	474,646
Other financial liabilities	-	-	-	-	304,945	304,945	304,945
Total	14,332,051	12,152,186	15,675,906	17,368,503	19,690,382	79,219,028	73,624,365
Credit related commitments	4,219,786	-	-	-	-	4,219,786	4,219,786

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2019							
Non-derivative liabilities							
Deposits and balances from banks	-	-	34,236	35,335	795,656	865,227	694,701
Current accounts and deposits from customers	19,425,743	9,132,982	13,980,723	20,747,716	6,649,905	69,937,069	68,172,012
Other borrowed funds	10,467	154,757	45,648	222,214	3,771,454	4,204,540	3,757,424
Subordinated loans from Parent	-	243,646	-	248,947	10,479,593	10,972,186	7,659,172
Lease liability	5,831	11,663	17,495	35,340	713,092	783,421	479,726
Other financial liabilities	-	-	-	-	284,520	284,520	284,520
Total	19,442,041	9,543,048	14,078,102	21,289,552	22,694,220	87,046,963	81,047,555
Credit related commitments	4,148,117	-	-	-	-	4,148,117	4,148,117

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The classification of principal balance of these deposits in accordance with their stated maturity dates is presented below:

	31 March 2020 AMD'000	31 December 2019 AMD'000
Less than 1 month	4,263,668	2,234,308
From 1 to 3 months	5,611,509	3,426,129
From 3 to 12 months	23,112,320	28,022,638
More than 1 year	4,964,927	5,474,627
	37,952,424	39,157,702

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 March 2020:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	15,890,328	-	-	-	-	-	-	15,890,328
Amounts receivable under reverse repurchase agreements	1,033,759	-	-	-	-	-	-	1,033,759
Loans to banks	5,528,893	558,380	-	5,015,280	-	153,637	-	11,256,190
Loans to customers	413,512	991,439	10,576,813	17,105,812	9,268,091	-	289,089	38,644,756
Investment securities	3,383,184	937,366	3,972,974	16,565,339	9,070,746	13,160	-	33,942,769
Right-of-use assets	-	-	-	-	545,513	-	-	545,513
Property, equipment and intangible assets	-	-	-	-	-	1,497,174	-	1,497,174
Repossessed assets	-	-	-	-	-	910,395	-	910,395
Other assets	-	-	-	-	-	378,657	-	378,657
Total assets	26,249,676	2,487,185	14,549,787	38,686,431	18,884,350	2,953,023	289,089	104,099,541
Liabilities								
Deposits and balances from banks	86,297	-	8,429	667,655	-	-	-	762,381
Current accounts and deposits from customers	14,203,059	11,948,097	28,067,685	6,253,211	600	-	-	60,472,652
Other borrowed funds	10,359	25,148	3,229,157	406,473	120,195	-	-	3,791,332
Subordinated loans from Parent	-	-	6,571	-	7,811,838	-	-	7,818,409
Current tax liabilities	136,081	-	-	105,012	-	-	-	241,093
Deferred tax liabilities	-	-	-	-	-	376,546	-	376,546
Lease liability	1,769	3,446	17,225	142,911	309,295	-	-	474,646
Other liabilities	-	-	-	-	-	380,488	-	380,488
Total liabilities	14,437,565	11,976,691	31,329,067	7,575,262	8,241,928	757,034	-	74,317,547
Net position	11,812,111	(9,489,506)	(16,779,280)	31,111,169	10,642,422	2,195,989	289,089	29,781,994

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	15,249,753	-	-	-	-	-	-	15,249,753
Amounts receivable under reverse repurchase agreements	6,687,361	-	-	-	-	-	-	6,687,361
Loans to banks	11,441,224	543,106	-	4,779,654	-	249,255	-	17,013,239
Loans to customers	384,258	698,682	6,556,867	17,707,526	9,044,766	-	125,623	34,517,722
Investment securities	3,756	100,644	7,170,580	17,948,959	9,744,189	13,160	-	34,981,288
Right-of-use assets	-	-	-	-	491,361	-	-	491,361
Property, equipment and intangible assets	-	-	-	-	-	1,411,137	-	1,411,137
Repossessed assets	-	-	-	-	-	832,586	-	832,586
Other assets	-	-	-	-	-	284,363	-	284,363
Total assets	33,766,352	1,342,432	13,727,447	40,436,139	19,280,316	2,790,501	125,623	111,468,810
Liabilities								
Deposits and balances from banks	-	-	27,045	667,656	-	-	-	694,701
Current accounts and deposits from customers	19,396,218	8,952,852	33,534,945	6,287,397	600	-	-	68,172,012
Other borrowed funds	9,510	88,107	99,068	3,420,072	140,667	-	-	3,757,424
Subordinated loans from Parent	-	127,919	-	-	7,531,253	-	-	7,659,172
Current tax liabilities	-	-	-	137,877	-	-	-	137,877
Deferred tax liabilities	-	-	-	-	-	505,369	-	505,369
Lease liability	1,587	3,492	16,138	137,048	321,461	-	-	479,726
Other liabilities	-	-	-	-	-	349,880	-	349,880
Total liabilities	19,407,315	9,172,370	33,677,196	10,650,050	7,993,981	855,249	-	81,756,161
Net position	14,359,037	(7,829,938)	(19,949,749)	29,786,089	11,286,335	1,935,252	125,623	29,712,649

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported unaudited ratios of highly liquid assets to demand liabilities at the 31 March 2020 is 449.38% (31 December 2019: 371.94%).

The above ratio is also used to measure compliance with the liquidity limit established by the CBA (60% minimum).

(e) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

21 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, banks have to maintain a ratio of Tier 1 and total capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 March 2020, these minimum levels are 10% and 12% respectively (in 2019 only the second ratio was in force: 12%). The Bank is in compliance with the statutory capital ratios as at 31 March 2020 and 31 December 2019.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 March 2020 and 31 December 2019:

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Tier 1 capital		
Share capital	26,249,100	26,249,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Retained earnings	1,492,529	1,088,055
Deductions	(1,610,303)	(1,551,138)
Total tier 1 capital	26,439,767	26,094,458
Tier 2 capital		
Fair value reserve for investment securities	2,259,347	2,208,757
Subordinated loans	7,610,973	7,470,555
Deduction of tier 2 capital as per the CBA regulations	(4,582,367)	(1,850,975)
Total tier 2 capital	5,287,953	7,828,337
Total capital	31,727,720	33,922,795
Total risk weighted assets	100,286,557	89,963,136
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	31.6%	37.7%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	26.4%	29.0%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and

counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

22 Credit related commitments

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

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

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

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

	31 March 2020	31 December 2019
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	2,290,467	2,629,153
Credit card commitments	868,306	567,502
Guarantees and letters of credit	1,061,013	951,462
	4,219,786	4,148,117

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 March 2020 of these credit related commitments, AMD 2,556,414 thousand (31 December 2019: AMD 2,313,534 thousand) are to nine customers (31 December 2019: five customers). This exposure represents a significant credit risk exposure to the Bank.

23 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 110,000 thousand insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

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

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

24 Related party transactions**(a) Control relationships**

The Bank's parent Company is "Byblos Bank S.A.L", which owns 100 % of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

(b) Transactions with the members of the Board of Directors and the Management Committee

Total remuneration included in personnel expenses for the three-month period ended 31 March 2020 and 31 March 2019 is as follows:

	1 January 2020 31 March 2020 AMD'000	1 January 2019 31 March 2019 AMD'000
Short-term employee benefits	<u>55,960</u>	<u>51,126</u>

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

	31 March 2020 AMD'000	Average effective interest rate, %	31 December 2019 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	221,322	9.6%	223,513	9.6%
Expected credit loss allowance	(417)		(348)	
Deposits received	<u>1,500,341</u>	<u>4.5%</u>	<u>1,392,372</u>	<u>4.5%</u>

Loans to related parties are in Armenian Dram and foreign currency and repayable from 1 to 20 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in Note 12 (b).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the three-month period ended 31 March 2020 and 31 March 2019 are as follows:

	31 March 2020 AMD'000	31 March 2019 AMD'000
Profit or loss		
Interest income	5,282	5,186
Interest expense	(15,448)	(13,648)
Credit (loss)/release	(69)	33

(c) Transactions with other related parties

Other related parties include the Parent company and its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average effective interest rates as at 31 March 2020 and related profit or loss amounts of transactions for the three-month period ended 31 March 2020 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total AMD'000
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	666,263		32,045		-		698,308
- in EUR	216,436		1,142,233		-		1,358,669
- in other currencies	1,766		-		-		1,766
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	2,781,541	4.4%	2,781,541
Other borrowed funds							
- in USD	-	-	-	-	3,131,535	8.3%	3,131,535
Subordinated loans from Parent							
- in USD	2,625,306	6.5%	-	-	-	-	2,625,306
- in EUR	5,193,103	6.5%	-	-	-	-	5,193,103
Profit or loss							
Interest income	4,734		-		-		4,734
Interest expense	(122,761)		-		(69,582)		(192,343)
Fee and commission income	2,065		-		-		2,065
Fee and commission expense	(2,229)		(441)		-		(2,670)
Professional services	(849)		-		-		(849)

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

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total AMD'000
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	903,023	-	61,307	-	-	-	964,330
- in EUR	223,268	-	1,979,829	-	-	-	2,203,097
- in other currencies	22,789	-	-	-	-	-	22,789
Liabilities							
Other borrowed funds							
- in USD	-	-	-	-	3,038,930	8.3%	3,038,930
Subordinated loans from Parent							
- in USD	2,536,666	6.5%	-	-	-	-	2,536,666
- in EUR	5,122,506	6.5%	-	-	-	-	5,122,506
Profit or loss							
Interest income	4,438	-	1	-	-	-	4,439
Interest expense	(125,016)	-	-	-	(62,670)	-	(187,686)
Fee and commission income	2,086	-	-	-	-	-	2,086
Fee and commission expense	(2,400)	-	(185)	-	-	-	(2,585)
Professional services	-	-	-	-	-	-	-

Cash and cash equivalents held with related parties are not secured.

25 Fair values of financial instruments

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

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

The estimated fair values of all financial instruments except for AMD denominated loans to customers and current accounts and term deposits from customers as at 31 March 2020 and 31 December 2019 approximate their carrying amounts.

As at 31 March 2020 the fair values of loans to customers are higher than their carrying values of AMD 38,644,756 thousand (31 December 2019: AMD 34,517,722 thousand) by AMD 1,707,628 thousand (31 December 2019: AMD 1,931,894 thousand); and fair value of current accounts and term deposits is lower than their carrying values of AMD 60,472,652 thousand (31 December 2019: AMD 68,172,012 thousand) by AMD 27,971 thousand (31 December 2019: AMD 37,202 thousand higher). The fair value measurements of loans to customers, current accounts and term deposits from customers are categorized into Level 2 respectively in the fair value hierarchy.

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

AMD'000	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities				
- Debt instruments at FVOCI	-	33,929,609	-	33,929,609

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

AMD'000	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities				
- Debt instruments at FVOCI	-	34,968,128	-	34,968,128

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

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