CENTRAL BANK
OF ARMENIA

ANNUAL REPORT

2019

CENTRAL BANK
OF ARMENIA

According to the law on the Central Bank of Armenia, the annual report refers to the provisions of governance of the Central Bank of Armenia. The report includes the summary data on the Central Bank's annual activities and main functions described in its strategy and financial accounts which have passed international audit and received the audit opinion.

However, to get a complete picture of the Central Bank's activities, one should also consider to look at the strategies as well as the Inflation Report and the Financial Stability Report which, accordingly, are steered to the implementation of the two main objectives of the Central Bank. They contain in-depth professional analysis and estimations of the economic growth and financial market developments in both Armenia and the world.

These assessments are, by subject, referred to in this report.

CENTRAL BANK OF
ARMENIA

ANNUAL
REPORT

2019

YEREVAN 2020

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Arthur JAVADYAN

Governor
of the Central Bank

Governor address

Dear reader,

This is the annual report of the Central Bank of the Republic of Armenia for 2019.

In 2019 the Central Bank ensured the main goals of price and financial stability, further contributing to the macroeconomic stability.

Maintaining price stability strengthened, during the year. Inflation remained low, at 0.7 percent at the end of the year. Low inflation has contributed to anchoring of inflation expectations and more confidence in the national currency, and steady decline in the level of dollarization points to that. In 2019, in order to fulfil the inflation target in the medium term, the Central Bank has twice cut the policy rate, keeping the monetary stance expansionary. This has transmitted to other interest rates of the financial market, and no risks to financial stability have emerged thanks to the effective macroprudential policy.

Moreover, the stability of the financial system continued strengthening. The participants of the system are sufficiently liquid, capitalized and able to meet the economy's demand. The financial system participants summed up the year with positive results and growth of the main indicators.

The financial intermediation in the economy kept on expanding. The financial system assets-to-GDP ratio has increased to 106.5%.

The accessibility to financial services continued growing over the year.

Further involved in household financial education programs, the Central Bank continued initiating events aimed at increasing public awareness.

The Central Bank carried out its activities in line with the adopted values and strategy. All the achievements are the result of the joint efforts by the Central Bank staff.

THE BOARD
OF THE CENTRAL BANK OF ARMENIA



Arthur JAVADYAN

Governor



Nerses YERITSYAN

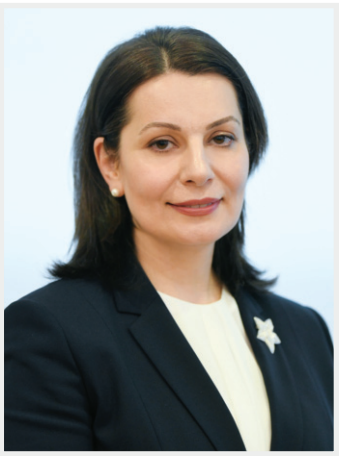
Deputy Governor



Vakhtang ABRAHAMYAN

Deputy Governor





Hasmik GHAHRAMANYAN

Board Member



Oleg AGHASYAN

Board Member



Armenak DARBINYAN

Board Member



Arthur STEPANYAN

Board Member



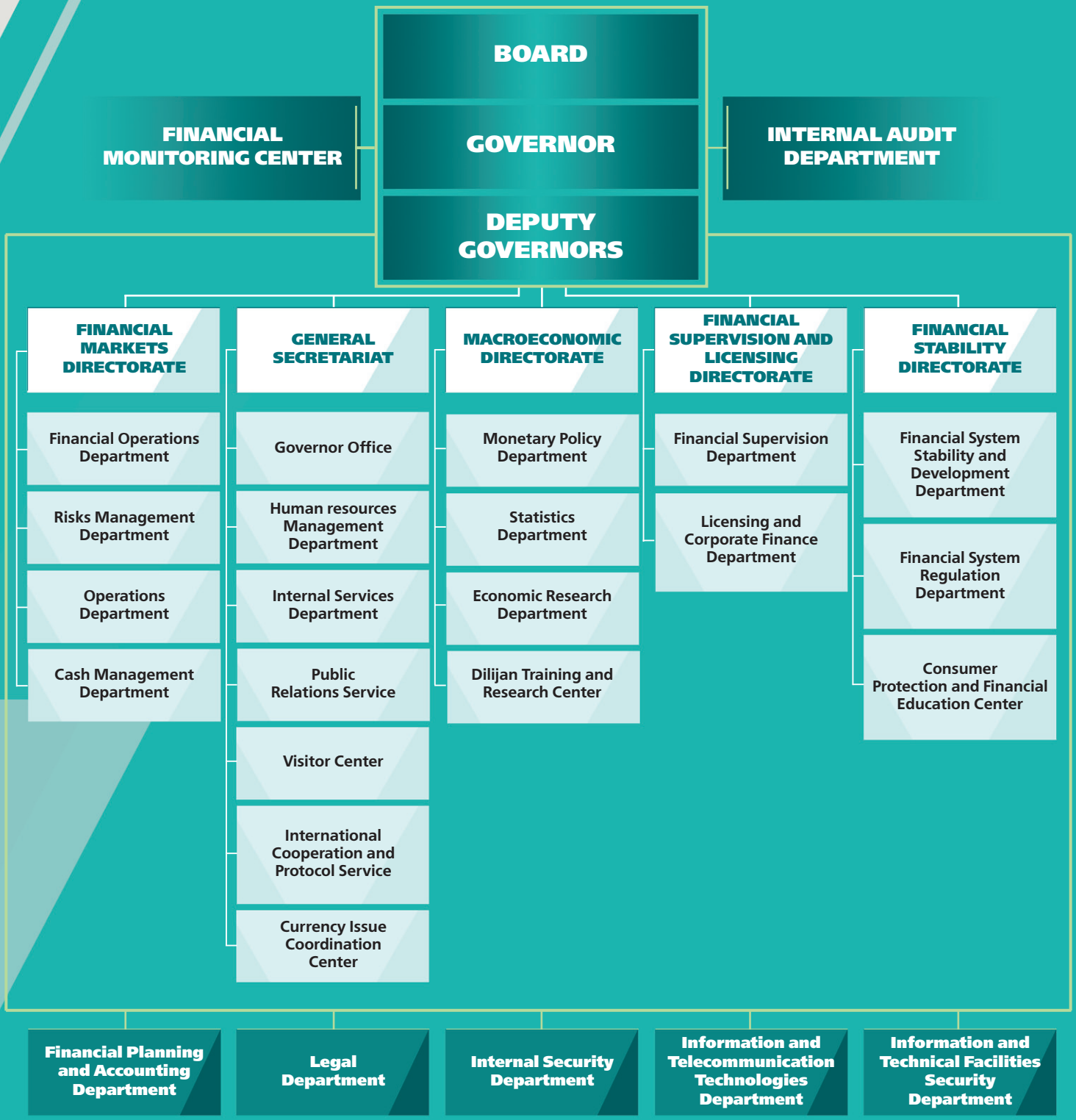
Martin GALSTYAN

Board Member

STAGES
OF THE CENTRAL BANK'S DEVELOPMENT

1993	**Introduction of the national currency**
1994	**Formulation of the monetary policy**
1996	**Adoption of core legislation on the Central Bank and banking**
1996-2001	**Creation and implementation of the national payment and settlement system**
2002-2004	**Development of a regulatory framework for financial market participants and setting-up of infrastructures**
2005	**The Central Bank as a megaregulator and an institution responsible for financial stability**
2006	**Inflation targeting**
2007	**Protection of consumer rights and awareness of financial services**
2007 - to date	**Development of a non-bank sector**
2012 - to date	**Institutional reforms and infrastructure developments**
2018 - to date	**Constitutional Reforms: Financial stability as a second main objective**

THE CENTRAL BANK ORGANIZATIONAL STRUCTURE



CENTRAL BANK OF THE REPUBLIC OF ARMENIA

www.cba.am

MONETARY POLICY

THE 12-MONTH INFLATION RATE

0.7%

THE REFINANCING RATE

5.5%

CURRENCY CIRCULATION

VALUE OF BANKNOTES IN CIRCULATION

584,705,481.57 ֏

FINANCIAL STABILITY

FINANCIAL SYSTEM ASSETS

6 TN 979 BLN 84 MLN ֏

FINANCIAL SYSTEM ASSETS-TO-GDP **106.5 %**

BANKING SYSTEM ASSETS

5 TN 828 BLN 363 MLN ֏

BANKING SYSTEM ASSETS-TO-GDP **89.0 %**

BANKING SYSTEM'S TOTAL CAPITAL ADEQUACY RATIO

17.6 %

BANKING SYSTEM'S TOTAL LIQUIDITY RATIO

27.1 %

BANKING SYSTEM'S CURRENT LIQUIDITY RATIO

111.7%

CONSUMER INTEREST PROTECTION

NUMBER OF INQUIRIES RECEIVED DURING THE YEAR

6 147 CALLS

878 REQUESTS IN WRITING

RESERVES

ARMENIA'S INTERNATIONAL RESERVES

$2 850 MLN

PUBLIC RELATIONS

DECISIONS (NORMATIVE)

49

DECISIONS (INDIVIDUAL)

181

NUMBER OF VISITORS TO THE VISITOR CENTER

11 634

PERSONNEL

NUMBER OF EMPLOYEES

778 ՄԱՐԴ

EMPLOYEES HOLDING INTERNATIONAL CERTIFICATES

64+17 ARE STILL TAKING EXAMS

8 CFA FULL MEMBER

9 ACCA FULL MEMBER

STUDENTS FROM FOREIGN UNIVERSITIES HAVING PASSED INTERNSHIP AT THE DILIJAN TRC

12

A N N U A L

R E P O R T

01

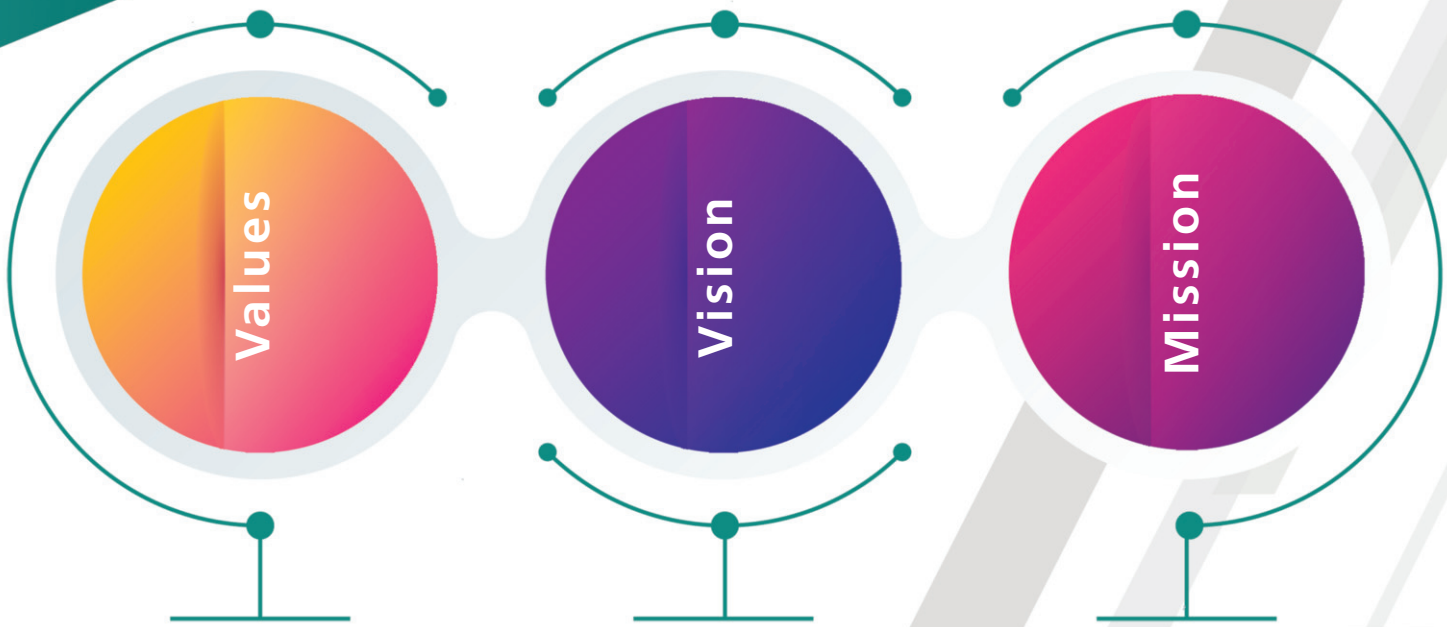
CENTRAL BANK Of THE REPUBLIC OF ARMENIA

About the Central Bank

Executive summary on strategic directions of the Central Bank

ABOUT THE CENTRAL BANK

Values, vision, mission



VALUES

Independence: The Central Bank is independent in implementing its activities in the context of decision-making process and deciding on the tools to achieve its goal.

Professionalism: The Bank's ability to respond to challenges in a timely and high-quality manner through professional staff.

Transparency: Providing stakeholders with all relevant information on its activity in an open, clear and timely manner.

VISION

To be trusted by its stakeholders, stable in its policy-making and remaining a progress-oriented and developing institution at the same time.

MISSION

Maintain price stability and financial stability.

Main objectives of the Central Bank:

maintain price stability and financial stability in the Republic of Armenia

Other objectives of the Central Bank: *

- Ensure stability, liquidity, solvency, and conditions necessary for the normal activity of the financial system of the Republic of Armenia
- collect, summarize and publish monetary and financial sector, balance of payment, international investment position and external debt statistics,
- create and develop an efficient payment and settlement system,
- issue the currency of the Republic of Armenia and organize and regulate the currency circulation,
- organize and regulate a framework for combating money laundering and financing of terrorism,
- create conditions for protecting interest of investors in securities, providing a framework for fair pricing of securities in the market and making sure a regulated, sound, open and trusted securities market is in place for normal operation and development,
- provide essential conditions for protection of rights and lawful interests of consumers of financial services.
- make sure economic competition in the financial system is free and fair.

* *See details in RA Law on Central Bank (https://www.arlis.am/DocumentView.aspx?DocID=121585)*

Executive summary

On strategic directions of the Central Bank

The 2018-2020 strategy[1] establishes the strategic areas of the Central Bank and describes in which direction they develop (Picture 1). It focuses on the further development of the Central Bank's achievements in the previous years and setting up of new trends driven by challenges today.

The Central Bank follows international best practice and criteria while implementing its strategy.

1. See details at https://www.cba.am

Picture 1: **Strategic priorities of the Central Bank of Armenia**



- Institutional development areas
- Strategic directions for 2018-2020
- CBA policies framework

MAIN OBJECTIVES OF THE CENTRAL BANK

Maintaining price stability: The monetary policy carried out by the Central Bank in 2019 under the inflation targeting strategy was steered to helping inflation recover gradually and bringing it to the confidence band as low inflationary environment persisted. Main factors that determined low inflation during the year included more-than-predicted contractionary fiscal policy implementation, deflationary pressures transmitted from the external sector, and some structural factors, such as increased competition in the commodity market and the shift in demand from the market of non-durable goods to that of durable goods. In such a situation, the Central Bank continued carrying out **expansionary monetary policy** in 2019 and, as part of that policy, it eased monetary conditions twice in fulfilment of its main objective in the medium run.

Maintaining financial stability: In 2019 the Central Bank continued its efforts to strengthen financial stability in line with the financial stability strategy by taking measures to improve the regulatory framework and increase the effectiveness of supervisory activities. In the reporting year, capital conservation buffer, countercyclical capital buffers and surcharge for systemically important banks were introduced, work was done to implement the Basel 3 liquidity standards, internationally practiced macroprudential tools, such as the loan to value ratio, the debt to income ratio, and the Solvency 2. The stable macroeconomic situation and high economic growth in Armenia have created a favorable environment for sustainable development of the financial system. The capital adequacy and liquidity standards of the banking system run above the required thresholds. The banking system operated with profit while ensuring growth in key indicators. Other participants of the financial system also worked with profit and ensured growth of key indicators. In the reporting year, financial intermediation in the economy continued to grow: the financial system's assets-to-GDP ratio and lending-to-GDP ratio have grown by 8.9 pp and 4.8 pp to 106.5% and 58.7%, respectively.

OTHER OBJECTIVES OF THE CENTRAL BANK

Financial system regulation and supervision: A number of legislative amendments were initiated during the year in the context of improvement of the financial system's regulatory framework. Moreover, in 2019 the Central Bank continued its supervisory functions to ensure the stability of the financial system, measure the financial organizations' risk exposure, compliance with the legal framework, combatting money laundering and terrorism financing, protection of consumer rights and interests in the financial system and other relevant aspects. Violations revealed as a result of supervision were eliminated and measures were taken to prevent such violations in the future.

Securities market regulation: As part of pursuing improvement in the securities market, the Central Bank started working on a capital market development project. Aimed at creating new tools, the project will facilitate investment of the country's savings into the real sector of economy, while enabling the population to participate in investment projects in the country and generate income from such participation.

Payment and settlement system regulation: In 2019 the Central Bank continued activities for ensuring further development and reliability of payment and settlement systems, expanding the volume of non-cash payments and improving the payment and settlement systems regulatory framework. In 2019 a memorandum of understanding on transparency in the money transfer market and directives on consumer protection was signed under the Eurasian Council of Central Banks. This will enhance cooperation of the countries that signed the memorandum in the field of money transfers without opening a bank account, and will increase the transparency of this market.

Developing training and research capacities: In 2019 the Dilijan Training and Research Center continued its activity in three main areas: research, international cooperation and social responsibility. More research on Armenian and global economy was carried out and published as well as international seminars were held at the Dilijan TRC during the year. The aim of the events is to enhance

the Central Bank personnel's research capacities and boost the TRC's profile as a platform where representatives of central banks, financial and international organizations in the region and Eastern Europe can meet and do research together.

Consumer protection in the financial system, and financial education: The Central Bank carried on consumer protection in the financial system by making sure financial service providers practice a fair business conduct and that an appropriate institutional environment and a financial education framework are in place.

In 2019, **extra requirements to improved transparency** in sub-legislative acts on **communication and information disclosure** by financial institutions took force effective August 2019 and were designed to improve information disclosed and provided to consumers on mortgage and agricultural loans, verbally and/or remotely disclosed information to consumers in the cases of early repayment, etc.

The Central Bank continued trainings of teachers in cooperation with RA Ministry of Education, Science, Culture and Sport; as part of the program "Financial Education at the School" a total of 2419 teachers from 339 schools instructing subjects "Me and the Surrounding World", "Mathematics", "Algebra", and "Social Science", have passed trainings.

Issuance of currency and organizing money circulation: In 2019 the volume of currency outside the Central Bank increased by 7.1%, with the supply of coins having grown by 11.8%. The third series banknotes of the 2018 issuance were gradually put into circulation during the year, and they circulate in parallel with the banknotes of previous issuances.

To publicize national, historical, cultural, spiritual values of Armenia and to satisfy the numismatic demand of collectors, in 2019 too, the Central Bank issued commemorative coins of precious metals, which are dedicated to the anniversaries of renowned Armenians and landmark events.

Management of international reserves: In 2019, the international reserves of the Republic of Armenia provided coverage for about four months of imports, and about six years of service for current liabilities. The Central Bank continued its strategy of managing

international reserves of Armenia by taking a least-risk approach to ensure the safety, liquidity and effectiveness of management of the reserves.

Organizing and regulating a framework to combat money laundering and terrorism financing: Seminars-discussions organized in the period under review for all groups of reporting persons with the participation of about 300 employees addressed the developments in the field of AML/CFT as well as the existing risks. In 2019 a seminar-discussion was organized jointly with the RA State Revenue Committee for the representatives of non-commercial organizations. It should be noted that during the reporting period the risk to terrorism financing persisted at a very low level in Armenia.

INSTITUTIONAL DEVELOPMENT

Central Bank security and business continuity: In light of the global trends in information security, in 2019 the Central Bank emphasized the need to maintain a framework for developed and effective cybersecurity in the financial system in Armenia. In order to neutralize cyber threats in this direction, work was done to establish a connection center with the MISP (Malware Information Sharing Platform) system, and required human, technical and financial resources were allocated.

In 2019 further work was done to create a response center to incidents of cybersecurity in the financial sector.

Knowledge and human resources: To encourage personnel's lifelong education and development, in 2019 the Central Bank offered its employees opportunities for their professional development, including by way of sharing in-house knowledge and experience with co-workers/colleagues. As of 2019, there were 64 employees who earned international qualification in financial, accounting, auditing, insurance, information technology areas.

By the end of the year, the Central Bank's employees numbered 778 of whom 425 women and 353 men, with an average age of 41. During the year, 62 employees left the Bank.

Communication and accountability: As part of ensuring transparency in fulfilling the primary objectives, the Central Bank communicated its actions, programs and initiatives in the field of implementing monetary policy, financial supervision and maintaining financial stability to the financial market participants and the public. Discussions were held on various issues of interest. Special attention was paid to advising people to use caution about organizations that operate illegally and/or about such activities that contain elements of essential risk.

The documentary "Dramapatum" (narrative of the Armenian currency) presenting the history of money circulation in Armenia was made and televised in 2019.

In 2019 the Central Bank's Visitor Center hosted 11 673 visitors, which is an 8% increase compared to the previous year's figure (10 804 visitors).

Cooperation with international institutions: In 2019 the Bank sustained its cooperation with partner central banks, internationally reputable financial and educational establishments.

During the year, agreements, accords, memoranda of understanding continued to be signed with other central banks in the framework of bilateral arrangements and intergovernmental committees.

02

MAIN OBJECTIVES

Maintaining price stability

Maintaining financial stability

MAINTAINING PRICE STABILITY

Monetary policy

For ensuring price stability, the Central Bank is mandated to set a medium-term inflation target and opts for such a target in order to anchor public expectations and secure a path to streamlined macroeconomic stability. In the Republic of Armenia, the inflation target is outlined in the monetary policy programs of the Central Bank, medium-term expenditures frameworks of the Armenian Government, the Republic of Armenia laws on state budget as well as sustainable development projects. The Central Bank is entitled with operational independence, so it independently decides on the monetary policy strategy it carries out, the interim and operational objectives and monetary instruments.

In the context of inflation targeting strategy, a projected path to bringing inflation to the target serves an intermediate target and short-term interest rate an operational target for the Central Bank. Target level of the short-term interest rate is the refinancing rate which the Board of the Bank sets, normally, eight times in a year according to a pre-announced timetable and which serves a benchmark for the Bank's operations in the financial market. The 7-day repo agreement is the main instrument of monetary policy and is used by the Bank to manage the liquidity in the financial system.

Under the inflation targeting strategy, the Central Bank communicating to the public is crucial, and the main way of doing it is through publishing quarterly inflation reports[2]. First part of the inflation report contains the monetary policy program for that quarter and the second part provides status report on implementation of the monetary policy program for the past one-year horizon.

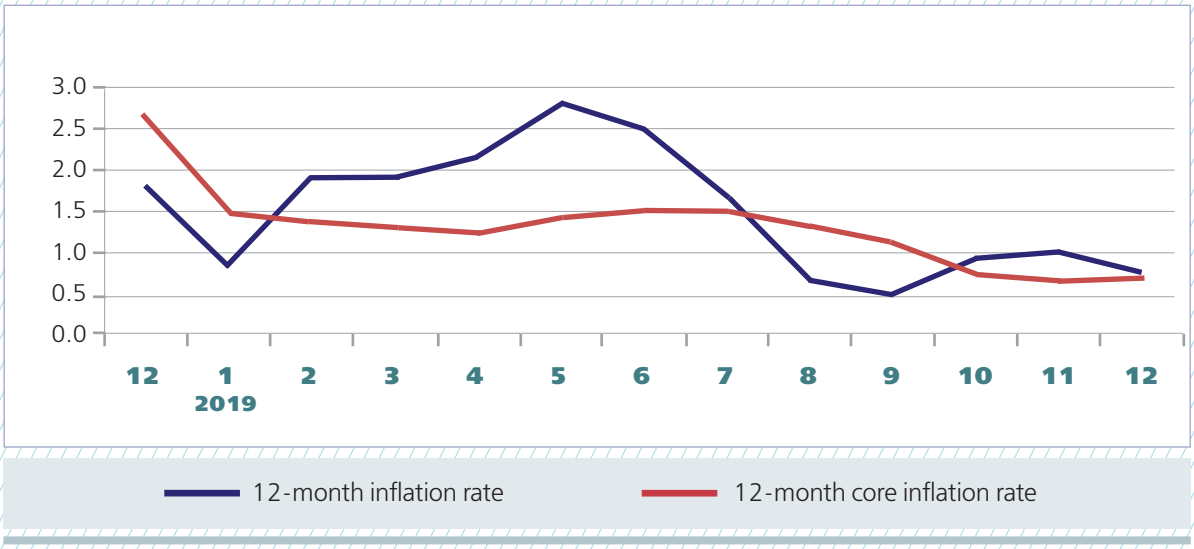
Fulfilling price stability objective

According to the Q1, 2019 Monetary Policy Program, the inflation environment would remain low at the beginning of 2019 and the Central Bank would continue implementing an expansionary monetary policy. In view of the latter and expected macroeconomic developments, the 12-month inflation rate would still be persisting at a low level in the near future, since the Central Bank favored a gradually recovering inflation, estimating that low inflation at that time was to contribute to anchoring long-term inflation expectations and enhancing public confidence in the monetary policy conducted by the Central Bank, and that it would stabilize around the 4% target in the medium run. It was also predicted that, if macroeconomic developments unfolded according to the baseline scenario, the Central Bank would keep monetary conditions expansionary for as long a period as needed in order to fulfil the inflation target in the medium run.

Low inflation observed in the course of 2019 was attributable mainly to contractionary fiscal policy implementation during the year and to the inflation environment in the world's commodity markets weakened amid continued slowing of global economic growth. At the same time, some supply-side factors containing inflation, noticeable during the year, included increasingly competitive commodity markets, which has changed firms' approach to pricing and reduced their markups, and shifted demand from the market of non-durable consumer goods to that of durable goods.

2. See in detail the "Inflation Report" of the Central Bank: (www.cba.am).

Figure 1: In 2019 low inflation environment persisted



In view of the aforementioned developments and inflation environment keeping low, the Central Bank has slightly added to stimulative monetary conditions by cutting the refinancing rate twice – in the first and third quarters – by 0.25 pp each time. At the same time, the Central Bank continued to signal to the financial market that in view of predicted macroeconomic developments, the monetary stance will remain expansionary for as long as required, in order to achieve the inflation target in the medium run.

Monetary policy implementation: improvement and advancement

The developed and refined **Forecast and Policy Analysis System (FPAS) of the Bank** secures improvement in the quantitative and qualitative components of the forecasts and policy analysis. The system helps the Board of the Bank to have a clear understanding of the macroeconomic situation and make more informed decisions about the directions of the monetary policy.

Improving the FPAS is continuous and in a longer-term perspective it has two aspects:

- Inclusion of specificities of the Armenian economy into the current system and advancing it technically,
- Improvement of the current system through transition to the Dynamic Stochastic General Equilibrium (DSGE) model framework.

The following activities were carried out in the framework of the first aspect in 2019:

1. The main Quarterly Forecasting Model expanded to include the fiscal stimulus, which allows to simultaneously measure the impact of fiscal policy on the economy and vice versa. It allows to clearly decompose fiscal policy from other factors among the demand influencing factors.
2. Historical data available in the QFM were decomposed according to individual and grouped shocks, for example, supply and demand shocks, domestic and external policy and economy shocks, etc.
3. The reporting model of the balance of payments was built and implemented. The latter is connected to the overall system, which ensures that the balance of payments yields in line with general forecasts.

4. The economic model of the Russian Federation was re-evaluated in the external-world-model framework. This allows us to assess, predict and analyze the economy of the Russian Federation more accurately.

5. An integrated database of short-term forecasts was created to store inputted data into short-term forecast models. Existing short-term forecast models were adapted to the new database criteria, making it easy to use them to predict any variable in the database.

6. A new short-term forecast methodology the Dynamic Factor Model was introduced, which is used in almost all advanced central banks, making it possible to work with a large number of explanatory variables.

The second aspect includes the following activities:

1. The Real Business Cycle and Dynamic Stochastic General Equilibrium (DSGE) models for the Armenian economy were built for a structural assessment of GDP potential. The models are developed on the assumption of a path to balanced growth, which allows input of time series of the Republic of Armenia without additional intervention, leaving all the information in the series intact. The models were experimentally used in forecasts and have shown better results than statistical models used for forecasts.

2. The DSGE model of the Armenian economy was built in consideration of the firms' markups that change over time, the state subsidies, which allows us to assess the impact of structural reforms in the economy and changes in market structure on inflation and other macroeconomic variables. The model is non-linear, which makes it possible to estimate the economy's new equilibrium shaped as a result of various structural policies.

3. The real estate market was included in the DSGE model for the Armenian economy, so assessing the cycle of investment demand for real estate has become possible. The model is developed on the assumption of a path to balanced growth, which allows using the results of the main model to predict the possible developments in the real estate market in the forecast horizon.

4. Preliminary work was done to build a structural model to assess trends, which will allow using a single tool to evaluate trends of the main variables of the Armenian economy and to learn their correlations and dimensions.

Statistics

In 2019 the Central Bank continued delivering timely and accurate statistical information to the public[3]. Work was further done to broaden the scope of and accessibility to statistical data, improve the methodology for data collection and alignment with international criteria.

New data collection and other developments in statistics

In 2019 the Central Bank worked on improving, technically and methodologically, the collection of micro-data, their quality control and data processing procedures, while increasing the quality of statistical indicators calculated using such data.

Colleting statistical information on non-public investment funds in the Republic of Armenia has improved as well.

The schedule for servicing foreign loans to non-financial organizations was evaluated for the first time with the aim to measure sustainability of foreign debt. In addition, revaluations of external liabilities of non-financial organizations were carried out using alternative sources.

3. The Central Bank publishes the statistical data in section "Statistics" of its homepage (www.cba.am).

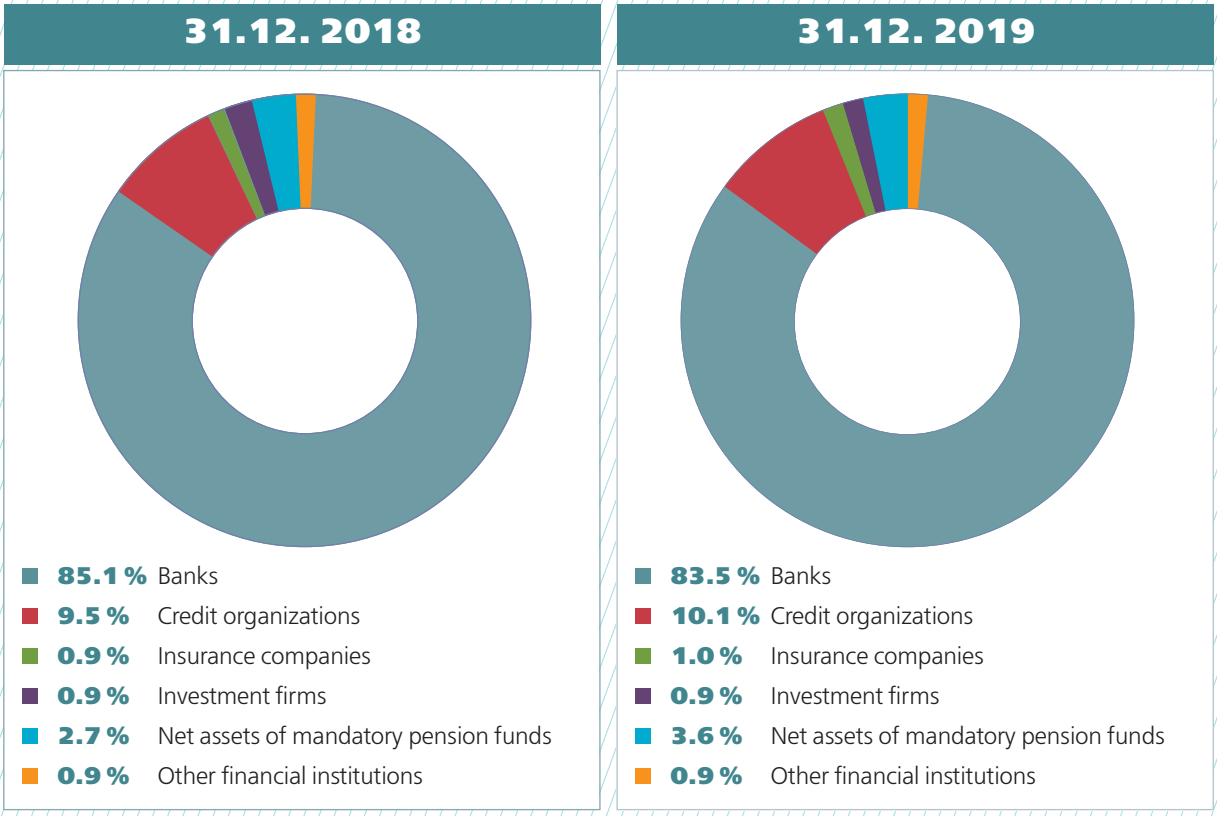
MAINTAINING FINANCIAL STABILITY

In view of maintaining financial stability in Armenia, efforts were spent in 2019 to implement the recommendations under the Financial Sector Assessment Program, FSAP, jointly carried out by the International Monetary Fund and the World Bank in 2018. Specifically, the capital conservation buffer, countercyclical capital buffers and surcharge for systemically important banks were introduced, work was done to implement the Basel 3 liquidity standards, internationally practiced macroprudential tools, such as the loan to value ratio, the debt to income ratio, and the Solvency 2. In particular, the required information was collected and analytical calculations were made for the smooth implementation of the capital requirement under Solvency 2. Analytical work on risk detection and evaluation was carried out.

In 2019, trends of sustainable development were observable in the financial system of Armenia, ensuring a significant increase in the main balance sheet items. Relative to the previous period under review, the financial system's assets-to-GDP ratio and lending-to-GDP ratio have grown by 8.9 pp and 4.8 pp to 106.5% and 58.7%, respectively.

The **banking sector** remains the largest participant of the financial system; it accounts for 83.5% of the system's assets (see Figure 2). The share of other participants of the system (credit organizations, insurance companies, investment firms, etc.) is small and the impact of their activity on the stability of the financial system is not significant yet.

Figure 2: Assets of the financial system



In 2019, the assets of the banking system increased by 16.9%, loans to the economy, by 16.4%, total capital, by 10.0%, and liabilities, by 18.1%. The growth rates of mortgage loans and consumer loans proved faster in total loan portfolio (40.6% and 30.6%, respectively), and the Central Bank worked on designing and introducing some macroprudential tools, as a result. These tools include the loan to value ratio as well as the client debt to income ratio. According to supervision reports submitted to the Central Bank, the banking system operated with profit. The return on assets and return on equity ratios amounted to 1.2% and 7.9%, respectively (0.8% and 5.3% in 2018).

The interest rates of loans provided by the banking system followed mostly a downward trend during the year.

Figure 3: Interest rate of loans to legal entities

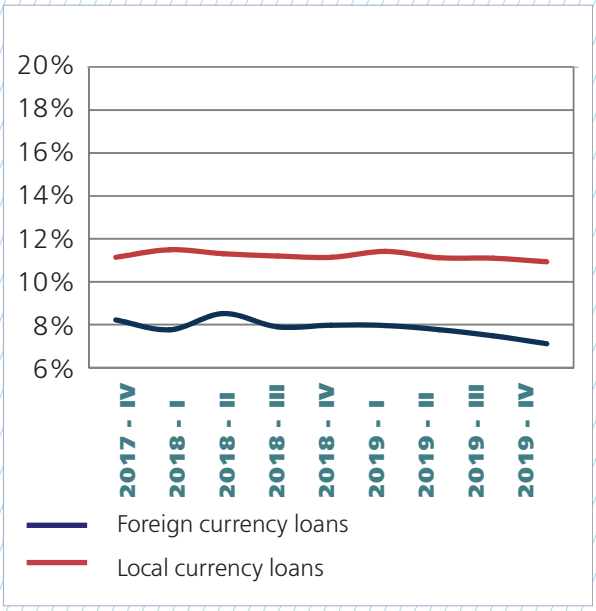
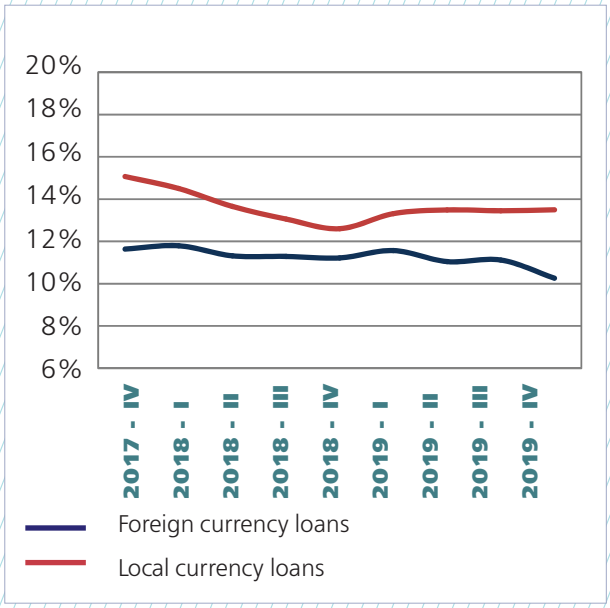


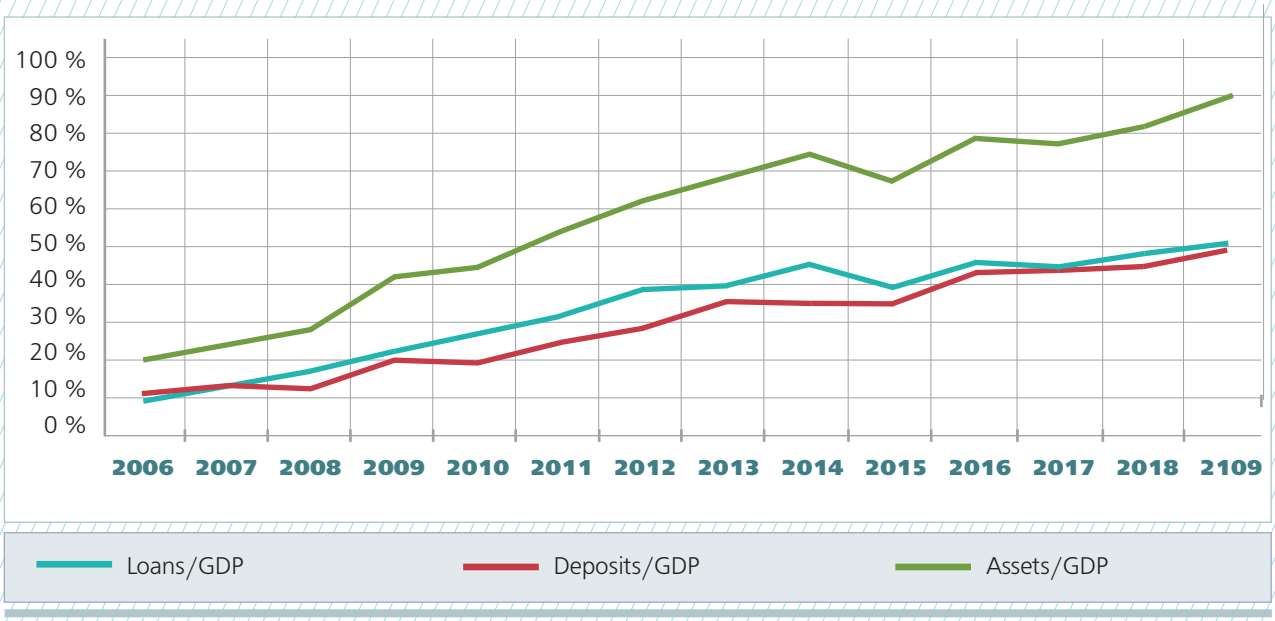
Figure 4: Interest rate of loans to individuals



The capital adequacy and liquidity ratios that describe the banking system stability continued running above the established thresholds. Specifically, the total capital adequacy ratio amounted to 17.6% (minimum threshold: 12.0%). On the back of expanding loan portfolio, the banking system liquidity persisted at the level almost twice as high as minimum thresholds, pointing to the sufficient liquidity in the banking system. As of the end of 2019, commercial banks' total and current liquidity ratios were 27.1% and 111.7% (minimum thresholds: 15.0% and 60.0%), respectively. The banking system assets-to-GDP and economy lending-to-GDP ratios have grown by 5.9 pp and 3.2 pp to 89.0% and 52.1%, respectively (see Figure 5).

The share of non-performing loans and receivables ("watched", "non-standard" and "doubtful" risk categories) amounted to 5.1% in total loans and receivables.

Figure 5: Financial intermediation in the banking system



Key indicators of other financial system participants have grown as well. In particular:

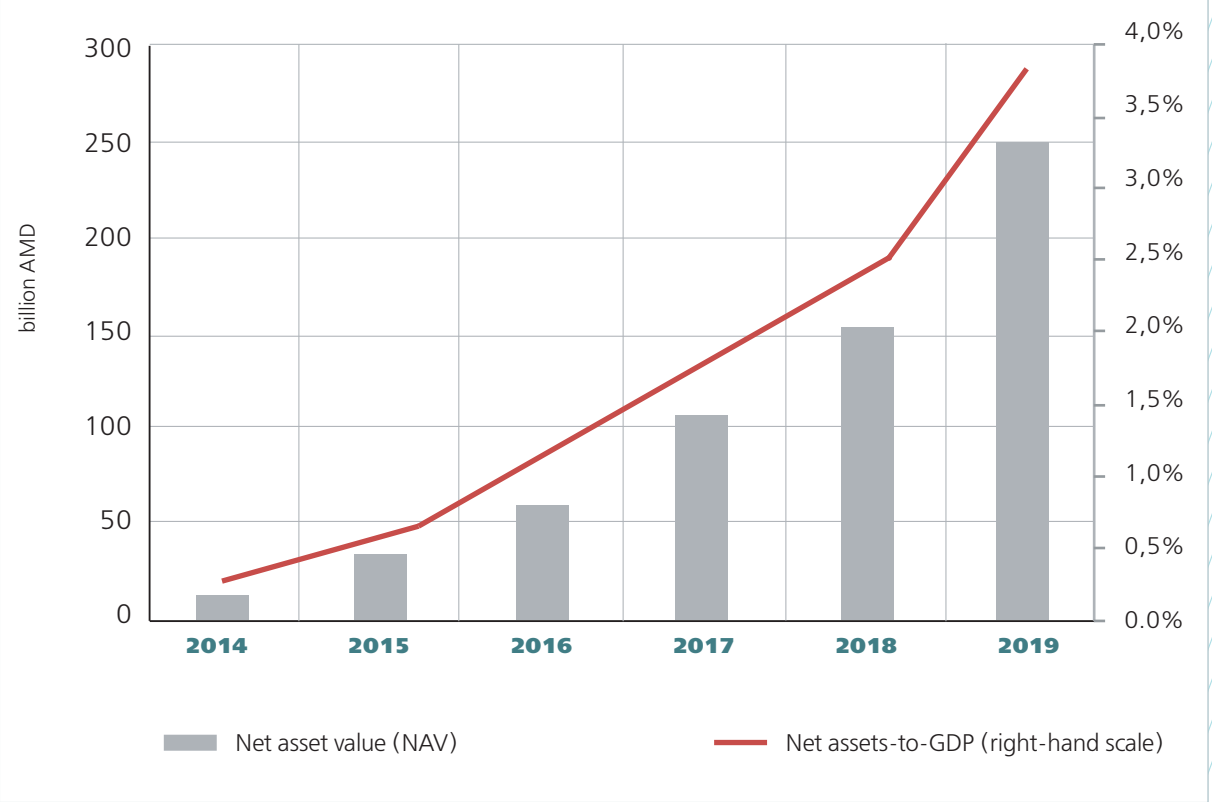
Credit organizations' equity has grown by 11.2%, liabilities by 46.5%, assets by 27.9%;

Insurance companies' equity has grown by 9.8%, liabilities by 41.1%, assets by 29.5%;

Investment firms' total equity has grown by 23.0%, liabilities by 9.7%, assets by 12.2%.

Net assets of mandatory pension funds managed by asset managers have grown by 59.8% to AMD 251 billion. At the end of the year, the net assets-to-GDP ratio of pension funds reached 3.8%.

Figure 6: Value of net assets of pension funds



03

OTHER OBJECTIVES OF THE BANK

Regulation and supervision of financial system

Securities market regulation

Payment and settlement system regulation

Developing training and research capacities

Consumer protection in the financial system, and financial education

Currency issuance and organizing money circulation

International reserves management

Organizing and regulating a framework to combat money laundering and terrorism financing

REGULATION AND SUPERVISION OF FINANCIAL SYSTEM

In the field of financial system regulation, a number of changes were introduced. In particular:

More thresholds set to be above the capital adequacy ratio included the capital conservation, countercyclical capital buffers and surcharge for systemically important banks; changes were made to the reserve requirement ratio for banks; measures taken to improve risk management system of banks involved further requirements to stress-testing and bank rehabilitation programs. Changes and amendments were made to the Armenian laws on "Insurance and Insurance Activities", on "Payment and Settlement Systems and Payment and Settlement Organizations", on "Pawnshops and Pawnshop Activities", on "Currency Regulation and Currency Control". The capital adequacy ratio of insurance companies was aligned with the requirements under Solvency 2.

These changes have been made with the aim to:

- Contribute to maintaining the stability of the banking system and its ability to withstand shocks in various economic situations, increase the efficiency of the use of macroprudential instruments by the Central Bank, and align the capital requirement to international standards.
- Provide preconditions for the creation of foreign currency liquidity buffers.

- Improve the effectiveness of internal control and risk management systems in banks and the ability to respond quickly in emergencies.
- Provide for legislative arrangements preventing the entry of criminals in the financial institutions the activities of which are governed by the above-mentioned laws, in accordance with FATF recommendations.
- Provide for capital requirement to insurance companies, in accordance with international best practices.

The law on "Non-Cash Transactions" drafted during the reporting period provides for limits in order to reduce the volume of cash transactions. The draft to the law is aimed to shortens the shadow economy, promote financial intermediation in the banking system. This, in turn, will add to the development of the entire financial system, including the expanding of infrastructure and services provided for payment services, thus ensuring fast, reliable and secure payment. through the use of non-cash instruments.

In 2019 the Central Bank continued taking on its supervisory functions to maintain the stability of the financial system, measure the financial organizations' risk exposure, compliance with the legal framework, while making sure an effective framework to combat money laundering and terrorism financing is in place and interests of consumers in the financial market are duly protected.

The Central Bank monitors the activities of financial institutions, carries out analyses on their financial position, identifies and evaluates risks, measures the compliance of their activity with the legal framework and exercises other aspects of oversight under the law.

In 2019 supervisory inspections at financial institutions for risk disclosure, business conduct, reliability of published information and other aspects continued. During the year, the Central Bank conducted 162 inspections at commercial banks (6), credit organizations (1), insurance companies (8), investment firms (2) and other financial market participants: exchange offices, pawnshops, payment and settlement organizations (145).

Infringements revealed through supervision were remedied and measures were taken to prevent the ones in the future.

SECURITIES MARKET REGULATION

In pursuit of boosting up the domestic securities market, the Central Bank started working on a capital market development project. This will consist of key measures and actions for the development of the capital market, implementation schedules and parties responsible. Aimed at creating new tools, the project will facilitate investment of the country's savings into the real sector of economy, while enabling the population to participate in investment plans in the country and benefit such participation through income generation.

PAYMENT AND SETTLEMENT SYSTEM REGULATION

In 2019 activities of the Central Bank were further steered to the development and reliability of payment and settlement systems, expanding of the volume of non-cash payments and improving the payment and settlement systems regulatory framework.

Electronic payment system

In the reporting period, the value of money transfers via the electronic payment system has grown by 30.3% as compared to the previous year, amounting to AMD 20008 billion and the number has increased by 6.6% to 3741589 transfers.

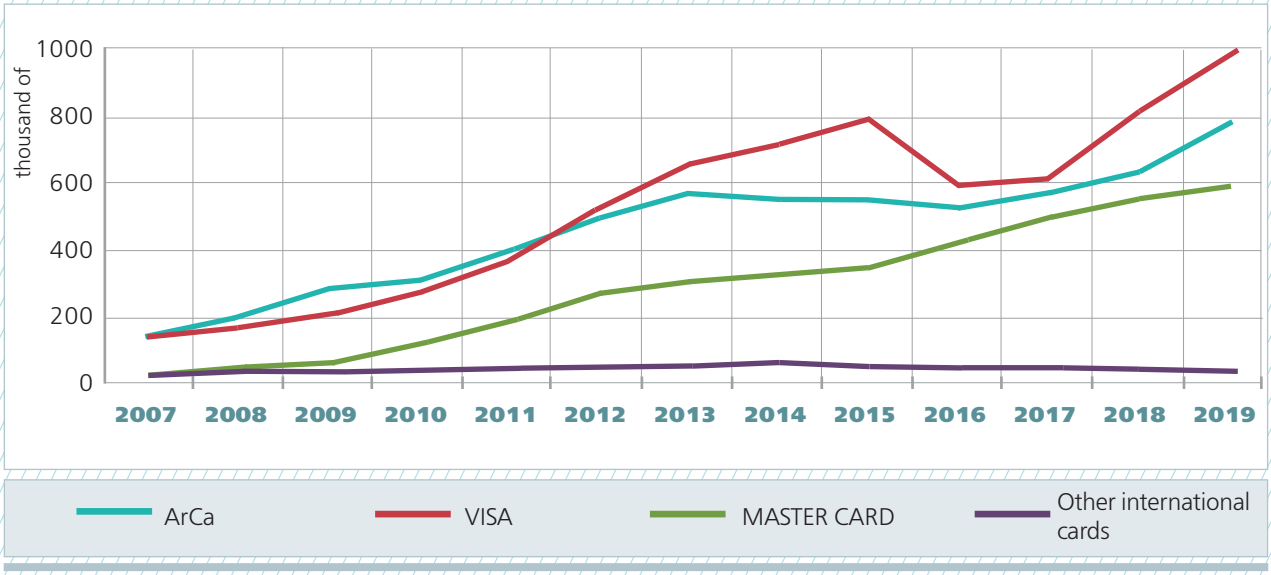
Payment instruments and payment and settlement organizations

In 2019 the Central Bank issued activity license to two payment and settlement organizations.

According to the decision of the Central Bank, the "UnionPay International" system has been included in the list of assessed foreign payment systems, making it possible to service the cards of the Chinese "UnionPay" system in the territory of the Republic of Armenia.

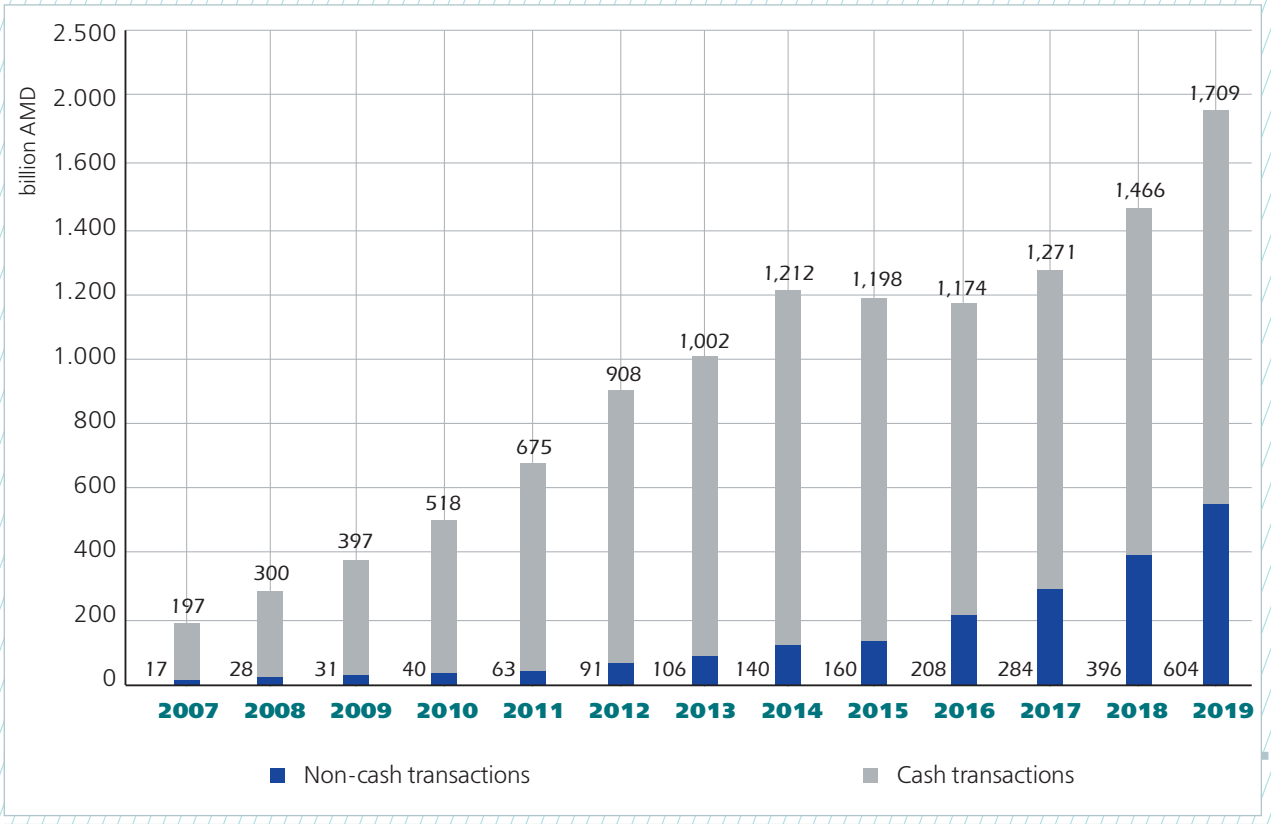
As of the end of 2019, a total of 16 commercial banks in Armenia have issued payment cards to and provided card servicing of their customers. The number of cards in circulation has increased by 18.1% and amounted to 2.4 million (see Figure 7).

Figure 7: The number of payment cards in circulation, 2007–2019



In 2019 the value of card operations in Armenia amounted to AMD 2 trillion 312 billion. The value of non-cash payments by cards increased by 52% to AMD 604 billion. In total non-cash operations, the value of transactions in the Internet reached AMD 447.6 billion (including e-commerce: AMD 179.8 billion, card-to-card transfers: AMD 80.7 billion). As a result, relative to year 2018, the share of non-cash payments in card transactions has grown by 4.7 pp to 26.1% in 2019 (see Figure 8).

Figure 8: Operations by payment card in Armenia



International cooperation and standards

The Central Bank's cooperation on payment and settlement systems with central banks of the Eurasian Economic Union countries continued in the field of implementing national payment card systems and the ISO 20022 Standard, transmitting financial messages, making settlements and fast payments, and developing financial technologies and cybersecurity.

In 2019 a memorandum of understanding on transparency in the money transfer market and directives on consumer protection was signed under the Eurasian Council of Central Banks. This will enhance cooperation of the countries that signed the memorandum in the field of money transfers without opening a bank account, and will increase the transparency of this market.

DEVELOPING TRAINING AND RESEARCH CAPACITIES

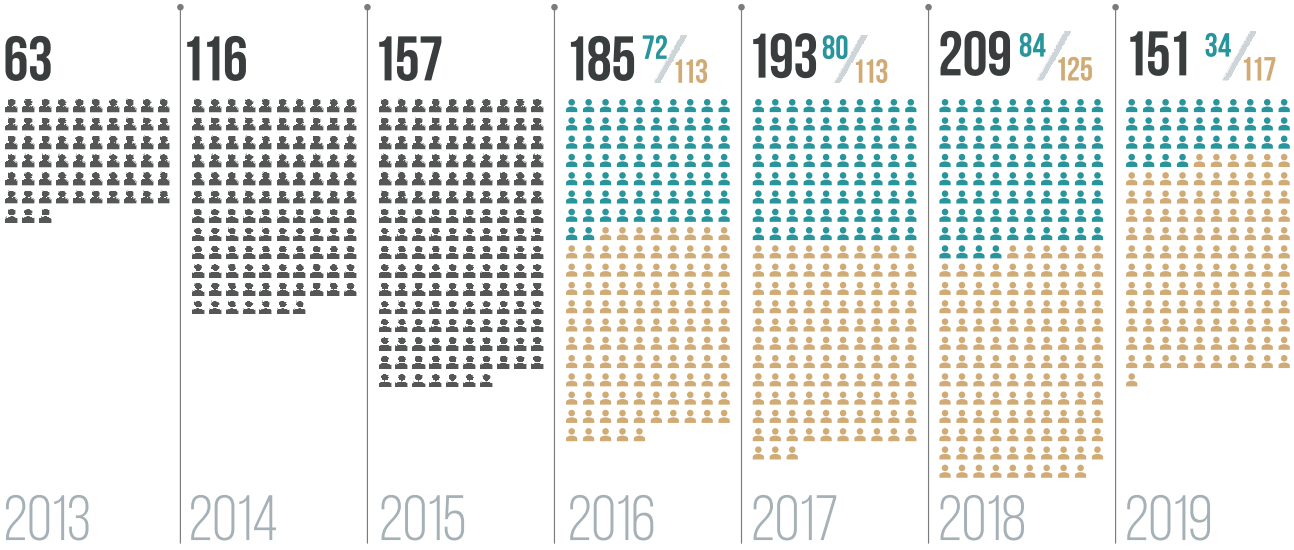
In 2019, the Dilijan Training and Research Center as a regional research and academic community continued its activity in the following areas: research, international cooperation and corporate social responsibility. The Center strives to create a scientific environment that will be ideal for doing research, examining the modern world's challenges to economics and studying international experience in how these can be tackled, conducting quality research on emerging economies and operative fulfillment of the goals of the Central Bank. In 2019 too, the Dilijan TRC boasted to be an effective platform for international scientific, educational and research activities for both Armenia and countries in the region, other central banks and international financial institutions of the world.

DILIJAN TRAINING AND RESEARCH CENTER

STAFF

Residents of Dilijan and of neighborhoods

Residents of Yerevan



The research and analytical work, planned previously, continued in 2019; the Center remains a venue for conducting research on new subjects.

In-depth professional courses conducted by renowned specialists from the best universities of the world and international organizations were organized during the year. Messrs. Mattias Polborn, a professor of economics at the Vanderbilt University, Aram Grigoryan, a lecturer at the University of Illinois, Lawrence Christiano, a professor of economics at Northwestern University USA, Douglas Laxton, a well-known international expert, and Bruce Boghosian, a professor of the Tufts University, visited the Dilijan TRC for sharing advice and giving lectures.

The Central Bank's staff conducted joint research with:

- International expert Douglas Laxton, on **"Analysis on Issues for Anchoring Long-Term Inflation Expectations for Inflation-Targeting Central Banks"**.
- University of Zurich lecturer Vardges Levonyan, on **"The Impact of Supply Factors in the Mortgage Market on Consumer Decisions"**.
- Northwestern University lecturer, professor of economics, IMF expert and industry leader Lawrence Christiano, on **"Financial Dollarization"**, which has been presented at a number of conferences, including the Federal Reserve Bank of Chicago.

The Central Bank's staff carried out an analysis in collaboration with Stanford University postgraduates on how exchange rate shocks are linked to financial dollarization. In the framework of joint programs with the IMF, an analysis on multivariate filter estimation of potential output for the United States was conducted and published as an IMF working paper. There was also a research work on the level of financial involvement and financial literacy.

During the year, research was done and communicated with the representatives of the Republic of Armenia Government on:

- Economic growth strategy,
- Armenia's public debt and public investments,

- Alternatives to community development, financial involvement and funding.

In 2019 the Central Bank carried out analyses on setting up a database on tax revenue and rates of taxation, on anchoring long-term inflation expectations for inflation-targeting central banks, and conducted research on the potential for tax revenues, elasticity and Laffer curve. The methodology for evaluating the "Financial Education at Schools" program was developed.

The following working papers were published in 2019:

- "Do Remittances Worsen Export Diversification?" as a discussion paper, in Economics - ejournal.
- "Multivariate Filter Estimation of Potential Output for the United States: An Extension with Labor Market Hysteresis" as a working paper of the IMF.
- "Mind the Gaps! Work on Financial-Cycle Output Gaps and Monetary Policy-Relevant Output Gaps" as a working paper from the London School of Economics and Political Science, Institute for Global Affairs.
- "Yield Curve Estimation and Forecasting in Armenia", published in the Armenian Journal of Economics.
- "Nowcasting Real GDP Growth: Comparison between New and Old EU Countries" will soon be published in the Eastern European Economics.

International

In 2019, a number of symposiums, conferences, workshops, trainings, forums, at both regional and international level, were organized in the Dilijan TRC. Specifically:

- The third year's two rounds of the "Central Bank and Commercial Bank Employee Certification" program took place. It is organized by the joint efforts and funding by the Dilijan Training and Research Center, the Netherlands Development Financial Organization, FMO, and De Nederlandsche Bank. In December, the Dilijan TRC hosted the next round of the said program the participants benefited lectures delivered by professor Florencio Lopez-de-Silanes (SKEMA Business School and National Bureau of Economic Research), professor Joseph Mc Cahery (Tilburg University), professor Wolf Wagner (Rotterdam University School of Management). The 2019 program included a new course on leadership, led by professor Erik de Haan (VU University and Ashridge Business School). The Certification Program was attended by employees of central banks and commercial banks of Armenia, Georgia, Moldova, Croatia, Bosnia and Herzegovina, and other countries.

- The 22nd Annual Central Bank Macromodeling Conference on "Expanding Boundaries of Monetary Policy" was organized and held from September 11 to 13, 2019, which was attended by more than 110 participants from around 30 countries. The keynote speakers were Professor Maurice Obstfeld (University of California, former IMF Chief Economist), Assaf Razin (Tel Aviv University lecturer), Douglas Laxton (international expert, formerly chief of IMF Economic Modeling Division) and Tomn Holub (Board member of the Czech National Bank).

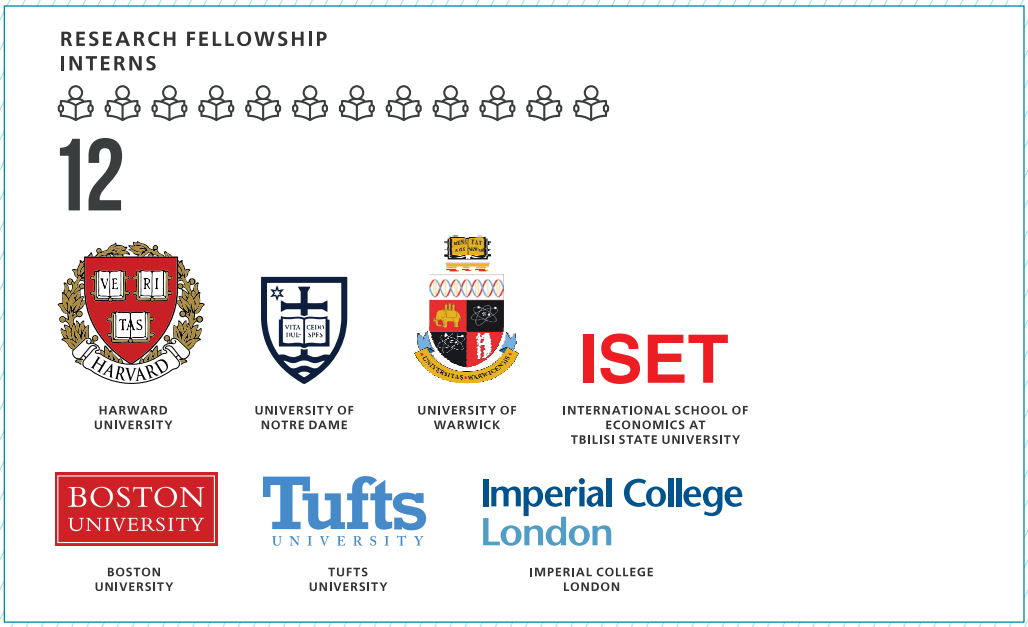
- The Summit of Minds, held annually in Chamonix, France, took place this year in Armenia, at the Dilijan TRC. Armenia is the first country to host this event outside of Chamonix. The event was attended by more than a hundred prominent Armenian and foreign public figures, scientists and analysts, businessmen and entrepreneurs.

- An international conference on financial stability indicators was held in June at the Dilijan Research Center. At the conference, the IMF expert presented the latest international developments related to the calculation and use of the financial stability indicators (FSI) as well as the challenges and ways to improve FSI. About 30 specialists from 7 countries talked about how to calculate and use FSI and touched upon relevant methodological problems and possible solutions.

A number of familiarization visits and events, attended by representatives from different countries, were organized during the year. The Armenian-Georgian Business Forum one such event, which was organized jointly with the RA Government proved to be an important venue for discussing the possibilities of further cooperation between the two countries.

Highlighting the importance of collaborating with educational establishments, the Dilijan TRC continued to host and deliver lectures for students from different universities in Armenia and Artsakh. During the year, students from Yerevan State University, Armenian State University of Economics, French University of Armenia, Artsakh State University, Armenian National Agrarian University visited the Dilijan TRC for lectures organized by the Center, made tours in the Money Museum to get to know the history of money. Regular visits of students from the Armenian State University of Economics, Yerevan State University, as well as Ijevan Branch of YSU aim to present the Central Bank's activities to students for sharing knowledge with new generation.

In 2019 the Dilijan TRC hosted 12 research fellows from various colleges and universities (Harvard, Notre Dame, Tufts, Boston, Warwick, Royal College of London, Tbilisi State University).



In 2019, cooperation with the American University of Armenia in the framework of the Master of Economics continued, hosting 33 students.

Corporate social responsibility

The Central Bank pays great attention to corporate social responsibility, and the development of a region is key component of it.



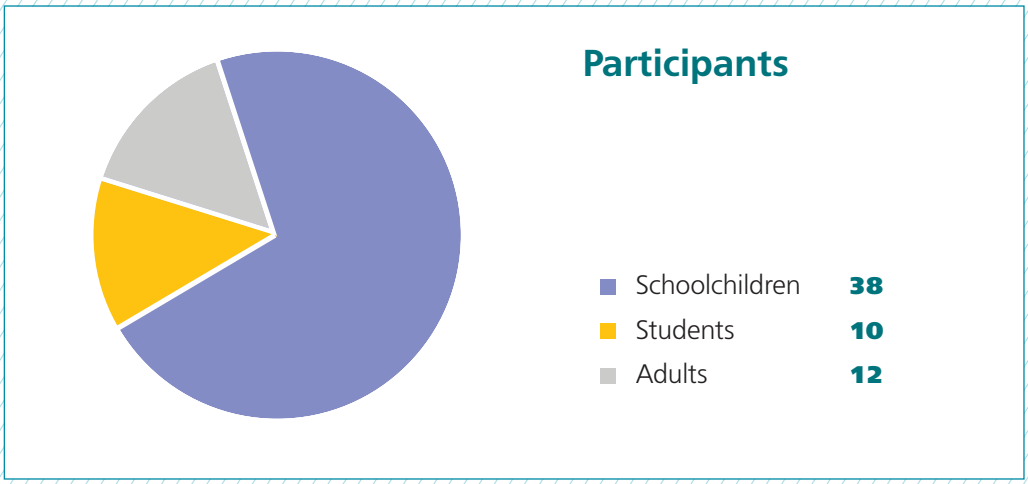
The Dilijan Central School, the FabLab, the Tumo Center for Creative Technologies, the Knowledge for Development with its library, the Money Museum continued their activities as part of the Central Bank's corporate social responsibility. A variety of educational programs carried out by the Center are aimed to facilitate comprehensive development of children.

- In 2019 too, the "Knowledge for Development" Center encouraged children from Dilijan and rural communities in the vicinity to use the library's rich literature, visit the Money Museum, learn the history of money, share a common platform for interaction and debate, take part in open classes and go to events. During the year, the Money Museum received 2944 visitors, which is 61% higher than the previous year's figure. The range of the Money Museum beneficiaries is wide and varied. Active involvement of schoolchildren and students is crucial. Their participation rate numbers around 1700. The Center has organized more than 160 excursions and trainings.

The "Citizen On-the-Go" initiative continued the series of meetups in 2019; Nikolay Grigoryan, Advisor to the Governor of Tavush region, took part in such meetups and introduced the participants to the rules of correct behavior during disasters.

	2013	2014	2015	2016	2017	2018	2019	Total
1. Money Museum	–	1053	1243	1574	2005	1830	2944	**10649**
2. Tumo								**1160**

- In 2019 the team of Dilijan FabLab took part in FabAcademy, an educational program, the WCIT conference, the Fab 15 meeting, and held the Fab Day events. As part of its mission, the Dilijan FabLab pays great attention to the educational component.
- The schoolchildren and adults benefited training courses, including those for 3D Modeling, Fundamentals of Electronics, Arduino Platform programming, AutoCad program, and the students of YSU Ijevan branch, the schoolchildren of Ijevan, Kalavan, Dilijan (a total of 60 participants) took part in them.



FabAcademy - https://fabacademy.org/

The FabAcademia is a 6-month educational program for FabLab staff, students. After having participated in this program, 3 students from Armenia successfully graduated and became trainers of Dilijan FabLab. During the study, the students implemented various current and final projects. As a result, a system for tracking the Sun, a wireless charging table, and a system for automated jalousie window were created.

Since November 2019, the Dilijan FabLab has become the only Armenian node of the FabAcademia, and Armenia has acquired the right to implement that educational program.

Events

The FabLab and FabAcademia-relevant presentations were organized at the events, such as Pechakucha Night Yerevan, WEClub Dilijan/Yerevan, Empowering Regions through High Tech-Forum. At the invitation of the RA Ministry of Education, Science, Culture and Sport, the FabLab participated in WCIT-19. There were four more events attended by about 170 participants, aged 12-50, from Tavush, Lori and Yerevan.

Cooperation

- The FabLab is actively cooperating with the Dilijan Central School, the UWC, in the framework of which the Dilijan "Talking Map" project was launched, together with the participants. The map is intended to find its place in the central part of Dilijan as a tourist guide.
- The Dilijan Central School, run by the AYB Educational Foundation, has 139 students, about 70 percent of whom are from the region; some of the teachers are residents of the region who have been re-trained under the AYB educational program.
- In 2019 the Tumo Center for Creative Technologies hosted 340 children, 34% of whom are from Dilijan and 66% from the Tavush region neighborhoods and Gegharqunik region. The program is designed for those aged 12-18. In June 2019, the Tumo Center temporarily closed its operations in Dilijan for upgrade and it reopened in December. This upgrade will significantly increase the number of participants and expand the scope of the program.

CONSUMER PROTECTION AND FINANCIAL EDUCATION

The Central Bank pursues protection of consumer rights and lawful interests by making sure that financial service providers' business conduct is fair and that appropriate institutional environment and financial education framework are in place.

Regulatory framework development

In 2019 changes were made to **extra requirements to improved** transparency in sub-legislative acts on **communication and information disclosure** by financial institutions; effective from August 2019, these are designed to improve information disclosed and provided to consumers on mortgage and agricultural loans, verbally and/or remotely disclosed information to consumers in the cases of early repayment, additional information on financial services provided remotely, information containing special warning in advertising materials and websites. Financial institutions will also provide clear, complete and affordable extracts to information on mortgage and agricultural loans, as well as individual sheets (in new a format) of essential terms of consumer, agricultural and mortgage loans.

The **supplemented text of the sub-legislative act on communication with guarantors** by banks and credit organizations took effect from December 6, 2019, according to which the provisions on the communication now apply to a wider range of contracts. Guarantors will have the opportunity to electronically agree to accept the guarantee and understand the consequences arising therefrom. From now on, the guarantors will receive the reminder about the obligations in the most convenient way.

The **methodology for calculating actual annual interest rate** has been revised. According to new change, the actual annual interest rates on credit lines, mortgage and agricultural loans will be calculated on the same principles, and the cost of credit will be more accurately reflected. The actual annual interest rates on foreign currency credit lines, mortgage and agricultural loans calculated by financial organizations will be comparable, so that consumers will be able to make the most suitable choice of the loans.

The FinInfo.am, an information system, as well as the rules and guides related to regulatory arrangement of the system were developed and improved.

The Central Bank is reviewing and reconsidering the **policy of applications** submitted to the Bank; the format of the **annual internal report on the applications** received from consumers has been revised.

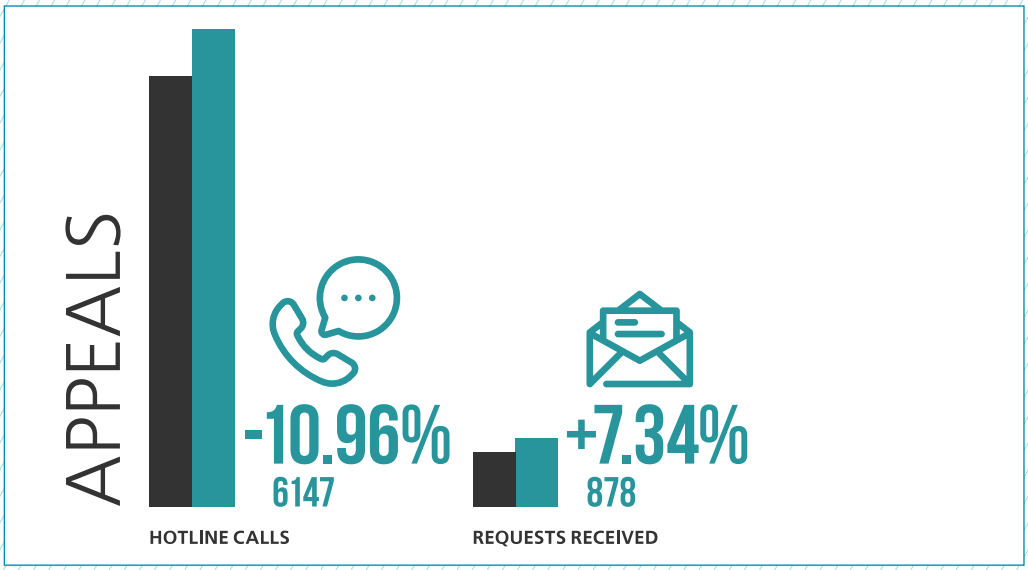
Oversight of business conduct

In 2019 the on-site and off-site surveillance of financial organizations continued.

The on-site surveillance of some financial organizations has provided for studies which measured the adequacy of delivery of services, complaint and dispute resolutions, information disclosure policies and how they were applied, consumer exposures to risk and legal compliance.

The off-site examinations involved inspecting websites of 40 financial organizations, 182 TV commercials and 278 radio commercials and revealing about 200 violations. Financial organizations' radio advertising together with their TV commercials continued to be monitored on a monthly basis.

The legislative changes on the one hand and the increasingly active mortgage market on the other require a special approach to reviewing mortgage loans. In particular, we have examined 22 banks and credit organizations and looked at internal policies and procedures establishing the templates to mortgage loan agreements of 35 financial organizations, the templates to contracts and actually signed contracts. About 150 violations were identified.



In 2019 the CPFEC continued responding to consumer complaints received in writing and via a hotline service.

During the year a total of **6147** calls were received via a hotline service, 5699 of them were satisfied, 302 asked to apply in writing, 133 asked to apply elsewhere, 13 were not satisfied. The number of calls has dropped by 10.96%.

In 2019 the CPFEC received **878** complaints, up by 7.34% (116 more complaints) relative to the previous year.

Increasing the level of financial literacy of consumers in Armenia

In 2019, as part of the program "Financial Education at the School" and in collaboration with the RA Ministry of Education, Science, Culture and Sport, the Central Bank continued trainings of teachers who instruct subjects "Me and the Surrounding World", "Mathematics", "Algebra" and "Social Science", so that they could conduct lessons integrated with financial education.

In 2019, a total of 2419 teachers from 339 schools were trained.

The implementation of the "Financial Education in Rural areas" program continued during the year. In December, as a result of

cooperation with the RA Ministry of Territorial Administration and Infrastructure, training courses on effective management of personal finances were conducted in 96 communities of 9 regions of Armenia. As much as 1535 rural community residents have participated in these courses.

The "My finance month-2019" program was carried out this year too. The goal of the program is sharing knowledge and relevant skills on personal finance with people in a clear and affordable way.

In 2019, with the support of the Savings Banks Foundation for International Cooperation (SBFIC), a research work "Financial Education for Migrants: mapping and assessment of needs" was done, and a respective financial education program will be developed based on the results of the research.

During the year, with the support of the SBFIC, a survey "Barometer of Financial Capabilities" was carried out. The results of the survey are expected to be used to develop the National Strategy for Financial Education 2020-2024 action plan.

The educational projects "Workshops for the Military", "Citizenship" and "Mediator's Camp" and the TV project "The Smartest" were carried out in addition to other programs during the reporting year, and more than 150 e-articles addressing educational issues were published. Various online financial awareness campaigns were implemented, in particular through social platforms (Facebook, YouTube, Twitter pages) of the website abcfinance.am.

The CPFEC sustained its cooperation with international institutions supporting consumer protection and financial education, such as the International Financial Education Network (INFE), the Alliance for Financial Inclusion (AFI), and the Eurasian Economic Partnership.

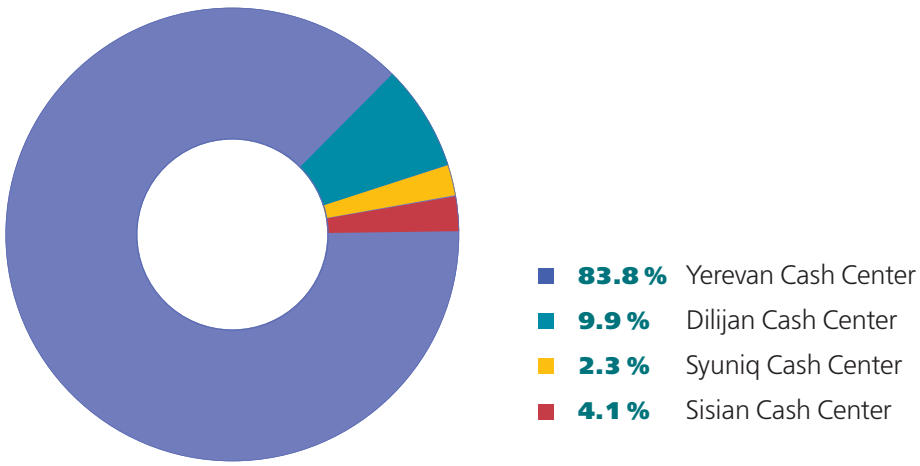
ISSUANCE OF CURRENCY AND ORGANIZING MONEY CIRCULATION

To ensure circulation of the national currency, the Central Bank organizes, regulates and oversees circulation of the Armenian Dram while adhering to the principles of convenience, efficiency, continuity and reliability. During the year, the Central Bank completely secured the demand for cash in the economy in the required volume, nominal value, quality and timing.

The Central Bank delivered cash services to its customers in regions of Armenia and the Republic of Artsakh through Yerevan-based cash center and regional cash centers (RCC) of Dilijan, Sisian and Syuniq.

In 2019 cash circulation of the Central Bank increased by 17.8% compared to the previous year. Regional cash centers provided 16.2% of total cash circulation of the Bank. Like in previous years, most RCC transactions were for cash withdrawal, constituting 82% of their total turnover.

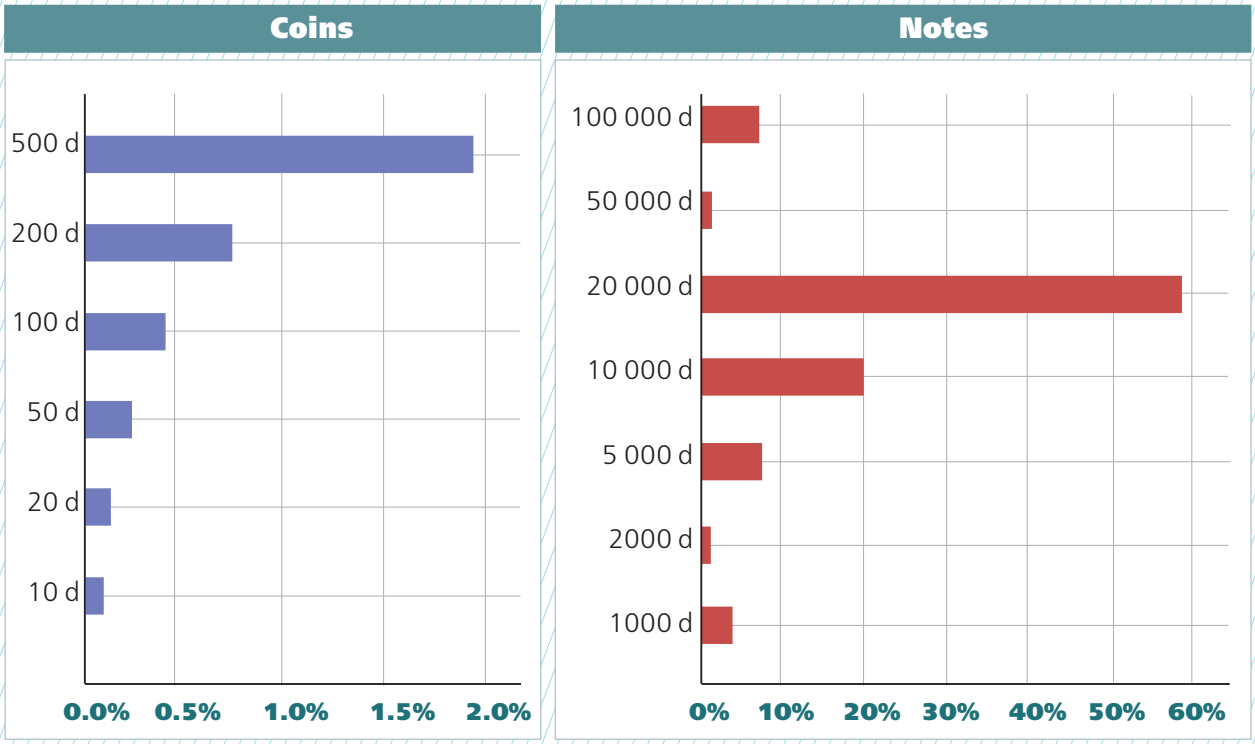
Figure 9: Cash circulation of the Bank in 2019



In the year under review, the amount of cash outside the Central Bank has increased by 7.1%, with supply of coins having grown by 11.8%. Gradually, the third series banknotes of the 2018 issuance were put into circulation, and these are circulating in parallel with the other banknotes issued previously.

The shares of banknotes with nominal value 10.000 and 50.000 dram have grown since the beginning of the year by 3.8% and 1%, respectively, in circulation. During the year, demand for banknotes with nominal value 2000 drams also increased, with its share reaching 0.48% of the supply of banknotes.

Figure 10: Type structure of currency outside the Central Bank as of 31. 12. 2019



As part of the framework to combat money laundering, the Central Bank continued collaborating with law enforcement authorities. Efforts on detecting counterfeit money and taking it to the expertise continued and relevant information on fraudulent methods and how these apply communicated to law enforcement authorities.

Year 2019 was outstanding for a number of historic events and anniversary celebrations of prominent Armenians, which were

featured in the Central Bank's issues. There were new issues of commemorative coins marking the 150th anniversary of two great Armenians: Hovhannes Tumanyan and Komitas. At the turn of the 19th and 20th centuries these figures had their unique imprint on the history of Armenian culture thanks to their achievements and accomplishments in the field of literature and music, respectively.

The jubilee issues included commemorative coins dedicated to the 150th anniversaries of philanthropist Galust Gyulbenkyan and painter Vardan Makhokhyan and to the 125th anniversary of Admiral Isakov, showing their efforts to developing the motherland economically and culturally and their contribution to peace and prosperity.

On the occasion of the 5th anniversary of the Eurasian Economic Union, the Central Bank, like other central banks of the EEU member states, issued a commemorative coin, marking the achievements of member states over 5 years in expanding economic ties and strengthening a common economic policy.

The landmark events celebrated in 2019 included the 100th anniversaries of the National Museum of History of Armenia and the Yerevan State University - institutions of national educational and cultural significance, on which occasion the Central Bank issued commemorative coins.

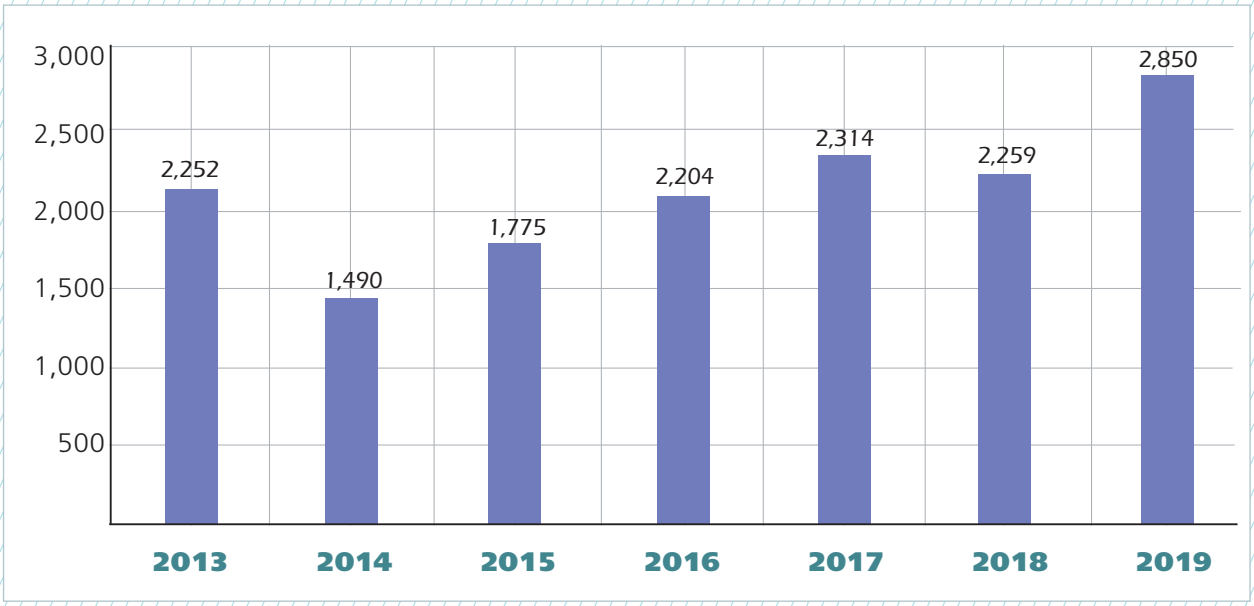
The commemorative coin "The Year of the Caucasian Leopard" was among the issues this year, which marked the return of this rare animal to the Khosrov Forest Reserve of the Republic of Armenia.

At the 13th International Contest of Currency Constellation held in Russia in 2019, the Central Bank of Armenia earned an honorary award for its silver commemorative coin "Yerevan-2800" in the nomination Commemorative Coin of the Year. This award speaks, once again, of the high quality of the artistry and production of the currency of the Republic of Armenia.

MANAGEMENT OF INTERNATIONAL RESERVES

In 2019 gross international reserves of the Republic of Armenia increased by around USD 590.3 million to nearly USD 2,850 million at the end of the year (see Figure 11).

Figure 11: International reserves of Armenia (million US dollar)



The increase in reserves owed mainly to the loans and borrowings equivalent to nearly USD 651 million received during the year, and because about USD 566 million worth of foreign currency was purchased in the domestic market, and commercial banks' correspondent accounts with the Central Bank have grown by about USD 268 million. At the same time, about USD 829 million-equivalent principal and interest payments on public debt were made during the year.

International reserves of the Republic of Armenia continued to comply with main requirements to foreign currency reserves,

particularly, in terms of its economy's ability to absorb possible external shocks. In 2019 Armenia's international reserves secured about four months of import coverage and nearly six years of servicing of current liabilities.

The Central Bank continued its strategy of managing international reserves of Armenia by taking a least-risk-involvement approach, which is aimed at increasing the safety, liquidity and effective management of the reserves.

ORGANIZING AND REGULATING THE FRAMEWORK TO COMBAT MONEY LAUNDERING AND TERRORISM FINANCING

The 2019 activities for combatting money laundering and terrorism financing (ML/TF) included conducting analyses in accordance with national risks, taking preventive measures to deal with potential suspicious transaction indicators, implementing a regulatory framework and strengthening national and international cooperation in compliance with international best practice.

Operational analyses

The purpose of conducting operational analyses by the Financial Monitoring Center (FMC) is to detect possible cases of ML/TF, take, if needed, preventive action, and repot any grounded suspicion of ML/TF activity to law enforcement authorities.

The FMC has received and analyzed suspicious transaction reports from reporting entities. These STR referred to money laundering and suspicion of predicate offences. Some of the most common fraud schemes indicated in the analyses were:

- attempts to legalize proceeds of crimes committed through the use of various mass marketing schemes,
- financial transactions containing elements typical of pyramid schemes (financial pyramids),

- financial transactions with involvement of former political influencers,
- transit flow of funds through the Armenian banking system,
- other cases with similarities to the schemes described in the typologies published by the Central Bank.

Preventive measures

Preventive measures involve providing instructions (notifications) to the reporting entities for suppressing the ML/TF risks identified as a result of strategic and operational analyses, placing on the FMC website public notices of change in international listings for immediate use of targeted financial sanctions, training for reporting entities and so on.

The instructions (notifications) cascaded to reporting entities during 2019 were mainly intended to taking preventive measures in connection with possible involvement of persons in fraudulent schemes.

Moreover, the reporting entities were provided with feedback with the aim to inform them on the progress and results of the analyses.

It is worth mentioning that, in the period under review, carrying out high-risk involving transactions by participants of the banking system has been rejected or their business relationships with the customer terminated, in a number of cases.

In order to effectively mitigate TF risks on the back of an increasing international threat of terrorism, continuous efforts were invested in the reporting period to implement the restrictive measures imposed by international organizations and to report to the parties concerned. In particular, the following information was published on the FMC website and notified to reporting entities:

- Updates in the lists published by or in accordance with the UN Security Council resolutions that stipulate for the freezing of assets of persons under, inter alia, UNSCR

1267/1989/2253 designations on ISIL (DA'ESH) and Al-Qaeda, UNSCR 1988 designations on the Taliban, and UNSCR 1718 designations on North Korea;

- The FATF statements on countries with strategic deficiencies in their AML/CFT systems, as well as on countries with such strategic deficiencies monitored by the FATF under its on-going global AML/CFT compliance process.

Entities reporting in compliance with international initiatives aimed at restricting risk to terrorist financing have also been instructed to take preventive measures against those included in the list of terrorists in the CIS framework.

It is worth mentioning that the Republic of Armenia continues to have a very low level of TF risk.

As regards training for reporting entities, workshops/discussions on the developments in the fight against ML/TF were organized for all groups of reporting entities; about 300 employees attended these workshops. In 2019, a workshop was organized together with the RA State Revenue Committee for representatives of non-commercial organizations.

Legislative arrangements

One of the key elements of an effective AML/CFT framework is the legislation that best reflects international standards and restricts the AML/CFT risks.

In the period under review, the AML/CFT regulatory framework continued improving. In particular, a procedure on reporting transaction or suspicious transaction and business relations subject to mandatory notification by banks was drafted, which is determined by the introduction of an online reporting system. At the same time, in order to comply with the FATF recommendations, legislative changes were drafted to expand the circle of people with political influence by including high-ranking officials of domestic and international organizations. Moreover, additional regulatory arrangements in connection with requirement to identify real beneficiaries were envisaged.

The Board of the Central Bank has adopted a decision, which provides for stipulation of relying on payment cards issued by Armenian commercial banks when conducting a proper customer examination using payment cards. Such arrangement will increase the effectiveness in enforcing the provisions on acquisition, storage and disclosure of customer identification information.

A working group set up under the RA Prime Minister's decree of March 1, 2019 is to implement the concept "Seizure of the criminally obtained property, without indictment", which was approved by the the Interagency Commission on Anti-Money Laundering, Combating Terrorism Financing and Distribution of Weapons of Mass Destruction back on November 30, 2018. The Central Bank, as a member of the working group, has been actively involved in studying both international experience and drafting the law. Activities, in particular, included studying legal acts and court decisions of the countries that have introduced the institute of judgments of the European Court of Human Rights, reviewing the procedures for obtaining banking secret, the model for implementing the institute, and presenting list of crimes.

Collaboration with law enforcement authorities

In view of detecting, preventing and thwarting ML/TF incident, exchange of information and arranging meet-ups between the FMC and law enforcement authorities as well as trainings is important.

In the period under review, the FMC and law enforcement agencies continued actively cooperating in the field of preventing and detecting predicate offences. At the same time, at the initiative of the FMC, roundtable discussions were organized between the FMC and the law enforcement agencies to increase efficiency in various areas of cooperation.

04

INSTITUTIONAL DEVELOPMENT

Central Bank security and business continuity

Knowledge and human resources

Communication and accountability

SECURITY AND BUSINESS CONTINUITY

In 2019, strengthening the previous years' results of work in the sphere of security, the Central Bank placed a clear emphasis on expanding and ensuring cyber security in the financial and banking system.

In particular, cyber threats to the banking sector of the Republic of Armenia were studied with the involvement of well-known specialists in this field.

In order to neutralize cyber threats in this direction, work was done to establish a connection center with the MISP (Malware Information Sharing Platform) system, and required human, technical and financial resources were allocated.

Effective cooperation between information security departments of commercial banks and of the Central Bank continued.

Based on the concept developed last year, work was done to establish a Computer Incident Responding Center.

KNOWLEDGE AND HUMAN RESOURCES

At the end of December 2019, the Central Bank had 778 employees (425 women and 353 men), their average age being 41. During the year, 62 employees left the Bank (51 in the year before).

The process of staff recruitment proved active during 2019, and 104 people selected through various recruitment procedures were hired for employment at the Central Bank.

In the reporting period, structural changes were made to make the decision-making more efficient. During the year, 57 employees earned promotion (8 for a managerial position) for taking up a function of increased complexity.

As much as 30 applicants participated in the Isahak Isahakyan Stipend Eligibility Contest announced by the Central Bank in 2019. The best of them two from Armenian State University of Economics, one from Yerevan State University and one from Artsakh State University were awarded the Isahak Isahakyan Stipend.

In 2019, a total of 96 students from colleges and universities in Armenia took their research internship at the Central Bank.

During the year, 42 employees of the Central Bank lectured at a number of universities and other educational establishments, including 5 in Yerevan State University, 7 in YSU Ijevan branch, 5 in Armenian State University of Economics (2 of them in Gyumri branch), 5 in American University of Armenia, 6 in French University Armenia, sharing their experience and knowledge with the future-day specialists.

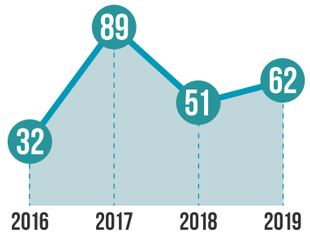
EMPLOYEES

NUMBER OF EMPLOYEES
778

343 MEN

425 WOMEN

EMPLOYEES DISMISSED



EMPLOYEES DISMISSED
62

PERSONS EMPLOYED
104

AVERAGE AGE
41

THE ISAHAK ISAHAKYAN STIPEND

2019

30 applicants

Winners

Armenian State University of Economics	2
Yerevan State University	1
Artsakh State University	1

Introduced in **2003**, the Isahak Isahakyan Stipend has been granted so far to **101 best students** with economic background.

During the year,

57
employees earned promotion, out of which

8
for a managerial position, for taking up a function of increased complexity.

The number of students from tertiary enrollment in Armenia having taken their research internship at the Bank

96

The number of employees who delivered lectures

42

CERTIFICATION

INTERNATIONAL CERTIFICATION FOR QUALIFICATION

THE NUMBER OF THOSE STILL TAKING EXAMS
17

THE NUMBER OF HOLDERS OF QUALIFICATION CERTIFICATE
64 | **8** CFA | **7** ACCA

The employees having conducted research on the Central Bank-related issues at Harvard Davis Center
2

TRAININGS

COURSES ARRANGED BY DRAWING ON INTERNAL RESOURCES

26 TRAININGS

304 EMPLOYEES

Employees who took online training courses on financial supervision offered by the Financial Stability Institute

12 EMPLOYEES

JOB ROTATION

Employees who benefited job rotation to make sure a reserve of managerial staff is in place and both experienced professionals and young specialists are given a chance to broaden their knowledge

4

Staff training and professional qualification

Highlighting the importance of continued professional growth of its employees, the Central Bank carried out activities aimed at enhancing professional qualification of the staff in 2019 too.

In 2019, to obtain up-to-date knowledge and experience and to develop new skills, the employees of the Central Bank passed training at banks, other financial institutions and training centers abroad and educational centers, including Dilijan Training and Research Center, in Armenia, and benefited from attending courses led by lecturers of well-known international universities. All the above-mentioned measures were intended to offer effective solution to operational tasks defined by the strategy of the Central Bank of Armenia (for example, issue new quality banknotes, introduce and improve risk-based supervision system, integrate financial education component with schools).

In pursuit of sharing knowledge and expertise accumulated over the years and further commitment to a teamwork, the Central Bank has organized, by drawing on internal resources, 26 seminars for as much as 304 employees to communicate its current issues and functions and to help them develop important skills for professional activities.

During the year 12 employees took online training courses on financial supervision offered by the Financial Stability Institute.

In 2019, 4 employees of the Central Bank benefited job rotation, another tool for professional development, to make sure a reserve of managerial staff is in place and both experienced professionals and young specialists are given a chance to broaden their knowledge.

During the year, employees of the Central Bank passed international certification and qualification exams in the field of finance, accounting, audit, insurance, information technologies, among others. As of 2019, 64 employees have international certificates of qualification and 17 are still taking exams. Eight employees of the Central Bank are full members of CFA and nine are full members of ACCA. Two employees of the Central Bank conducted research on current issues on the central bank at Harvard Davis Center during 2019.

COMMUNICATION AND ACCOUNTABILITY

Central Bank accountability

In fulfilling its objectives, the Central Bank is independent from state authorities of the Republic of Armenia. The Bank maintains its accountability pursuant to the terms and procedure determined by the legislation of the Republic of Armenia the Central Bank strategy and internal rules and policies.

The Central Bank reports to the National Assembly of Armenia about its activities (Inflation Report approved in the first quarter of the year). First part of the inflation report contains the monetary policy program and the second part provides status report on implementation of the monetary policy program for the past one-year horizon. The monetary policy program published by the Central Bank is a lead guide. The monetary policy programs cover inflation forecasts, monetary policy directions and other aspects of relevance as defined by the Board of the Central Bank for fulfillment of the goals set out in the law. In the framework of accountability of monetary policy implementation, the Central Bank publishes 8 decisions of the Board on the refinancing rate during the year. On the same day the decision is adopted, a press release briefly stating why the decision had to be made becomes available for public disclosure. The minutes on interest rate presenting in more detail the discussions and reasoning underlying the making of decision is released within 10 days after the decision is adopted. The Central Bank publishes the Inflation Report four times a year[4]. This quarterly paper provides a detailed account of actual macroeconomic and monetary environments of reported periods, provides a factor analysis of fulfilment of the inflation target, and presents the main directions of the monetary policy to be implemented by the Bank and the projected path to inflation in fulfilment of the inflation target in the forecast horizon.

4. The inflation report for the first quarter is the report submitted annually to the National Assembly.

The Central Bank publishes financial stability reports on a semi-annual basis; these reports contain the results of financial stability reviews.

The financial stability reports are designed to describe risks that may potentially threaten the country's financial stability in the short-term, in the context of both past and expected developments in real and financial sectors. In general, the report provides the Central Bank's assessment of financial stability for a certain period of time, existing risks and measures to prevent or neutralize them.

The report is presented at a press conference, then a regular semi-annual periodical and relevant press release are to be posted on the Central Bank website.

Publishing of the report helps to increase the awareness of financial institutions, companies, economic agents, households and general public and it adds to the transparency of the Central Bank's activity while enhancing the public trust towards the Central Bank.

The Bank provides its "Annual Report of the Central Bank" for public disclosure. The annual report incorporates the Bank's annual financial accounts, and an internationally recognized audit firm is appointed to verify every year their compliance to international standards.

"The Commemorative Coins of the Republic of Armenia", an annual journal, contains information on the commemorative coins of the Republic of Armenia issued in the given year, the results of the contests with participation of commemorative coins of the Republic of Armenia, other materials related to these coins.

"The Central Bank Bulletin" is a monthly of normative and individual decisions of the Board of the Central Bank, the decisions of Governor of the Central Bank, other legal acts, as well as the statistical survey.

The annual report of the Financial Monitoring Center presents activities in the field of combating ML/TF.

The abovementioned documents aim to disseminate, most comprehensively and clearly, information on the implementation of the main goals of the Central Bank, thus raising the level of public confidence in the Bank.

Public relations

In 2019 further work was done by the Central Bank to communicate the events in the financial market, the activities of financial companies and its activities to the general public.

As part of ensuring transparency in fulfilling the primary objectives, the Central Bank communicated its actions, programs and initiatives in the field of implementing monetary policy, financial supervision and maintaining financial stability to the financial market participants and the public. Discussions were held on various issues of interest. Special attention was paid to advising people to use caution about organizations that operate illegally and/or about such activities that contain elements of essential risk.

During the year, 8 decisions of the Board on interest rates on repo (refinancing) operations were published. The brief press release was published immediately, and the Interest rate minutes were published within 10 days after the Board decision. Four interest rate minutes were published in the Inflation Report.

A number of meet-ups were arranged for mass media managers and representatives of the Central Bank management to discuss issues of relevance.

PUBLIC RELATIONS

EVENTS ORGANIZED BY PRESS SERVICE OF THE BANK
4

INTERVIEWS
20

31
QUERIES IN WRITING

275
ANSWERS TO ONLINE INQUIRIES FROM INDIVIDUALS AND ORGANIZATIONS

223
THE NUMBER OF PRESS RELEASES

Social networks remain an important platform for the Central Bank to publish news, messages and other materials featuring its activities, and to respond to queries.

During the year, 4 events with the participation of mass media and 20 interviews were arranged; the Press Service received 31 queries in writing to which it responded through an established procedure under law; numerous verbal inquiries were responded efficiently and timely. Full answers were provided to 275 online inquiries from individuals and organizations. A total of 223 press releases broadly featured the Central Bank's activities.

CENTRAL BANK COMPLIANCE FUNCTION

Underlining the importance of compliance of its operations with domestic requirements and the best international experience and standards, the Central Bank developed and comprehensively regulated the process of centralized implementation of the compliance function[5] in 2019. In particular, the working group set up during the reporting period carried out extensive studies of the international experience on the introduction of the compliance function in central banks[6]. The following statutes governing the field have been developed and approved as a result of the study.

- The compliance policy
- The guide for internal procedures on implementing compliance
- The compliance service's charter.

According to these statutes, the Central Bank's Compliance Service (the Compliance Service) is responsible for enforcing the compliance as a separate and independent function from other subdivisions. The Compliance Service includes the Compliance Officer and the Central Bank's relevant compliance staff[7].

The purpose of the Compliance Service is to ensure that the Central Bank operations comply with both domestic and international requirements for combating ML/TF, identify and assess reputation, fraud, corruption and such other risks that result from non-compliance with these requirements, and take action to suppress or reduce them. The competencies of the Compliance Service include the following Central Bank operations:

5. Until 2019, the compliance function was carried out by the Central Bank's departments concerned, each doing its part of job.
6. The experience of De Nederlandsche Bank, the US Federal Reserve Bank, the Central Bank of Lebanon, and the principles of the Basel Committee on Banking Supervision on the implementation of the Compliance Function, as well as the Wolfsberg Group documents, were studied.
7. In 2019 appointments were made for replenishment of the staff of the Compliance Service.

- Opening and managing correspondent accounts in foreign financial institutions
- Opening and maintaining customer correspondent accounts and other accounts.
- Implementation of other operations, including supplies for the needs of the Central Bank, sale of monetary values, exchange of banknotes.

The above aspects require that the Compliance Service examine the Central Bank customers, international partners, suppliers, confirm high-risk transactions and business relations, conduct analysis of suspicious transactions and business relations, and then make decisions on rejection, termination, suspension of transactions/ business relations, and/or decisions on freezing the property of persons connected with terrorism. In addition to the above, the Compliance Service also:

- reviews and assesses the risks associated with compliance with the Central Bank operations, and takes measures to prevent identified risks
- represents the Central Bank in relations with foreign financial organizations and international organizations
- provides advice on compliance issues to the Central Bank's management and departments concerned
- undertakes educational and awareness-raising activities for making compliance policy a well-established culture in the Central Bank.

When performing its functions, the Compliance Service is directly reportable to the Governor of the Central Bank, which aims to ensure the highest degree of independence and impartiality in decision-making.

Visitor Center[8]

In 2019 the Visitor Center of the Bank hosted 11 673 visitors, which is an 8% increase compared to the figure (10 804 visitors) reported in the previous year.

In 2019 the Center continued its educational project "One Day at the Central Bank" for the servicemen and alumni of educational institutions of the Armenian Ministry of Defense. During the year, the Center received 325 (274 in the year before) servicemen/alumni and teaching staff.

Educational events were organized for 45 teachers of general schools in Shirak, Lori, Aragatsotn, Armavir regions.

In May 2019, the Visitor Center participated in the international program "Museums Night", and hosted 1468 visitors in the framework of that event.

In 2019, the Central Bank and the Dilijan Training and Research Center benefited an integrated modern electronic library software designed for accessing to the library fund, keeping records and using a common reader service. This allows each Central Bank employee to follow the updates of professional literature, journals, magazines, electronic and printed, available in the library fund (with a brief description of the professional literature), to have an individual e-book, to order literature from the Central Bank's library online.

In 2019, with the participation of well-known specialists in the field of numismatics, the documentary "Dramapatum" (narrative of the Armenian currency) was filmed, which talks about the creation of money, the stages money circulation in Armenia. The film is targeted for various segments of population.

In 2019, to host schoolchildren from regions of Armenia, the Visitor Center cooperated with such organizations as Junior Achievements of Armenia (JAA), Jinishian Memorial Foundation (JMF), Armenian PR Research and Information Association, World Vision Armenia Development Charity, Gyumri Youth Palace, Neurohab Business Academy, the School of Ethics, and the Office of Financial System Mediator.

8. See details on www.visitorcentre.cba.am, www.museum.cba.am, www.cba.am.

In the Visitor Center in 2019, the exhibition of historical, cultural and numismatic values of the State Treasury of the RA Ministry of Finance continued.

05

COOPERATION WITH INTERNATIONAL ORGANIZATIONS

In the year under review, the Central Bank sustained its ties with international partner institutions at multilateral and bilateral level by way of organizing a variety of workshops, symposiums, courses, and mutual visits. A number of visits by representatives of partner organizations are noteworthy in this context.

In 2019 the Central Bank received Richard Dornbusch, Deputy Executive Director of the International Monetary Fund, and Jihad Azour, Director of the Middle East and Central Asia Department. Issues related to bilateral cooperation, current economic situation in Armenia, fiscal and monetary policy, strengthening the external reserve position, reducing the public debt, maintaining the financial system stability were discussed during the visits. In 2019 the International Monetary Fund (IMF) made a regular visit to Armenia. Following an effective work with the Central Bank and the Government of the Republic of Armenia, the IMF Board approved a new program with Armenia in 2019. In the framework of the program approved by the IMF, the Central Bank has closely cooperated with the IMF Armenia mission, and the management of relevant department and the IMF/WB (Dutch-Belgian Subgroup) Constituency, ensuring the implementation of measures related to the monetary and financial sectors.

In April, the Central Bank received a delegation led by Christoph Tiskens, Chairman of the Board of Directors of the European Foundation for Southeast Europe (EFSE). The prospects of bilateral cooperation was the subject of discussion during the visit, followed by a roundtable on "SME Sustainable Finance" organized together with Finance in Motion.

In October, the Central Bank received a delegation led by KfW Bank Board Member Bernd Loewen. The outcome of the projects implemented by KfW, projects underway, as well as further programs aimed at renewable energy and SME lending were discussed. As a

result of effective cooperation between the Central Bank and KfW Bank, 3 new loan agreements worth EUR 60 million were signed in December 2019. The loan resources are intended to be channeled to agriculture, housing and renewable energy sectors.

During the year, cooperation with Black Sea Trade and Development Bank, European Bank for Reconstruction and Development and other international partner organizations continued; mutual visits were part of the cooperation.

In 2019 representatives of Moody's and Fitch Ratings, international rating agencies, arrived in Armenia on a regular visit. The visit was coordinated by the Central Bank. As a result, Moody's has raised Armenia's sovereign rating from B 1 to Ba 3, while changing the outlook for the country from 'stable' to 'positive'.

The Central Bank continued collaboration with international organizations and institutions in developing international standards in the field of AML/CFT and evaluating the implementation of those standards, including cooperation with the Council of Europe's MONEYVAL Committee, the Egmont Group, the Parties to the Warsaw Convention, the Eurasian Group, and the Board of Directors of CIS Financial Intelligence Units.

In 2019, as part of cooperation with foreign financial intelligence units, most requests were sent to the FIUs of the United States, Latvia, Austria, Estonia, Switzerland, Russia, the Czech Republic, the United Kingdom, the Virgin Islands and received from the FIUs of Russia, Latvia, France, Malta, Czech Republic, Netherlands, Liechtenstein.

In the context of strengthening international cooperation, **in 2019 the Central Bank hosted dozens of regional and international symposiums, conferences, seminars, workshops, forums, etc. in its Yerevan Head Office and Dilijan Training and Research Center.** In particular:

- The Dilijan TRC, together with the Office of the President of the Republic of Armenia, hosted high-ranking guests to the "Armenian Summit of Minds" in Dilijan.
- The Dilijan TRC, together with the RA Ministry of Economy, hosted participants of the Armenian-Georgian intergovernmental commission and business forum on banking and economic issues in Dilijan.

- The 22nd Annual Central Bank Macromodeling Conference on "Expanding Boundaries of Monetary Policy" was organized.
- The 4th meeting of the Working Group on Money Market was organized in the framework of cooperation with the European Bank for Reconstruction and Development, which was followed by a seminar-discussion on delivering legal opinion for the Republic of Armenia by the Libor Rate, as well as the International Swaps and Derivatives Association.

In 2019 the Central Bank also hosted the 2nd meeting of the Advisory Committee on financial markets of EEC, the meeting of the working group of specialists of national/central banks of the EEU member states in the field of developing national payment and settlement systems on the subject "Implementing the ISO 20022 standard", as well as a number of other events in the framework of its membership in international and regional institutions. Agreements, contracts and memoranda of understanding signed between foreign central banks at a bilateral level and in the framework of intergovernmental commissions in 2019 included:

1. A memorandum of understanding signed between the Central Bank of Armenia and Abu Dhabi Global Market at the meeting of the Armenia-Emirates Committee in Yerevan on May 2nd.
2. An agreement on cooperation between the Central Bank of Armenia and the Central Bank of Russia in the field of financial market supervision, including the exchange of confidential information, signed in the framework of International Financial Congress in St. Petersburg on July 4th.
3. A memorandum of understanding between the Central Bank of Armenia and the Astana International Center on Financial Services Regulation signed in the framework of the regular meeting of the Advisory Committee on financial markets of EEC in Yerevan on October 2nd.
4. The Central Bank actively participated in developing the concept paper on Common Financial Market in EEU and has, together with partner central/national banks, finalized

the concept paper, which was signed by the leaders of the EEU countries at the October 1st summit in Yerevan.

In 2019 employees of the Bank attended a variety of training courses, workshops, consultations, symposiums conferences and roundtables, as well as made visits for sharing of experience, both in Armenia and abroad.

During the year, the Central Bank received 11 delegations from central/national banks of the Eurasian Economic Union and the CIS Member-States as part of cooperation for sharing professional experience and information exchange, which has become a tradition. In the framework of cooperation of central/national banks of the EEU and CIS member states, the Dilijan TRC hosted 11 training courses attended by 59 representatives of banks from EEU and other countries. The Central Bank also organized tailor-made workshops and work visits for sharing experience; 72 employees of the Central Bank presented the Bank's best experience.

Overall, 31 training courses and visits for sharing experience, attended by 1058 participants, were organized in cooperation with international partner institutions and European central/national banks.

In 2019 the staff of the Central Bank's Economic Research Department benefited 7 courses delivered by lecturers from the world's leading educational establishments.

During the year, the Central Bank's experts, together with representatives of international institutions, organized a number of events (trainings, workshops, consultations, discussions) on matters of interest, involving 580 experts from respective government departments of the Republic of Armenia, commercial banks and other interested organizations.

During the year, a total of 252 employees of the Central Bank took part in various educational programs arranged by specialized organizations operating in the Republic of Armenia.

06

CENTRAL BANK OF THE REPUBLIC OF ARMENIA IFRS CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019 together with independent auditor's report

2019

ANNUAL REPORT

Central Bank of the Republic of Armenia

International Financial Reporting Standards Consolidated financial statements

for the year ended 31 December 2019
together with independent auditor's report

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բարեկեցիկ աշխարհ

Ernst & Young CJSC
1 Northern Ave., office 27
Yerevan, 0001, Armenia
Tel: +374 (10) 500 790
+374 (10) 500 705
Fax: +374 (10) 500 706
www.ey.com/am

«Էրնսթ ընդ Յանգ» ՓԲԸ
ՀՀ, ք. Երևան 0001
Հյուսիսային պող. 1, գրասենյակ 27
Հեռ. +374 (10) 500 790
+374 (10) 500 705
Ֆաքս. +374 (10) 500 706

Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner  Marchello Gelashvili

General Director  Eric Hayrapetyan

31 March 2020

Consolidated statement of comprehensive income

For the year ended 31 December 2019

In thousands of Armenian Drams	Note	2019	2018
Interest income	4	35,271,838	27,985,211
Interest expense	5	(21,092,209)	(16,477,039)
Net interest income		**14,179,629**	**11,508,172**
Reversal of allowance for credit losses / (credit loss expense)	12, 15, 19	198,529	(93,852)
Net interest income after credit loss allowance		**14,378,158**	**11,414,320**
Fee and commission income		608,934	334,616
Fee and commission expense		(1,304,349)	(896,176)
Net foreign exchange loss	6	(1,455,792)	(2,986,567)
Net (loss)/gain on derivatives	7	(477,632)	468,802
Net gain on financial instruments at fair value through profit or loss	8	14,501,951	11,938,436
Other income	9	4,226,258	3,736,415
Cost of production of banknotes, coins and numismatics	10	(828,921)	(5,023,216)
Other expenses	11	(17,895,318)	(19,384,341)
Profit/(loss) before tax		**11,753,289**	**(397,711)**
Income tax expense		(1,993,458)	(1,945,595)
Profit/(loss) for the year		**9,759,831**	**(2,343,306)**
Profit/(loss) is attributable to:			
Owners of the Bank		9,693,618	(2,373,281)
Non-controlling interest		66,213	29,975
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Net unrealised gain from changes in fair value of debt financial assets measured through other comprehensive income		573,139	290,656
Changes in allowance for expected credit losses of debt financial assets at fair value through other comprehensive income		30,870	(5,717)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**604,009**	**284,939**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Net gain/(loss) on equity instruments at fair value through other comprehensive income		7,977	(406,716)
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**7,977**	**(406,716)**
Other comprehensive income/(loss) for the year		**611,986**	**(121,777)**
Total comprehensive income/(loss) for the year		**10,371,817**	**(2,465,083)**
Total comprehensive income/(loss) is attributable to:			
Owners of the Bank		10,277,020	(2,504,709)
Non-controlling interest		94,797	39,626

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 31 March 2020 and were signed by:

Arthur Javadyan
Chairman of the Central Bank
of the Republic of Armenia

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

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2019

In thousands of Armenian Drams	*Note*	*31 December 2019*	*31 December 2018*
Assets			
Foreign currency assets			
Cash		39,603,848	42,238,172
Placements with banks and other financial institutions	12	559,991,988	348,066,857
Financial instruments at fair value through profit or loss	13	773,358,342	704,860,473
Derivative financial assets	14	–	43,849
Financial assets measured at fair value through other comprehensive income	15	2,702,167	2,985,864
Placements with the IMF	16	88,398,230	89,548,497
Other assets		171,875	160,687
Total foreign currency assets		**1,464,226,450**	**1,187,904,399**
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	433,882,868	443,648,161
Financial assets measured at fair value through other comprehensive income	15	87,872,142	88,280,524
Property and equipment	17	65,679,935	68,740,919
Intangible assets	18	3,020,744	2,790,723
Other assets	19	12,239,109	14,795,146
Total domestic currency assets		**602,694,798**	**618,255,473**
Total assets		**2,066,921,248**	**1,806,159,872**
Liabilities			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	376,281,455	247,315,663
Due to the Government of the Republic of Armenia	23	1,248,593	5,822,025
Derivative financial liabilities	14	81,100	97,040
Due to the IMF	16	240,948,903	266,323,100
Other borrowed funds	21	142,742,121	151,710,752
Other liabilities		945,056	767,226
Total foreign currency liabilities		**762,247,228**	**672,035,806**
Domestic currency liabilities			
Notes and coins in circulation		607,209,301	566,706,467
Deposits and accounts of financial and other institutions	20	347,119,824	367,193,187
Due to the Government of the Republic of Armenia	23	326,045,767	184,926,978
Debt securities issued	24	6,626,428	7,838,688
Other liabilities	22	4,408,557	4,503,420
Total domestic currency liabilities		**1,291,409,877**	**1,131,168,740**
Total liabilities		**2,053,657,105**	**1,803,204,546**
Equity			
Issued capital	25	100,000	100,000
General reserve		25,480,248	25,480,248
Promissory Note issued by the Government	25	73,810,843	73,810,843
Revaluation reserve for financial assets measured at fair value through other comprehensive income	25	2,422,299	1,838,897
Accumulated deficit		(89,478,707)	(99,172,325)
Net assets attributable to owners of the Bank		**12,334,683**	**2,057,663**
Non-controlling interest		929,460	897,663
Total equity		**13,264,143**	**2,955,326**
Total liabilities and equity		**2,066,921,248**	**1,806,159,872**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Attributable to owners of the Bank							
In thousands of Armenian Drams	***Issued capital***	***General reserve***	***Promissory note issued by the Government***	***Revaluation reserve for financial assets measured at fair value through other comprehensive income***	***Accumulated deficit***	***Total***	***Non-controlling interest***	***Total equity***
Balance at 1 January 2018	**100,000**	**25,480,248**	**73,810,843**	**1,903,879**	**(93,984,117)**	**7,310,853**	**958,037**	**8,268,890**
Impact of adopting IFRS 9	–	–	–	66,446	(2,814,927)	**(2,748,481)**	–	**(2,748,481)**
Restated opening balance under IFRS 9	**100,000**	**25,480,248**	**73,810,843**	**1,970,325**	**(96,799,044)**	**4,562,372**	**958,037**	**5,520,409**
Increase of share in a subsidiary	–	–	–	–	–	**–**	(100,000)	**(100,000)**
Loss for the year	–	–	–	–	(2,373,281)	**(2,373,281)**	29,975	**(2,343,306)**
Other comprehensive loss	–	–	–	(131,428)	–	**(131,428)**	9,651	**(121,777)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(131,428)**	**(2,373,281)**	**(2,504,709)**	**39,626**	**(2,465,083)**
Balance at 31 December 2018	**100,000**	**25,480,248**	**73,810,843**	**1,838,897**	**(99,172,325)**	**2,057,663**	**897,663**	**2,955,326**
Increase of share in a subsidiary	–	–	–	–	–	**–**	(63,000)	**(63,000)**
Profit for the year	–	–	–	–	9,693,618	**9,693,618**	66,213	**9,759,831**
Other comprehensive income	–	–	–	583,402	–	**583,402**	28,584	**611,986**
Total comprehensive income for the year	**–**	**–**	**–**	**583,402**	**9,693,618**	**10,277,020**	**94,797**	**10,371,817**
Balance at 31 December 2019	**100,000**	**25,480,248**	**73,810,843**	**2,422,299**	**(89,478,707)**	**12,334,683**	**929,460**	**13,264,143**

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

In thousands of Armenian Drams	***Note***	***2019***	***2018***
Cash flows from operating activities			
Profit/(loss) before tax		**11,753,289**	**(397,711)**
Adjustments to reconcile profit/(loss) for the year to net cash flows			
Depreciation and amortisation	11	4,231,048	4,649,127
(Gain)/loss from disposal of property and equipment		(11,458)	1,429
Change in interests receivable		(972,116)	(58,784)
Change in interests payable		408,405	331,968
Net loss from foreign exchange translation	6	1,982,331	3,335,741
Net gain from re-measurement of financial instruments at fair value		(2,273,133)	(939,807)
Reversal of allowance for credit losses / (credit loss expense)	12, 15, 19	(198,529)	93,852
Income tax paid		(2,096,085)	(1,905,678)
Cash flows from operating activities before changes in operating assets and liabilities		**12,823,752**	**5,110,137**
Net (increase)/decrease in operating assets			
Placements with banks and other financial institutions in foreign currency		11,774,996	12,920,447
Financial instruments at fair value through profit or loss and derivative financial instruments		(72,633,468)	29,051,403
Placements and investments with banks and financial other institutions in domestic currency		9,880,361	(139,221,508)
Other assets		1,856,851	543,410
Net increase/(decrease) in operating liabilities			
Notes and coins in circulation		40,502,834	50,611,986
Deposits and accounts of financial and other institutions		112,422,725	52,122,131
Due to the Government of the Republic of Armenia		136,197,289	28,565,401
Proceeds from issuance of debt securities		3,512,226	3,013,273
Repayment of debt securities issued		(4,710,600)	–
Other liabilities		849,946	102,171
Net cash flows from operating activities		**252,476,912**	**42,818,851**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(890,980)	(1,066,933)
Proceeds from sale of property and equipment		41,512	987,991
Proceeds from sale and redemption of financial assets measured at fair value through other comprehensive income		1,308,092	2,814,866
Increase of share in a subsidiary		–	(100,000)
Net cash flows from investing activities		**458,624**	**2,635,924**
Cash flows from financing activities			
Loans received		6,346,555	9,419,398
Loans redeemed		(34,421,137)	(29,292,741)
Lease payments		(82,489)	–
Net cash flows used in financing activities		**(28,157,071)**	**(19,873,343)**
Effect of exchange rate changes on cash and cash equivalents		(3,586,638)	(5,876,406)
Net increase in cash and cash equivalents		**221,191,827**	**19,705,026**
Cash and cash equivalents at the beginning of the year	28	355,967,550	336,262,524
Cash and cash equivalents at the end of the year	28	**577,159,377**	**355,967,550**
Supplementary information			
Interest received		34,299,722	27,926,427
Interest paid		(20,683,804)	(16,145,071)

The accompanying notes from 1 to 33 are an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2019 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank" or the "Central Bank") and its subsidiaries (together referred to as the "Group").

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

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

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The number of employees of the Bank as of 31 December 2019 was 778 (2018: 736).

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

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

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

To accomplish its objectives the Central Bank:

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

The Bank's largest subsidiaries as of 31 December 2019 are listed below:

Name	*Country of incorporation*	*Principal activity*	*Controlled, %*		*Date of establishment*
			2019	*2018*	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	56.25	56.25	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/ delivery of cash	100.00	100.00	April 1998
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100.00	100.00	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance infrastructure support	100.00	100.00	December 2013
"Stak Processing" CJSC	Republic of Armenia	Payment and settlement services	100.00	100.00	December 2017
"Stak Money Transfer" CJSC	Republic of Armenia	Payment and settlement services	100.00	82.64	December 2017

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2019 for the Bank and its subsidiaries.

2. Summary of significant accounting policies (continued)

(b) Basis of measurement

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

(c) Form of presentation of the financial statements

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

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

Fair value

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

Assessment of impairment

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

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

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

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

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

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

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

Leases − estimating the incremental borrowing rate

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

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

(f) Adoption of new or revised standards and Interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019, without restatement of comparatives. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations (continued)

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

In thousands of Armenian Drams

Assets	
Property and equipment	482,988
Total assets	**482,988**
Liabilities	
Other liabilities	482,988
Total liabilities	**482,988**

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities as at 1 January 2019, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of AMD 482,988 thousands were recognised and included in Property and equipment;
- Additional lease liabilities of AMD 482,988 thousands (included in Other liabilities) were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

In thousands of Armenian Drams

Operating lease commitments as at 31 December 2018	**637,469**
Weighted average incremental borrowing rate as at 1 January 2019	10.8%
Discounted operating lease commitments at 1 January 2019	**482,988**
Lease liabilities as at 1 January 2019	**482,988**

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations (continued)

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations (continued)

Amounts recognised in the consolidated statement of financial position and consolidated income statement

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets		***Lease***
In thousands of Armenian Drams	***Buildings***	***Total***	***liabilities***
As at 1 January 2019	**482,988**	**482,988**	**482,988**
Additions	25,346	**25,346**	25,346
Depreciation expense	(102,501)	**(102,501)**	–
Interest expense	–	**–**	49,499
Payments	–	**–**	(131,988)
As at 31 December 2019	**405,833**	**405,833**	**425,845**

ii. Operating − Group as a lessor

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(g) Basis of consolidation (continued)

Associates

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

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

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

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

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

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

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

As at 31 December 2019 and 31 December 2018, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2019	***31 December 2018***
AMD / 1 US dollar	479.70	483.75
AMD / 1 Euro	537.26	553.65
AMD / 1 GBP	629.13	611.61
AMD / 1 SDR (Special Drawing Rights)	663.34	672.79
AMD / 1 JPY	4.40	4.38
AMD / 1 RUB	7.77	6.97

(i) Cash and cash equivalents

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

(j) Financial instruments – key measurement terms

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Initial measurement

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

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

- Amortised cost;
- FVOCI;
- FVPL.

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

Date of recognition

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

2. Summary of significant accounting policies (continued)

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

Financial assets at fair value through profit or loss

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

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

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

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

From 1 January 2018, with the introduction of IFRS 9**,** the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

2. Summary of significant accounting policies (continued)

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

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

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

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

Reclassification of financial assets

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

Borrowings

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

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

Accounting for zero interest rate loans

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

2. Summary of significant accounting policies (continued)

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

Derecognition of financial assets and liabilities

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

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

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

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

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

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

(k) Offsetting

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

(l) Repurchase and reverse repurchase agreements

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

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

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

(m) Securities lending and borrowing

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

2. Summary of significant accounting policies (continued)

(n) Notes and coins in circulation

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

(o) Numismatic coins

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

(p) Property and equipment

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

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

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

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

Depreciation

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

	2019	***2018***
Land and buildings		
- Buildings	30-80 years	30-80 years
- Building technical systems	3-20 years	3-20 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

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

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

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

(r) Intangible assets

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

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

2. Summary of significant accounting policies (continued)

(s) Impairment

Impairment of financial assets

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

Non-financial assets

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

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

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

(t) Provisions

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

(u) Taxation

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

(v) Issued capital

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

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

(w) Profit allocation

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

a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;

b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

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

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

(x) Contingencies

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

2. Summary of significant accounting policies (continued)

(y) Interest income and expense

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

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

(z) Fee and commission income

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

3. New accounting pronouncements

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

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

Amendments to IFRS 3: Definition of a Business (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

3. New accounting pronouncements (continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

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

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

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

4. Interest income

In thousands of Armenian Drams	***2019***	***2018***
Interest income from foreign currency assets		
Nostro accounts	2,754,182	1,354,020
Term deposits	382,698	597,257
Placements with the IMF	24,634	18,015
Other	70,469	99,022
Total interest income from foreign currency assets	**3,231,983**	**2,068,314**
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	30,722,771	24,458,016
Financial assets measured at fair value through other comprehensive income	1,317,084	1,458,881
Total interest income from domestic currency assets	**32,039,855**	**25,916,897**
Total interest income calculated using effective interest rate	**35,271,838**	**27,985,211**

5. Interest expense

In thousands of Armenian Drams	***2019***	***2018***
Interest expense on foreign currency liabilities		
Other borrowed funds	3,676,153	3,735,460
Due to the IMF	2,518,184	2,810,517
Total interest expense on foreign currency liabilities	**6,194,337**	**6,545,977**
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	13,737,026	8,049,811
Debt securities issued	677,398	710,782
Deposits and accounts of financial and other institutions	281,005	1,034,651
Other	202,443	135,818
Total interest expense on domestic currency liabilities	**14,897,872**	**9,931,062**
Total interest expense	**21,092,209**	**16,477,039**

6. Net foreign exchange loss

In thousands of Armenian Drams	***2019***	***2018***
Net loss from foreign exchange translation	(1,982,331)	(3,335,741)
Net gain on spot transactions	526,539	349,174
Total net foreign exchange loss	**(1,455,792)**	**(2,986,567)**

Included in the net loss from revaluation of monetary assets and liabilities is a foreign exchange translation loss of AMD 7,563,296 thousand on financial instruments at fair value through profit or loss (2018: loss in the amount of AMD 8,455,505 thousand).

7. Net (loss)/gain on derivatives

In thousands of Armenian Drams	***2019***	***2018***
Net (loss)/gain on forward contract with the Government (Note 27)	(453,848)	552,850
Net gain/(loss) on swaps under own management	5,851	(59,840)
Net loss on futures under own management	(29,635)	(24,208)
Total net (loss)/gain on derivatives	**(477,632)**	**468,802**

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

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

In thousands of Armenian Drams	***2019***	***2018***
Net gain on foreign securities under own management (excluding foreign exchange translation*)	14,508,756	12,789,190
Net loss on assets under trust management (excluding foreign exchange translation*)	(33,271)	(824,518)
Net gain on money market instruments under own management (excluding foreign exchange translation*)	44,229	156,277
Trust management fees (excluding foreign exchange translation*)	(17,763)	(182,513)
Total net gain on financial instruments at fair value through profit or loss	**14,501,951**	**11,938,436**

* *The foreign exchange translation of assets is included in "Net foreign exchange loss" (Refer to Note 6).*

9. Other income

In thousands of Armenian Drams	***2019***	***2018***
Numismatic coins	725,162	651,905
Financial agency fee	163,865	259,379
Other	3,337,231	2,825,131
Total other income	**4,226,258**	**3,736,415**

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

During the year ended 31 December 2019, the amount of AMD 2,460,686 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2018: AMD 2,091,643 thousand).

10. Cost of production of banknotes, coins and numismatics

In thousands of Armenian Drams	***2019***	***2018***
Production of numismatic coins sold during the year	618,159	546,085
Production of banknotes and coins	210,762	4,477,131
Total cost of production of banknotes, coins and numismatics	**828,921**	**5,023,216**

In 2018 in connection with the 25th anniversary of the Armenian Dram, the Central Bank has issued and circulated the third series of banknotes of the Republic of Armenia, addressing a number of important issues of Armenian Dram protection by applying printing technology innovations. The banknotes structure has been optimized with the introduction of a new banknote with a nominal value of 2000 AMD. The third series of banknotes are represented by nominal values of 1000, 2000, 5000, 10 000, 20 000 and 50 000 AMD.

11. Other expenses

In thousands of Armenian Drams	***2019***	***2018***
Employee compensation, staff training and related payments	8,292,421	8,149,397
Depreciation and amortisation	4,231,048	4,649,127
Repairs and maintenance	1,672,598	1,864,696
Security and insurance expenses	562,394	434,751
Expenses on development and maintenance of payment system	467,193	482,285
Professional services	136,632	188,075
Education, research and development of new projects	112,644	742,417
Other	2,420,388	2,873,593
Total other expenses	**17,895,318**	**19,384,341**

During the year ended 31 December 2019 and 31 December 2018, the expenses included into "Other" line represent subscription fees, communication expenses, utilities, rent expenses and stationary of the Bank and its subsidiaries.

11. Other expenses (continued)

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2019 and 31 December 2018 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions

Placements with banks and other financial institutions in foreign currency

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	534,601,773	310,841,888
Term deposits	25,536,096	31,563,991
Margin requirements of interest rate futures	2,015	56,931
Cash included in assets under trust management	–	5,689,324
Impairment allowance	(147,896)	(85,277)
Total placements with banks and other financial institutions in foreign currency	**559,991,988**	**348,066,857**

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

As at 31 December 2019 the Group had placements in three banks with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2019 amounted to AMD 458,250,623 thousand (31 December 2018: placements with three banks amounted to AMD 253,141,892 thousand).

The term deposits have up to one month remaining maturity with the interest rate up to 2.06% (31 December 2018: up to 2.91%).

As at 31 December 2018 AMD 5,689,324 thousand balance of cash included in assets under trust management represent balance maintained by the Bank for settlements under operations with foreign securities and futures within the framework of Agreement on investment management.

As at 31 December 2018 AMD 1,451,250 thousand of term deposits denominated in foreign currency are pledged to secure bonds issued by the Group (refer to Note 24).

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

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

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

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

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

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2018 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Placements with banks and other financial institutions in foreign currency		
Gross carrying value as at 1 January 2018	**338,451,346**	**338,451,346**
New assets originated or purchased	343,301,206	**343,301,206**
Assets repaid	(333,600,418)	**(333,600,418)**
At 31 December 2018	**348,152,134**	**348,152,134**

In thousands of Armenian Drams	***Stage 1***	***Total***
Placements with banks and other financial institutions in foreign currency		
ECL as at 1 January 2018	**102,692**	**102,692**
New assets originated or purchased	1,730	**1,730**
Assets repaid	(17,865)	**(17,865)**
Changes to models and inputs used for ECL calculations	(1,280)	**(1,280)**
At 31 December 2018	**85,277**	**85,277**

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

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Placements and investments with banks and other financial institutions in domestic currency		
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	127,976,053	127,837,551
Repurchase agreements and other overnight facilities	126,669,774	163,433,113
Mortgage refinancing	90,373,958	76,566,659
Deposits and current accounts placed in commercial banks	63,926,423	50,942,450
Investments measured at amortised cost	24,082,487	24,090,275
Other loans	3,447,368	3,579,296
Impairment allowance	(2,593,195)	(2,801,183)
Total placements and investments with banks and other financial institutions in domestic currency	**433,882,868**	**443,648,161**

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

As at 31 December 2019 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2018: two banks).

The Group accepted securities on reverse repurchase agreements as collateral, which the Group is permitted to sell or repledge. As at 31 December 2019 amounts receivable under reverse repurchase agreements are with 6 resident bank (31 December 2018: 10 resident banks) and are collateralised by the following securities:

In thousands of Armenian Drams	***Fair value as at 31 December 2019***	***Fair value as at 31 December 2018***
Treasury bonds of the Government	116,749,671	151,182,668
Eurobonds issued by the Government	5,354,434	12,126,785
Corporate bonds	10,350,452	6,869,766
Total	**132,454,557**	**170,179,219**

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

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

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

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

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

As at 31 December 2019 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 13 domestic banks (31 December 2018: 13 domestic banks) and 9 financial institutions (31 December 2018: 10 financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2018: 10 years).

As at 31 December 2019 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 90,766,893 thousand (31 December 2018: AMD 76,750,175 thousand).

As at 31 December 2018 mortgage refinancing loans in the amount of AMD 580,842 thousand and term deposits denominated in domestic currency in the amount of AMD 30,000 thousand are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

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

As at 31 December 2019 the management of the Group has classified investments in the amount of AMD 24,082,487 thousand as investments measured at amortised cost (31 December 2018: AMD 24,090,275 thousand as investments measured at amortised cost). Such decision was made due to the absence of liquid market for these investments and taking into account that the Group has ability and intention to hold them for the foreseeable future.

Other loans are secured by real estate in the amount of AMD 2,830,489 thousand (31 December 2018: AMD 2,815,891 thousand), movable property and other assets in the amount of AMD 126,009 thousand (31 December 2018: AMD 108,763 thousand).

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

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

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

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

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

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2018 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Placements and investments with banks and other financial institutions in domestic currency		
Gross carrying value as at 1 January 2018	**307,508,525**	**307,508,525**
New assets originated or purchased	264,384,650	**264,384,650**
Assets repaid	(125,443,831)	**(125,443,831)**
At 31 December 2018	**446,449,344**	**446,449,344**

In thousands of Armenian Drams	***Stage 1***	***Total***
Placements and investments with banks and other financial institutions in domestic currency		
ECL as at 1 January 2018	**2,678,727**	**2,678,727**
New assets originated or purchased	819,297	**819,297**
Assets repaid	(462,358)	**(462,358)**
Changes to models and inputs used for ECL calculations	(234,483)	**(234,483)**
At 31 December 2018	**2,801,183**	**2,801,183**

13. Financial instruments at fair value through profit or loss

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Assets		
Debt and other fixed-income instruments in foreign currency		
Foreign bonds under own management	763,710,331	614,675,994
Foreign bonds under trust management	–	78,054,256
Foreign money market instruments under own management	9,648,011	12,130,223
Total financial instruments at fair value through profit or loss in foreign currency	**773,358,342**	**704,860,473**

13. Financial instruments at fair value through profit or loss (continued)

As at 31 December 2019 and 31 December 2018 foreign securities at fair value under own management include:

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Government bonds	639,177,514	346,945,790
State agency bonds	24,001,326	35,843,569
Other securities	100,531,491	231,886,635
Total	**763,710,331**	**614,675,994**

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

As at 31 December 2019 and 31 December 2018 the foreign bonds under trust management include:

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Government bonds	–	15,447,463
State agency bonds	–	5,403,404
Other securities	–	57,203,389
Total	**–**	**78,054,256**

14. Derivative financial instruments

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Derivative financial assets		
Foreign currency swaps under own management	–	29,911
Forward contract with the Government	–	13,938
Total derivative financial assets	**–**	**43,849**
Derivative financial liabilities		
Forward contract with the Government	79,455	–
Foreign currency futures under own management	1,645	54,741
Foreign currency futures under trust management	–	42,299
Total derivative financial liabilities	**81,100**	**97,040**

As at 31 December 2018 the Group had 572 short futures contracts with the nominal value of EUR 78,912 thousand or AMD 43,689,507 thousand at the year-end official exchange rate of EUR to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management Agreement.

As at 31 December 2019 the Group had 10 long futures contracts with the nominal value of EUR 10,000 thousand or AMD 5,372,600 thousand at the year-end official exchange rate of EUR to Armenian Dram (31 December 2018: 97 short futures contracts with the nominal value of USD 54,600 thousand or AMD 26,412,750 thousand and 8 short futures contracts with the nominal value of EUR 800 thousand or AMD 442,920 thousand).

			Fair value			
	Nominal value		***2019***		***2018***	
In thousands of Armenian Drams	***2019***	***2018***	***Asset***	***Liability***	***Asset***	***Liability***
Currency forward contract with the Government	9,098,961	3,173,020	–	79,455	13,938	–
Foreign currency futures under own management	5,372,600	26,855,670	–	1,645	–	54,741
Foreign currency futures under trust management	–	43,689,507	–	–	–	42,299
Foreign currency swaps under own management	–	5,336,320	–	–	29,911	–
Total	**14,471,561**	**79,054,517**	**–**	**81,100**	**43,849**	**97,040**

15. Investment securities

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Financial assets measured at fair value through other comprehensive income in foreign currency		
Equity investments – unquoted		
Foreign securities	1,937,372	1,914,789
SWIFT	3,211	3,211
Total equity investments	**1,940,583**	**1,918,000**
Debt instruments		
Corporate bonds in foreign currency	761,584	1,067,864
Total debt investments	**761,584**	**1,067,864**
Total financial assets measured at fair value through other comprehensive income in foreign currency	**2,702,167**	**2,985,864**
Financial assets measured at fair value through other comprehensive income in domestic currency		
Debt instruments		
Securities of the Government of the Republic of Armenia	13,189,425	13,707,676
Promissory note of the Government (Note 25)	73,810,843	73,810,843
Total debt instruments	**87,000,268**	**87,518,519**
Equity investments		
Other investments	871,874	762,005
Total equity investments	**871,874**	**762,005**
Total financial assets measured at fair value through other comprehensive income in domestic currency	**87,872,142**	**88,280,524**
Total financial assets measured at fair value through other comprehensive income	**90,574,309**	**91,266,388**

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

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

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

As at 31 December 2019 carrying value of a non-interest bearing on-demand promissory note issued by the Government amounts to AMD 73,810,843 thousand (2018: 73,810,843 AMD thousand). The management believes that the carrying amount of the promissory note approximates its fair value.

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

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

15. Investment securities (continued)

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

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2018 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
Gross carrying value as at 1 January 2018	**17,521,378**	**17,521,378**
New assets originated or purchased	456,861	**456,861**
Assets repaid	(4,270,563)	**(4,270,563)**
At 31 December 2018	**13,707,676**	**13,707,676**

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia		
ECL as at 1 January 2018	**66,446**	**66,446**
New assets originated or purchased	2,122	**2,122**
Assets repaid	(2,773)	**(2,773)**
Changes to models and inputs used for ECL calculations	(5,631)	**(5,631)**
At 31 December 2018	**60,164**	**60,164**

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

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

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

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2018 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in foreign currency		
Gross carrying value as at 1 January 2018	**–**	**–**
New assets originated or purchased	1,067,864	**1,067,864**
At 31 December 2018	**1,067,864**	**1,067,864**

15. Investment securities (continued)

In thousands of Armenian Drams	***Stage 1***	***Total***
Debt securities at FVOCI in foreign currency		
ECL as at 1 January 2018	**–**	**–**
New assets originated or purchased	11,999	**11,999**
At 31 December 2018	**11,999**	**11,999**

16. Operations with the International Monetary Fund

Assets due from the IMF

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Placements with the IMF		
Membership quota in the IMF (subscription)	85,438,192	86,655,352
SDR holdings in the IMF	2,953,756	2,887,490
Accrued interest	6,282	5,655
Total placements with the IMF	**88,398,230**	**89,548,497**

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

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The 75% of the quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Bank. As at 31 December 2019 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 85,438,192 thousand at the year-end official exchange rate of Armenian Dram to SDR (2018: SDR 128,800 thousand or AMD 86,655,352 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

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

Movements in SDR holdings account during the years ended 31 December 2019 and 31 December 2018 were as follows:

In thousands of Armenian Drams	***2019***	***2018***
Balance of SDR holdings as at 1 January	**2,887,490**	**3,491,637**
Purchase of SDRs	37,649,890	34,626,810
Repayment of loans to the IMF:		
On behalf of the Bank		
PRGT	(4,182,497)	(2,867,948)
EFF	(17,289,350)	(15,701,960)
On behalf of the Government		
PRGT	(13,514,842)	(13,831,234)
Payment of loan related commission	(76,712)	–
Other fees	(913)	(1,011)
Payment of interest for use of the IMF resources:		
On behalf of the Bank	(2,003,820)	(2,201,503)
Payment of interest for use of funds received under SDR allocation	(611,525)	(526,439)
Income on SDR holdings	23,945	19,568
Translation differences	72,090	(120,430)
Balance of SDR holdings as at 31 December	**2,953,756**	**2,887,490**

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

16. Operations with the International Monetary Fund (continued)

Liabilities due to the IMF

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Securities account	159,285,304	159,285,304
Adjustment account for AMD liabilities to the IMF	(823,199)	(6,611,507)
Account 1	9,436,432	35,173,286
Account 2	2,590	2,703
SDR allocation	58,366,397	59,197,890
ECF:	14,341,411	18,797,753
Carrying value	*13,795,377*	*17,928,595*
Deferred income	*546,034*	*869,158*
Interest accrued	339,968	477,671
Total liabilities due to the IMF	**240,948,903**	**266,323,100**

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

As at 31 December 2019 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 159,285,304 thousand (31 December 2018: AMD 159,285,304 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2019 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2019 the ECF bears no interest (2018: 0%). The loans outstanding as at 31 December 2019 mature in June 2020 – June 2023 (31 December 2018: June 2019 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2019 mature in March 2020 – June 2027 (31 December 2018: June 2019 – December 2027).

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

17. Property and equipment

In thousands of Armenian Drams	*Land and buildings*	*Networks, computer and other equipment*	*Vehicles*	*Construction in progress*	*Right of use assets*	*Total*
Cost						
Balance as at 1 January 2018	**74,768,836**	**22,757,194**	**649,251**	**1,882,115**	**–**	**100,057,396**
Additions	8,703	728,828	33,700	29,146	–	**800,377**
Disposals	(1,030,936)	(424,987)	–	–	–	**(1,455,923)**
Transfer	1,759,679	138,733	–	(1,898,412)	–	**–**
Balance as at 31 December 2018	**75,506,282**	**23,199,768**	**682,951**	**12,849**	**–**	**99,401,850**
Impact of adopting IFRS 16 (Note 2)	–	–	–	–	482,988	**482,988**
Additions	–	710,342	33,110	209,466	25,346	**978,264**
Disposals	(888,809)	(175,310)	(88,674)	–	(2,640)	**(1,155,433)**
Balance as at 31 December 2019	**74,617,473**	**23,734,800**	**627,387**	**222,315**	**505,694**	**99,707,669**
Depreciation						
Balance as at 1 January 2018	**13,879,646**	**12,619,217**	**461,753**	**–**	**–**	**26,960,616**
Charge for the period	2,712,586	1,400,991	53,818	–	–	**4,167,395**
Disposals	(107,904)	(359,176)	–	–	–	**(467,080)**
Transfer	(35,821)	35,821	–	–	–	**–**
Balance as at 31 December 2018	**16,448,507**	**13,696,853**	**515,571**	**–**	**–**	**30,660,931**
Charge for the period	2,419,263	1,220,232	44,250	–	102,501	**3,786,246**
Disposals	(159,832)	(172,230)	(84,741)	–	(2,640)	**(419,443)**
Balance as at 31 December 2019	**18,707,938**	**14,744,855**	**475,080**	**–**	**99,861**	**34,027,734**
Carrying amount						
At 31 December 2019	**55,909,535**	**8,989,945**	**152,307**	**222,315**	**405,833**	**65,679,935**
At 31 December 2018	**59,057,775**	**9,502,915**	**167,380**	**12,849**	**–**	**68,740,919**

Construction in progress consists mainly of construction of premises. Upon completion, assets are transferred to buildings respectively.

18. Intangible assets

In thousands of Armenian Drams	*Computer software*	*Contracts in progress*	*Total*
Cost			
Balance as at 1 January 2018	**4,135,615**	**991,453**	**5,127,068**
Additions	146,661	89,257	**235,918**
Disposals	(11,075)	–	**(11,075)**
Transfer	7,035	(7,035)	**–**
Balance as at 31 December 2018	**4,278,236**	**1,073,675**	**5,351,911**
Additions	694,758	35,000	**729,758**
Disposals	(91,382)	–	**(91,382)**
Balance as at 31 December 2019	**4,881,612**	**1,108,675**	**5,990,287**
Amortisation			
Balance as at 1 January 2018	**2,089,958**	**–**	**2,089,958**
Charge for the period	481,732	–	**481,732**
Disposals	(10,502)	–	**(10,502)**
Balance as at 31 December 2018	**2,561,188**	**–**	**2,561,188**
Charge for the period	444,802	–	**444,802**
Disposals	(36,447)	–	**(36,447)**
Balance as at 31 December 2019	**2,969,543**	**–**	**2,969,543**
Carrying amount			
At 31 December 2019	**1,912,069**	**1,108,675**	**3,020,744**
At 31 December 2018	**1,717,048**	**1,073,675**	**2,790,723**

19. Other assets in domestic currency

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Numismatic coins	7,596,449	7,872,280
Prepayments and receivables	3,108,299	5,129,659
Other	1,545,359	1,826,495
Impairment allowance	(10,998)	(33,288)
Total other assets	**12,239,109**	**14,795,146**

As of 31 December 2019 prepayments and receivables include other financial assets in the amount of AMD 800,217 thousand (31 December 2018: AMD 1,625,937 thousand).

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Other financial assets		
Gross carrying value as at 1 January 2019	**1,625,937**	**1,625,937**
New assets originated or purchased	110,843	**110,843**
Assets repaid	(936,563)	**(936,563)**
At 31 December 2019	**800,217**	**800,217**

In thousands of Armenian Drams	***Stage 1***	***Total***
Other financial assets		
ECL as at 1 January 2019	**33,288**	**33,288**
New assets originated or purchased	1,047	**1,047**
Assets repaid	(18,779)	**(18,779)**
Changes to models and inputs used for ECL calculations	(4,558)	**(4,558)**
At 31 December 2019	**10,998**	**10,998**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 is as follows:

In thousands of Armenian Drams	***Stage 1***	***Total***
Other financial assets		
Gross carrying value as at 1 January 2018	**2,418,111**	**2,418,111**
New assets originated or purchased	49,594	**49,594**
Assets repaid	(841,768)	**(841,768)**
At 31 December 2018	**1,625,937**	**1,625,937**

In thousands of Armenian Drams	***Stage 1***	***Total***
Other financial assets		
ECL as at 1 January 2018	**50,194**	**50,194**
New assets originated or purchased	165	**165**
Assets repaid	(16,960)	**(16,960)**
Changes to models and inputs used for ECL calculations	(111)	**(111)**
At 31 December 2018	**33,288**	**33,288**

20. Deposits and accounts of financial and other institutions

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	373,816,783	244,798,174
Current accounts of related parties	1,475,390	1,745,105
Current accounts of other legal entities	989,282	772,384
Total foreign currency liabilities	**376,281,455**	**247,315,663**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	343,857,702	364,466,344
Current accounts and term deposit of related parties	284,157	49,870
Current accounts of other legal entities	975,287	674,295
Other deposits	2,002,678	2,002,678
Total domestic currency liabilities	**347,119,824**	**367,193,187**
Total deposits and accounts of financial and other institutions	**723,401,279**	**614,508,850**

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2019 three counterparty banks had balances, individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions, amounting to AMD 390,862,187 thousand (31 December 2018: three banks with total balance of AMD 299,682,463 thousand).

21. Other borrowed funds

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Due to the KfW	59,582,037	63,695,678
Due to the EIB	51,891,908	54,856,643
Due to the World Bank	20,267,749	21,285,991
Due to the ADB	6,590,621	6,684,513
Other	4,409,806	5,187,927
Total other borrowed funds	**142,742,121**	**151,710,752**

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2020 to 2048 (31 December 2018: from 2019 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2020 to 2035 (31 December 2018: from 2019 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2020 to 2044 (31 December 2018: from 2019 to 2044).

The loan due to the EIB is provided by the European Investment Bank for financing agriculture and tourism sectors through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2020 to 2030 (31 December 2018: from 2019 to 2030).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2020 till 2025 (31 December 2018: from 2019 to 2025). As at 31 December 2019 the balance outstanding under this loan facility is AMD 4,409,806 thousand (31 December 2018: AMD 5,187,927 thousand).

22. Other liabilities in domestic currency

In thousands of Armenian Drams	*31 December 2019*	*31 December 2018*
Other liabilities in domestic currency		
Payables	2,133,087	2,386,248
Demand deposits of employees	1,251,847	1,137,386
Other liabilities	1,023,623	979,786
Total other liabilities in domestic currency	**4,408,557**	**4,503,420**

23. Due to the Government of the Republic of Armenia

In thousands of Armenian Drams	*31 December 2019*	*31 December 2018*
Foreign currency liabilities		
Current accounts of the Government	1,248,593	5,822,025
Total foreign currency liabilities	**1,248,593**	**5,822,025**
Domestic currency liabilities		
Term deposits	285,000,475	135,487,725
Current accounts of the Government	41,045,292	49,117,388
Loans from the Government	–	321,865
Total domestic currency liabilities	**326,045,767**	**184,926,978**
Total due to the Government of the Republic of Armenia	**327,294,360**	**190,749,003**

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 5.25% to 5.93% (31 December 2018: from 5.59% to 5.91%).

Loans from the Government outstanding as at 31 December 2018 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum with maturity date till June 2019.

As at 31 December 2018 mortgage refinancing loans to banks and financial institutions with a gross value of AMD 580,842 thousand serve as collateral for loans from the Government.

24. Debt securities issued

As at 31 December 2019 the subsidiary company of the Group had in issue coupon bonds with AMD 6,500,000 thousand par value and 3 years maturity (31 December 2018: coupon bonds with AMD 7,710,600 thousand par value and 3-5 years maturity).

As at 31 December 2019 the average annual yield on these bonds is from 7.36% to 8.13% (31 December 2018: from 8.1% to 11.8%). The carrying value of the issued bonds as at 31 December 2019 is AMD 6,626,428 thousand (31 December 2018: AMD 7,838,688 thousand). As at 31 December 2018 term deposits denominated in domestic currency in the amount of AMD 30,000 thousand and term deposits denominated in foreign currency in the amount of AMD 1,451,250 thousand serve as collateral for debt securities issued.

25. Management of capital

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

The size of the capital is established by the Law.

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

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

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

25. Management of capital (continued)

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

As at 31 December 2019 and 31 December 2018 carrying amount of a non-interest bearing on-demand promissory note issued by the Government amounts to AMD 73,810,843 thousand.

Revaluation reserve for financial assets measured at fair value through other comprehensive income in the amount of AMD 2,422,299 thousand (positive effect) as at 31 December 2019 (31 December 2018: AMD 1,838,897 thousand (positive effect) represents difference between the fair value of the Group's financial assets measured at fair value through other comprehensive income as at the reporting date and their fair value at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2019 related to the Group's development of software amount to AMD 488,542 thousand (31 December 2018: AMD 338,420 thousand).

Litigation

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

27. Related party transactions

Transactions with members of the key management

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

In thousands of Armenian Drams	***2019***	***2018***
Key management including the Board members	319,776	329,949
Total	**319,776**	**329,949**

Total amount of loans issued to the members of the key management outstanding as at 31 December 2019 is AMD 173,288 thousand (31 December 2018: AMD 183,833 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2019 is AMD 194,873 thousand (31 December 2018: AMD 261,940 thousand). During the year ended 31 December 2019 the Group recognized interest expenses in amount of AMD 25,540 thousand and interest income in amount of AMD 5,790 thousand from the transactions with the key management (31 December 2018: 29,216 AMD thousand and 4,513 AMD thousand). In accordance with the Bank's internal regulations, loans cannot be provided to the Bank's employees who have deposits with the Bank.

27. Related party transactions (continued)

Transactions with the Government of the Republic of Armenia

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

	31 December 2019		*31 December 2018*	
In thousands of Armenian Drams	***Balance outstanding***	***Average contractual interest rate***	***Balance outstanding***	***Average contractual interest rate***
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income (Note15)	13,189,425	11.4%	13,707,676	11.0%
	13,189,425		**13,707,676**	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	73,810,843		73,810,843	
Balance at 31 December	73,810,843		73,810,843	
Assets at 31 December	**87,000,268**		**87,518,519**	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	326,045,767	4.9%	184,926,978	4.5%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,248,593		5,822,025	
Liabilities at 31 December	**327,294,360**		**190,749,003**	

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

In thousands of Armenian Drams	***2019***	***2018***
Balance at 1 January	**135,487,725**	**115,325,158**
Additions	1,033,000,000	883,000,000
Interest charge	13,324,977	7,282,632
Redemption (including interest payment)	(896,812,227)	(870,120,065)
Balance at 31 December	**285,000,475**	**135,487,725**

The movement of the loans from the Government in domestic currency was as follows:

In thousands of Armenian Drams	***2019***	***2018***
Balance at 1 January	**321,865**	**965,468**
Interest charge	9,698	46,067
Redemption (including interest payments)	(331,563)	(689,670)
Balance at 31 December	**–**	**321,865**

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

In thousands of Armenian Drams	***2019***	***2018***
Consolidated statement of comprehensive income		
Interest income from Government securities	1,317,084	1,458,881
Interest expense	(13,737,026)	(8,049,811)
Net foreign exchange (loss)/gain	(59,234)	68,796
Net (loss)/gain on derivatives	(453,848)	552,850

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

27. Related party transactions (continued)

Transactions with other related parties

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

	31 December 2019		*31 December 2018*	
In thousands of Armenian Drams	***Balance outstanding***	***Average contractual interest rate***	***Balance outstanding***	***Average contractual interest rate***
Consolidated statement of financial position				
Liabilities				
Current accounts and term deposits (domestic currency) (Note 20)	284,157	5.5%	49,870	5.6%
Current accounts (foreign currency) (Note 20)	1,475,390	0.0%	1,745,105	0.0%
Total	**1,759,547**		**1,794,975**	

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

In thousands of Armenian Drams	***2019***	***2018***
Balance at 1 January	**1,794,975**	**3,060,662**
Additions	119,887,747	241,526,352
Interest charge	28,256	54,555
Redemption (including interest payment)	(119,951,431)	(242,846,594)
Balance at 31 December	**1,759,547**	**1,794,975**

28. Cash and cash equivalents

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

In thousands of Armenian Drams	***31 December 2019***	***31 December 2018***
Cash	39,603,848	42,238,172
Nostro accounts (Note 12)	534,601,773	310,841,888
SDR holdings in the IMF (Note 16)	2,953,756	2,887,490
Total cash and cash equivalents	**577,159,377**	**355,967,550**

29. Fair value of financial instruments

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

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements

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

In thousands of Armenian Drams	*31 December 2019*				*31 December 2018*			
	Level 1	***Level 2***	***Level 3***	***Total***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
Government bonds (Note 13)	639,177,514	–	–	**639,177,514**	362,393,253	–	–	**362,393,253**
State agency bonds (Note13)	24,001,326	–	–	**24,001,326**	41,246,973	–	–	**41,246,973**
Other securities (Note13)	100,531,491	–	–	**100,531,491**	289,090,024	–	–	**289,090,024**
Money market instruments (Note13)	9,648,011	–	–	**9,648,011**	12,130,223	–	–	**12,130,223**
Derivative financial assets (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**43,849**	**43,849**
Investment securities measured at fair value through other comprehensive income								
Foreign securities (Note15)	–	1,937,372	–	**1,937,372**	–	1,914,789	–	**1,914,789**
Securities of the Government of the Republic of Armenia (Note15)	–	13,189,425	–	**13,189,425**	–	13,707,676	–	**13,707,676**
Promissory note issued by the Government (Note15)	–	73,810,843	–	**73,810,843**	–	73,810,843	–	**73,810,843**
Corporate bonds in foreign currency (Note15)	–	761,584	–	**761,584**	–	1,067,864	–	**1,067,864**
Total assets with recurring fair value measurements	**773,358,342**	**89,699,224**	**–**	**863,057,566**	**704,860,473**	**90,501,172**	**43,849**	**795,405,494**

In thousands of Armenian Drams	*31 December 2019*			*31 December 2018*		
	Level 1	***Level 3***	***Total***	***Level 1***	***Level 3***	***Total***
Liabilities carried at fair value						
Financial liabilities						
Foreign currency futures under own management (Note14)	1,645	–	**1,645**	54,741	–	**54,741**
Forward contract with the Government (Note14)	–	79,455	**79,455**	–	–	**–**
Foreign currency futures under trust management (Note14)	–	–	**–**	42,299	–	**42,299**
Total liabilities with recurring fair value measurements	**1,645**	**79,455**	**81,100**	**97,040**	**–**	**97,040**

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

In thousands of Armenian Drams	***Fair value***	***Valuation technique***	***Inputs used***
Assets carried at fair value			
Financial assets			
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note15)	1,937,372	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note15)	761,584	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	13,189,425	DCF	Government bonds yield curve
Promissory note issued by the Government (Note15)	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**89,699,224**		

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2018:

In thousands of Armenian Drams	***Fair value***	***Valuation technique***	***Inputs used***
Assets carried at fair value			
Financial assets			
Investment securities available for sale			
Foreign securities (Note 15)	1,914,789	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note 15)	1,067,864	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15)	13,707,676	DCF	Government bonds yield curve
Promissory note issued by the Government	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**90,501,172**		

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

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

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018:

In thousands of Armenian Drams	***Fair value***	***Valuation technique***	***Inputs used***	***Range of inputs (weighted average)***	***Reasonable change***	***Sensitivity of fair value measurement***
Assets carried at fair value						
Financial assets						
Derivative financial assets	13,938	DCF	1) AMD risk-free rate	1) 5.99%	1) +100/-80 b.p.	1) (2,532)/2,044
			2) USD risk-free rate	2) 4.46%	2) +50/-15 b.p.	2) 1,259/(379)
			3) EUR risk-free rate	3) 1.59%	3) + 20/-1 b.p.	3) 9/(0.4)
			4) USD/AMD spot rate at the year-end	4) 483.75	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 553.65	5) n/a	5) n/a
			6) Expected net amount of external debt – USD	6) USD 6,445 thousand	6) ±10%	6) (1,414)/1,414
			7) Expected net amount of external debt – EUR	7) EUR 100 thousand	7) ±10%	7) (20)/20

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

29. Fair value of financial instruments (continued)

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

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

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

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

	31 December 2019			*31 December 2018*		
In thousands of Armenian Drams	***Level 2***	***Level 3***	***Carrying value***	***Level 2***	***Level 3***	***Carrying value***
Financial assets						
Placements with banks and other financial institutions in foreign currency						
Nostro accounts	534,601,773	–	534,601,093	310,841,888	–	310,841,261
Term deposits	25,490,105	–	25,388,880	31,604,817	–	31,479,341
Cash included in assets under trust management	–	–	–	5,689,324	–	5,689,324
Margin requirements of interest rate futures	2,015	–	2,015	56,931	–	56,931
Placements and investments with banks and other financial institutions in domestic currency						
Repurchase agreements and other overnight facilities	126,669,774	–	126,669,774	163,433,113	–	163,433,113
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	126,172,483	–	125,805,219	126,846,911	–	125,409,306
Mortgage refinancing	91,827,494	–	90,352,136	73,037,990	–	76,542,692
Deposits and current accounts placed in commercial banks	63,899,322	–	63,580,371	50,778,773	–	50,708,941
Other loans and investments	3,277,650	22,882,147	27,475,368	3,374,976	21,550,404	27,554,109
Total	**971,940,616**	**22,882,147**	**993,874,856**	**765,664,723**	**21,550,404**	**791,715,018**

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

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

	31 December 2019		*31 December 2018*	
In thousands of Armenian Drams	***Level 2***	***Carrying value***	***Level 2***	***Carrying value***
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
Current accounts of the Government	1,248,593	**1,248,593**	5,822,025	**5,822,025**
Domestic currency liabilities				
Current accounts of the Government	41,045,292	**41,045,292**	49,117,388	**49,117,388**
Term deposits	285,098,705	**285,000,475**	135,463,400	**135,487,725**
Loans from the Government	–	**–**	321,865	**321,865**
Debt securities issued	6,756,066	**6,626,428**	8,006,693	**7,838,688**
Total	**334,148,656**	**333,920,788**	**198,731,371**	**198,587,691**

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

30. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, assessment, treatment, monitoring and reporting, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is responsible for the risk exposures relating to his or her duties. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

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

The Board

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

Institutional framework

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

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

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

Administration and control

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

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

Asset allocation and risk management

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

Credit risk

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

30. Risk management (continued)

Credit risk (continued)

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

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

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

Derivative financial instruments

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

Maximum credit risk without collateral or other credit enhancement

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

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

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

30. Risk management (continued)

Credit quality per class of financial assets

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

		31 December 2019		*31 December 2018*	
In thousands of Armenian Drams	***Credit rating***	***Amount***	***% in financial assets***	***Amount***	***% in financial assets***
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
Nostro accounts	P-1	532,987,070	95.2	309,503,541	89.0
	P-3	917,020	0.2	745,740	0.2
	NP	479,581	0.1	9,997	0.0
	Unrated	218,102	0.0	582,610	0.1
Term deposits	P-1	16,802,086	3.0	26,713,063	7.6
	Unrated	5,291,040	0.9	2,422,901	0.7
	NP	3,442,970	0.6	2,428,027	0.7
Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	2,015	0.0	5,746,255	1.7
Impairment allowance		(147,896)		(85,277)	
Total placements with banks and other financial institutions in foreign currency		**559,991,988**	**100.0**	**348,066,857**	**100.0**
Financial instruments at fair value through profit and loss					
Government bonds	Aaa	554,666,536	71.7	339,271,806	48.1
	Aa1-Aa3	84,510,978	11.0	23,121,447	3.3
State agency bonds and other securities	Aaa	24,001,326	3.1	23,291,590	3.3
	Aa1-Aa3	–	0.0	17,955,383	2.5
Other securities	Aaa	92,376,738	11.9	244,997,616	34.8
	Aa1-Aa3	8,154,753	1.1	43,462,831	6.2
	Aa1	–	0.0	629,577	0.1
Money market instruments	Unrated	9,648,011	1.2	12,130,223	1.7
Total financial instruments at fair value through profit and loss		**773,358,342**	**100.0**	**704,860,473**	**100.0**
Financial assets measured at fair value through other comprehensive income, excluding equity investments					
Securities of the Government of the Republic of Armenia	Ba3	13,189,425	15.0	–	0.0
Securities of the Government of the Republic of Armenia	B1	–	0.0	13,707,676	15.5
Promissory note issued by the Government	Ba3	73,810,843	84.1	–	0.0
Promissory note issued by the Government	B1	–	0.0	73,810,843	83.3
Corporate bonds in foreign currency	Unrated	761,584	0.9	1,067,864	1.2
Total financial assets measured at fair value through other comprehensive income, excluding equity investments		**87,761,852**	**100.0**	**88,586,383**	**100.0**

As at 31 December 2019 current accounts and term deposits included in the unrated credit rating category amounting to AMD 207,768 thousand and AMD 5,291,040 thousand respectively (31 December 2018: AMD 166,690 and 2,422,901 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

As at 31 December 2019 money market instruments included in the unrated credit category amounting to AMD 9,648,011 thousand represent securities issued by the Bank for International Settlements and are considered to have low credit risk (31 December 2018: AMD 12,130,223 thousand).

30. Risk management (continued)

Credit quality per class of financial assets

In thousands of Armenian Drams	Credit rating	31 December 2019 Amount	31 December 2019 % in financial assets	31 December 2018 Amount	31 December 2018 % in financial assets
Placements and investments with banks and other financial institutions in domestic currency					
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	6,122,724	4.8	5,680,274	4.4
	Not due at the date of authorisation of the consolidated financial statements for issue	121,853,329	95.2	122,157,277	95.6
Total		**127,976,053**	**100.0**	**127,837,551**	**100.0**
Mortgage refinancing	Settled after the end of the reporting period	4,349,372	4.8	3,807,115	5.0
	Not due at the date of authorisation of the consolidated financial statements for issue	86,024,586	95.2	72,759,544	95.0
Total		**90,373,958**	**100.0**	**76,566,659**	**100.0**
Deposits and current accounts in commercial banks	Settled after the end of the reporting period	7,457,060	11.7	12,950,261	25.4
	Not due at the date of authorisation of the consolidated financial statements for issue	56,469,363	88.3	37,992,189	74.6
Total		**63,926,423**	**100.0**	**50,942,450**	**100.0**
Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	126,669,774	100.0	163,433,113	100.0
Total		**126,669,774**	**100.0**	**163,433,113**	**100.0**
Investments measured at amortised cost	Settled after the end of the reporting period	2,549,404	10.6	583,173	2.4
	Not due at the date of authorisation of the consolidated financial statements for issue	21,533,083	89.4	23,507,102	97.6
Total		**24,082,487**	**100.0**	**24,090,275**	**100.0**
Other loans		3,447,368	100.0	3,579,296	100.0
Total		**3,447,368**	**100.0**	**3,579,296**	**100.0**
Impairment allowance		**(2,593,195)**		**(2,801,183)**	
Total placements and investments with banks and other financial institutions in domestic currency		**433,882,868**	**–**	**443,648,161**	**–**

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

Impairment assessment

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

PD — The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD — The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD — The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

30. Risk management (continued)

Impairment assessment (continued)

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

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When assets are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2.

Stage 2: When an asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.

Stage 3: Assets considered credit-impaired. The Group records an allowance for the LTECL.

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

Definition of default and cure

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

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

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

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

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

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

Exposure at default

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

30. Risk management (continued)

Impairment assessment (continued)

Loss given default

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

Significant increase in credit risk

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

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

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

Forward-looking information and multiple economic scenarios

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

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

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

Offsetting financial assets and financial liabilities

As at 31 December 2019 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions. The trust manager may set off the Group's liabilities with the margin deposit in case of default.

30. Risk management (continued)

Offsetting financial assets and financial liabilities (continued)

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

In thousands of Armenian Drams	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position* — *Financial instruments*	*Net amount*
31 December 2019					
Financial assets					
Repurchase agreements and other overnight facilities	126,669,774	–	126,669,774	126,669,774	**–**
Total	**126,669,774**	**–**	**126,669,774**	**126,669,774**	**–**

In thousands of Armenian Drams	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position* — *Financial instruments*	*Net amount*
31 December 2018					
Financial assets					
Repurchase agreements and other overnight facilities	163,433,113	–	163,433,113	163,433,113	**–**
Total	**163,433,113**	**–**	**163,433,113**	**163,433,113**	**–**

The geographical concentration of the Group's assets and liabilities is set out below:

	31 December 2019				*31 December 2018*			
In thousands of Armenian Drams	***Armenia***	***OECD***	***CIS and other foreign banks***	***Total***	***Armenia***	***OECD***	***CIS and other foreign banks***	***Total***
Assets								
Cash	39,603,848	–	–	**39,603,848**	42,238,172	–	–	**42,238,172**
Placements with banks and other financial institutions in foreign currency	8,866,115	547,390,347	3,735,526	**559,991,988**	4,944,031	341,961,418	1,161,408	**348,066,857**
Placements and investments with banks and other financial institutions in domestic currency	433,882,868	–	–	**433,882,868**	443,648,161	–	–	**443,648,161**
Financial instruments at fair value through profit or loss	–	773,358,342	–	**773,358,342**	–	704,860,473	–	**704,860,473**
Derivative financial assets	–	–	–	**–**	43,849	–	–	**43,849**
Financial assets measured at fair value through other comprehensive income	88,633,726	1,940,583	–	**90,574,309**	89,348,388	1,918,000	–	**91,266,388**
Placements with the IMF	–	88,398,230	–	**88,398,230**	–	89,548,497	–	**89,548,497**
Property and equipment and intangible assets	68,700,679	–	–	**68,700,679**	71,531,642	–	–	**71,531,642**
Other assets	12,239,109	60,029	111,846	**12,410,984**	14,795,872	62,689	97,272	**14,955,833**
Total assets	**651,926,345**	**1,411,147,531**	**3,847,372**	**2,066,921,248**	**666,550,115**	**1,138,351,077**	**1,258,680**	**1,806,159,872**
Liabilities								
Notes and coins in circulation	607,209,301	–	–	**607,209,301**	566,706,467	–	–	**566,706,467**
Deposits and accounts of financial and other institutions	722,819,276	13,072	568,931	**723,401,279**	614,176,880	13,072	318,898	**614,508,850**
Derivative financial liabilities	79,455	1,645	–	**81,100**	–	97,040	–	**97,040**
Due to the Government	327,294,360	–	–	**327,294,360**	190,749,003	–	–	**190,749,003**
Due to the IMF	–	240,948,903	–	**240,948,903**	–	266,323,100	–	**266,323,100**
Other borrowed funds	–	136,151,500	6,590,621	**142,742,121**	–	145,026,239	6,684,513	**151,710,752**
Debt securities issued	6,626,428	–	–	**6,626,428**	7,838,688	–	–	**7,838,688**
Other liabilities	4,557,977	177,340	618,296	**5,353,613**	4,649,880	287,622	333,144	**5,270,646**
Total liabilities	**1,668,586,797**	**377,292,460**	**7,777,848**	**2,053,657,105**	**1,384,120,918**	**411,747,073**	**7,336,555**	**1,803,204,546**
Net assets	**(1,016,660,452)**	**1,033,855,071**	**(3,930,476)**	**13,264,143**	**(717,570,803)**	**726,604,004**	**(6,077,875)**	**2,955,326**

30. Risk management (continued)

Liquidity risk and funding management

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2019 and 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

	31 December 2018						
In thousands of Armenian Drams	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 months to 1 year***	***From 1 to 5 years***	***More than 5 years***	***No maturity***	***Total***
Financial liabilities							
Notes and coins in circulation	566,706,467	–	–	–	–	–	**566,706,467**
Deposits and accounts of financial and other institutions	612,518,304	–	200,700	2,100,625	–	–	**614,819,629**
Derivative financial liabilities	97,040	–	–	–	–	–	**97,040**
Due to the Government	75,591,432	97,812,401	18,503,791	–	–	–	**191,907,624**
Due to the IMF	–	1,317,354	19,937,289	85,235,919	21,161,217	145,687,369	**273,339,148**
Other borrowed funds	699,760	–	15,273,479	72,021,333	85,185,419	–	**173,179,991**
Debt securities issued	–	124,500	5,258,160	3,373,500	–	–	**8,756,160**
Total non-discounted financial liabilities	**1,255,613,003**	**99,254,255**	**59,173,419**	**162,731,377**	**106,346,636**	**145,687,369**	**1,828,806,059**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios.

30. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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

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

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

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2019 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	2019		***2018***	
In thousands of Armenian Drams	***Change in yield curve, b.p.***	***Effect on equity***	***Change in yield curve, b.p.***	***Effect on equity***
Currency				
AMD	+100	(617,272)	+100	(616,764)
AMD	-100	671,185	-80	532,393
USD	+35	(19,763)	+50	(16,287)
USD	-35	7,868	-15	5,229

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2019 and 31 December 2018, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

	2019		***2018***	
	Change in basis points	***Increase/(decrease) of net result on financial instruments at FVTPL and equity***	***Change in basis points***	***Increase/(decrease) of net result on financial instruments at FVTPL and equity***
Currency				
USD	+100/-100	(4,380,747)/4,380,747	+50/-15	(2,595,600)/778,680
EUR	+50/-50	(503,299)/503,299	+20/-1	(65,493)/817,498
GBP	+20/-20	(26,083)/26,083	+50/-20	(130,250)/52,100

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2019 and 31 December 2018.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2019 and 31 December 2018 based on the assumption of changing interest rates on borrowings obtained by the Group:

	2019		***2018***	
In thousands of Armenian Drams	***Change in basis points***	***Increase/(decrease) of net interest expense and decrease/(increase) of equity***	***Change in basis points***	***Increase/(decrease) of net interest expense and decrease/(increase) of equity***
Currency				
USD	+/-145	299,205/(299,205)	+/-161	342,279/(342,279)
SDR	+/-41	394,759/(394,759)	+/-36	407,588/(407,588)

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

30. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board sets the clear principles of currency allocation, whereas the Investment Committee determines and revises the actual weights of respective currencies.

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

	2019		*2018*	
In thousands of Armenian Drams	***Increase in currency rate in %***	***Increase/ (decrease) of profit and equity***	***Increase in currency rate in %***	***Increase/ (decrease) of profit and equity***
Currency				
USD	3.00%	18,882,379	3.50%	18,192,069
EUR	6.50%	11,089,753	8.00%	9,350,778
GBP	9.00%	3,316,392	10.00%	3,570,141
JPY	6.50%	1,034,228	7.00%	1,489,656
RUB	13.00%	50,093	15.00%	56,940
SDR	5.00%	(7,957,065)	6.00%	(11,007,547)

	2019		*2018*	
In thousands of Armenian Drams	***Decrease in currency rate in %***	***Increase/ (decrease) of profit and equity***	***Decrease in currency rate in %***	***Increase/ (decrease) of profit and equity***
Currency				
USD	-3.00%	(18,882,379)	-3.50%	(18,192,069)
EUR	-6.50%	(11,089,753)	-8.00%	(9,350,778)
GBP	-9.00%	(3,316,392)	-10.00%	(3,570,141)
JPY	-6.50%	(1,034,228)	-7.00%	(1,489,656)
RUB	-13.00%	(50,093)	-15.00%	(56,940)
SDR	-5.00%	7,957,065	-6.00%	11,007,547

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

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

Operating risk – control over subsidiaries

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

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

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

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

31. Maturity analysis

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

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

	31 December 2018		
In thousands of Armenian Drams	***Current***	***Non-current***	***Total***
Assets			
Cash	42,238,172	–	**42,238,172**
Placements with banks and other financial institutions in foreign currency	344,738,924	3,327,933	**348,066,857**
Financial instruments at fair value through profit or loss	704,860,473	–	**704,860,473**
Placements and investments with banks and other financial institutions in domestic currency	241,356,600	202,291,561	**443,648,161**
Derivative financial assets	43,849	–	**43,849**
Financial assets measured at fair value through other comprehensive income	75,369,453	15,896,935	**91,266,388**
Placements with the IMF	2,893,145	86,655,352	**89,548,497**
Property and equipment	–	68,740,919	**68,740,919**
Intangible assets	–	2,790,723	**2,790,723**
Other assets	13,199,399	1,756,434	**14,955,833**
Total assets	**1,424,700,015**	**381,459,857**	**1,806,159,872**
Liabilities			
Notes and coins in circulation	566,706,467	–	**566,706,467**
Deposits and accounts of other financial institutions	612,508,850	2,000,000	**614,508,850**
Derivative financial liabilities	97,040	–	**97,040**
Due to the Government	190,749,003	–	**190,749,003**
Due to the IMF	19,550,143	246,772,957	**266,323,100**
Other borrowed funds	13,226,647	138,484,105	**151,710,752**
Debt securities issued	4,838,688	3,000,000	**7,838,688**
Other liabilities	5,235,792	34,854	**5,270,646**
Total liabilities	**1,412,912,630**	**390,291,916**	**1,803,204,546**
Net position as at 31 December 2018	**11,787,385**	**(8,832,059)**	**2,955,326**

32. Changes in liabilities arising from financing activities

In thousands of Armenian Drams	***Total liabilities from financing activities***
Carrying amount at 31 December 2017	**448,299,233**
Loans received	9,419,398
Loans redeemed	(29,292,741)
Foreign currency translation	(10,199,454)
Other	129,281
Carrying amount at 31 December 2018	**418,355,717**
Carrying amount at 1 January 2019	**418,838,705**
Loans received	6,346,555
Loans redeemed	(34,421,137)
Lease payments	(82,489)
Foreign currency translation	(6,392,359)
Other	(172,406)
Carrying amount at 31 December 2019	**384,116,869**

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

33. Events after the reporting period

The recent outbreak of novel coronavirus (COVID-19) negatively affects economic conditions regionally as well as globally. The full impact of coronavirus outbreak is unclear yet and the Group monitors the situation closely. As the situation is fluid and rapidly evolving, the Group doesn’t consider it practicable to provide quantitative assessment of the potential impact of the outbreak on the Group.

Following to the Group’s policy disclosed in Note 30, in March 2020 the Group announced its intention to dispose its investment in the subsidiary engaged in cash delivery/transportation activities through liquidation.



CENTRAL BANK
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