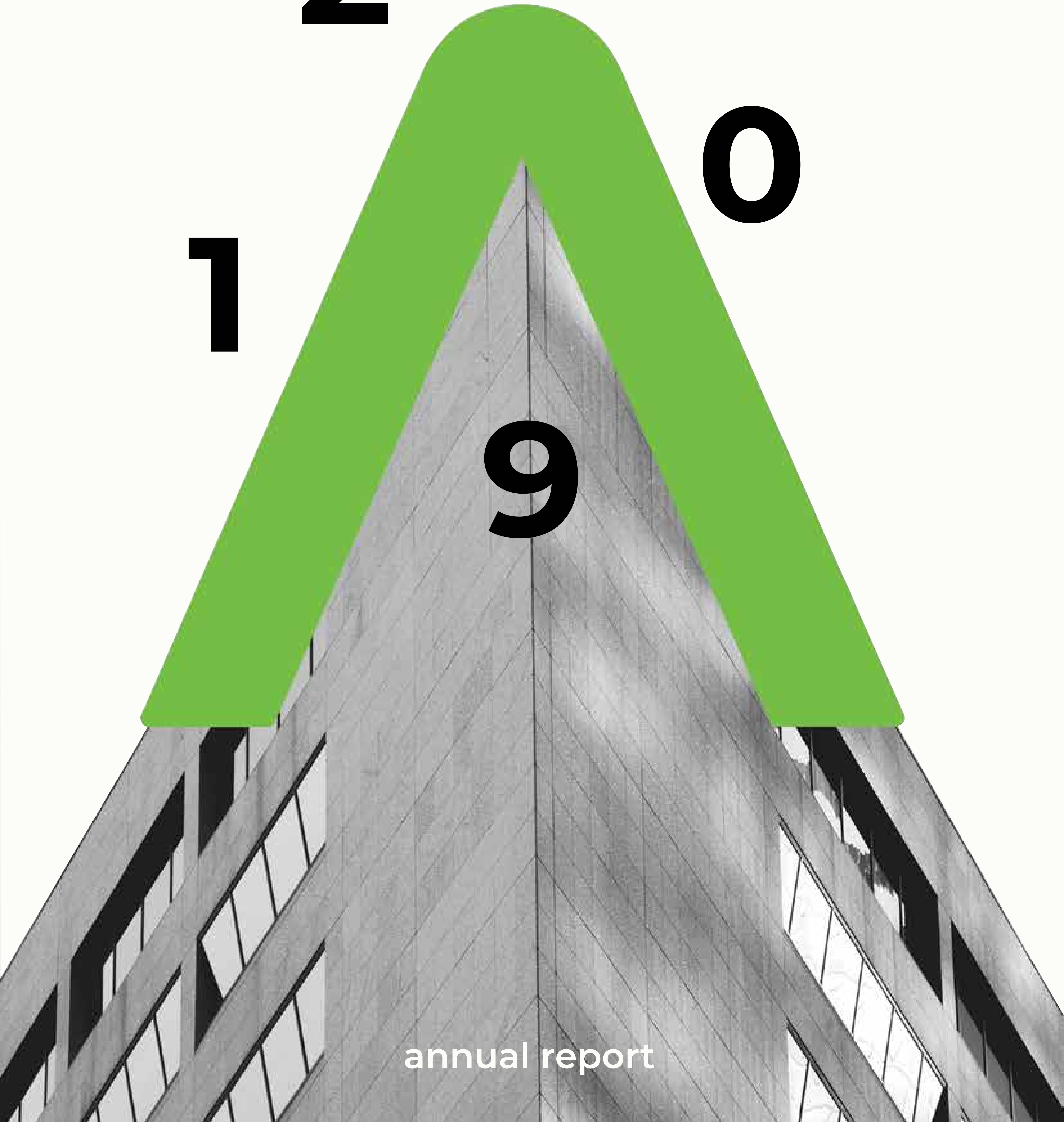
AMERIABANK

2019



annual report

contents

Ameriabank at a glance

Ameriabank is a dynamically developing bank and one of the major and most stable financial institutions in Armenia with clearly formulated digital agenda. Being the first investment bank in Armenia, Ameriabank is now a universal bank offering innovative corporate, investment and retail banking services in a comprehensive package of banking solutions. Ameriabank is the leading bank in Armenia as measured by all key financial indicators (assets, liabilities, loans portfolio, net profit and equity) according to the 2019 year reportable data. In line with its mission of “improving the quality of life”, Ameriabank is currently going through a transformation process to become a more customer-centric bank, by enhancing digital capabilities and developing new products and solutions based on the evolving needs and preferences of the customers.

performance highlights

The absolute leader of Armenian Banking Sector
by key financial indicators:

Assets
AMD 968 bn
16.8% market share
24.2% YoY growth

Equity
AMD 101 bn
12.0% market share
12.8% YoY growth

Net Loans & Advances
AMD 586 bn
16.4% market share
6.9% YoY growth

Net Profit
AMD 12.1 bn
15.2% market share
15.4% YoY growth

Liabilities
AMD 867 bn
17.6% market share
25.6% YoY growth

- **Strong Omni channel Distribution Platform with Focus on Digital:**

82.4% Offloading Ratio
5.4pp YoY growth ↑

34.0% Online Baking Penetration Rate
10pp YoY growth ↑

- **Superior Customer Service with high satisfaction scores:**

NPS 70.0%

CEI* **9.45**

- **Highest possible credit ratings for a bank operating in Armenia:**

S&P	
Long-term	**B+**
Short-term	**B**
Outlook	**stable**
SACP	**bb-**

Moody's	
Bank Deposits (LC)	**Ba3/NP**
Bank Deposits (FC)	**B1/NP**
BCA	**ba3**
CRA	**Ba3(cr)/NP**
Outlook	**stable**

* Client Experience Index with max possible value of 10

chairman's statement

Andrew Mkrtchyan
Chairman of the Board

Dear Shareholders,

Ameriabank has once again delivered strong financial performance in 2019 while making significant progress towards its strategic goals. 2019 was a year of ambitious transformations on our way of becoming a more digital, efficient and customer-centric organization. The company-wide transformations initiated in 2018 were successfully finalized this year, creating a more flexible and effective organizational structure and supporting our digitalization strategy immensely. These transformations have already proved to be effective, improving the operational efficiency, enhancing overall service quality and helping us successfully deliver our digital agenda for 2019.

In 2019, we not only maintained our leadership position in the market, but outpaced the market in terms of assets growth increasing our market share by 0.9 pp. We registered tangible progress in terms of all key performance metrics, with significantly higher profitability, stronger capital position, better diversification and significant growth of the loan book. We are more than ever close to our IPO target, having already met most of the financial performance prerequisites that we set for ourselves years ago.

This year's performance was delivered against a largely supportive external environment. The political situation in Armenia stabilized after Parliamentary elections in late 2018 ensuring an attractive business environment and supporting further economic growth. 2019 was another successful year for Armenian economy, with GDP increasing by a solid 7.6%, 12 month cumulative inflation of 1.4% and stable exchange rate. This was achieved despite government austerity and halts and delays of a several large-scale strategic projects.

As a result of strong macroeconomic performance and improved public debt indicators, Moody's upgraded Armenia's sovereign rating to Ba3 from B1, followed by another rating upgrade by Fitch Ratings to BB- from B+.

With these positive prerequisites, Armenian government successfully returned to the international capital markets in Q3 2019 with a benchmark $500mn 10-year Eurobond offering, refinancing a previous Eurobond tranche and significantly improving future debt service burden. On the back of strong order book momentum, the final yield was fixed at 4.2%, marking the lowest yield at placement for a USD CEEMEA Sovereign in the BB rating space since 2013.

Solid macro fundamentals ensured positive outcomes for the banking system, with increased overall profitability, improved loan portfolio quality and overall rather balanced risk profile. Fierce competition continued to be one of the main characteristics of our banking system, with significant pressure on margins and profitability. Despite the challenging environment, we managed to improve our interest margins and profitability.

The year was also marked with significant advancements towards digitalization as almost all players were investing heavily in new technologies and solutions. We are vigilant as competition in this sphere continues to grow, and not just from banks, but from telecom and fintechs as well. With this in mind, in 2019 we have set the firm ground for delivering on our mid-term digital strategy and becoming an increasingly client-centric, faster and simpler financial services provider. We have been actively working towards developing and advancing innovative solutions for clients and becoming disruptive in our market.

We have managed to plant the seeds for much better performance in the near future and can proudly state, that we are more than ever ready to face new challenges. We operate in the most prudent regulative environment in the region, which of course ensures financial stability, but also means stringent regulatory standards. Our banking system has been one of the champions in the implementation of IFRS 16, IFRS 9 and harmonization of the regulatory framework with Basel III. Against the upcoming substantial increases in regulatory capital requirements, we have been building up sufficient financial strength, so that to maintain the right level of capital for balancing safety and returns.

Looking ahead to 2020, we are committed to continue our pioneering role in the Armenian financial system and affirm our position as the leader by size and performance indicators. Efficiency and diversification will continue to be the main drivers for reaching our strategic objectives, but we aim to put more stress on client centricity and digital transformation. In line with our mission of "Improving the quality of life", we will be leveraging on strong digital capabilities to ensure superior customer experience and availability of innovative products and solutions. We will also continue to invest heavily into talent acquisition and development to ensure top professionalism and the right corporate culture for delivering on our ambitious goals.

On behalf of the Board of Directors, I would like to thank the team for their outstanding efforts and consistent performance. It is the commitment, energy and hard work of the team that enables us to reach new highs. I am confident that with such a united team we will successfully accomplish our new strategic objectives ensuring sustainable returns to our shareholders and creating long-term value for our stakeholders.

Andrew Mkrtchyan
Chairman of the Board

Ameriabank annual report 2019

chief executive's review

Artak Hanesyan
Chairman of the Management Board, CEO

I am honored to announce that Ameriabank completed another successful year of 2019 marked by a steadfast leading performance in the banking system by key financial indicators - assets, loans, liabilities, equity and net profit.

The peaceful political transition in 2018 had created a profitable platform for the country's prosperity. 2019 was the chronological result of the expected stability in the country from both political and economic perspectives. Aiming at ensuring sustainable economic growth in Armenia, the new Government's priorities included tax reforms, fair competition, transparency and accountability, which guaranteed favorable business environment.

The positive economic situation created strong foundations for our outstanding financial performance. We closed the year with record AMD 12.1 bn in net profit, delivering 15.4% YoY growth, which resulted in return on average equity (ROAE) of 12.8% - a YoY growth by 0.2 pp. The main drivers of our robust profitability were strong income generation and improved asset quality. Our net interest income increased by 13.4% YoY reaching AMD 31 bn. Due to our proactive approach and prudent risk management, we had significant improvement in asset quality with NPL ratio of 2.9% as of year-end, compared to 3.3% in 2018, and impairment losses decreased considerably (a YoY decrease of 23.4%).

In terms of Balance Sheet indicators, we registered 24.2% growth of assets, which resulted in a market share of 16.8%, up by 0.9 pp YoY. Our gross loan book expanded by 6.3%, due to continued record growth of retail loans portfolio – 48.3%, as we were limiting large corporate loan book aiming to further decrease concentrations risk and meet our diversification targets. Our deposits and bonds increased by 44.0%, thus making our market share 17.7%, up by 3pp YoY.

Our consistently robust profitability metrics, strong capital position and sufficient liquidity were the basis for Moody's to upgrade Ameriabank's long-term local currency deposit rating to Ba3/NP from B1 and long-term foreign currency deposit rating to B1/NP from B2.

In 2019, we continued our successful partnership with IFIs. As a solid ground for our loan portfolio diversification in key sectors of the country's economy, we signed a financing agreement in the amount of USD 30 mn with OeEB, the Development Bank of Austria, dedicated to financing SMEs, as well as renewable energy and energy efficiency projects in Armenia. Another USD 25 mn loan agreement aimed at promoting the expansion of Ameriabank's international trade portfolio was signed with OFID – the OPEC Fund for International Development. Aiming at supporting "green" projects and youth financing in Armenia we signed USD 20 mn equivalent Local Currency Facility Agreement with FMO, the Dutch development bank, which was the first local currency loan issued by FMO on its own books in Armenia.

2019 was marked by multiple reputable awards and recognitions of excellence as well, all stating our leadership in the local market. We received the Bank of the Year 2019 by the Banker magazine and Euromoney Award for Excellence 2019 already for the sixth and the seventh time respectively. Ameriabank was also recognized as the Best Bank in Armenia by EMEA Finance Magazine in acknowledgement of both the significant improvements in service channels and achievements in digital banking.

I am pleased to inform that in 2019 we also had significant achievements in Investment Banking, acting as a Lead Arranger for one of Armenia's largest corporate's - Zangezur Copper Molybdenum Combine's, inaugural USD 50mn and AMD 2.5bn bond offerings. The transaction marked a milestone in the Armenian capital markets being the largest ever debt offering. This truly unprecedented transaction will contribute immensely to the promising future of Armenian capital markets.

In terms of our digital transformation as a strategic priority, 2019 was truly an exceptional year for us. We completed the bank's structural revision initiative launched in late 2018, paving the way for more efficient business processes, better time to market and more agile approach to strategic projects implementation with main focus on our digital transformation. In 2019, we managed to already register significant progress in delivering on our digital agenda and enhancing distance banking capabilities. Our offloading ratio reached 82.4%, up by 5.4 pp YoY, while, over the same period, our online banking penetration grew by 10 pp and amounted to 34.0%. The number of our internet banking users and internet banking transactions increased by 89.0% and 76.0% respectively YoY. For the upcoming years we have set quite ambitious targets for our digital transformation and will focus on customer migration from mere distance to pure digital channels.

As demonstrated in the past years, we remain committed to delivering against our strategic targets and resilient to changing market conditions. I am confident that we are on the right track to sustain this progress and continue to create value for our shareholders through our focus on growth, efficiency and digital transformation. And of course, we are able to do it only due to hard work and commitment of our experienced team along with our unique corporate culture.

Artak Hanesyan
Chairman of the Management Board-General Director

Ameriabank annual report 2019

historic milestones

developments and achievments in 2019

- Rating upgrade of Ameriabank's long-term local currency deposit rating to Ba3 from B1 and the bank’s Long-term Counterparty Risk Ratings (Local and Foreign Currency) to Ba2 from Ba3 with stable outlook by **Moody’s**.
- EUR equivalent to USD 5 mn subordinated loan transaction with the Global Climate Partnership Fund **(GCPF)**.
- USD 20 mn equivalent Local Currency Facility Agreement with **FMO**, the first local currency loan issued by FMO on its own books in Armenia, dedicated to financing renewable energy and energy efficiency projects, as well as financing home mortgage, education and business loans to people younger than 35 in Armenia.
- USD 25 mn senior loan agreement with **OFID**, aimed at trade financingin Armenia across a diverse range of sectors, in this way supporting the expansion of Ameriabank’s international trade portfolio.
- USD 30 mn senior loan agreement with **OeEB** to support the growth and expansion of SME business activities, as well as to finance renewable energy and energy efficiency projects in Armenia.
- USD 9.7 mn from **Raiffeisen Bank** International and USD 7.0 mn deal from **Unicredit Austria Bank** for trade finance.
- USD 14 mn loan, a part of which under the existing credit limit by **Citibank**, and the rest- secured by the guarantee of the **Asian Development Bank.**
- USD 175 mn securitization of loans launched by **responsAbility Investments AG** arranged by JP Morgan, backed by the US Overseas Private Investment Corporation as investor, and partnered with Ameriabank as financial intermediary in Armenia with USD 9.4 mn share.
- Acting as **Lead Arranger** and Bookrunner for Armenia’s largest taxpayer Zangezur Copper Molybdenum Combine’s inaugural USD 50mm and AMD 2.5 billion 3-year local bond offering, marking a milestone in the Armenian capital markets.

Ameriabank’s road to success

2018-2019
USD 30 mn **equity investment by ADB** in early 2018**

Ba3 rating with stable outlook by Moody’s

B+ rating with stable outlook by S&P

2017
Absolute leader in RA by key finacial indicators

2015
USD 30 mn **equity investment by EBRD.***

USD 50mn **sub debt from IFC.***

1st published international credit rating (**B+** rating with stable Outlook by Fitch)

2011-2014
Became the leading bank in RA.

Strategic decision to become a universal bank, significantly increasing retail Banking share.

2010
1st banking merger deal in RA: Ameriabank and Cascade bank signed merger deal.

2008-2009
Rebranded to Ameriabank

Unprecedented growth and global crisis

2007
1st bank aquisition deal in RA: acquired shares of one of the oldest yet smallest banks in RA

2000-2007
Ameria became a **Group of companies** with expanded business lines: Legal & Tax Advisory, Business Advisory, Investment Banking, Asset Management

1998
Ameria Advisory was founded by local and Diaspora investors

* the largest deal with FI in Armenia
** the first equity investment of ADB in Armenia

global partners

Ameriabank's IFI partners and the aggregate amounts of transactions since cooperation start date

All amounts are in USD

IFC — since 2009
115 mn of which
50 mn sub. debt

FMO Entrepreneurial Development Bank — since 2009
150 mn of which
20 mn sub. debt

DEG KFW BANKENGRUPPE — since 2009
55 mn

European Bank for Reconstruction and Development — since 2010
170 mn of which
40 mn equity

Eurasian Development Bank — since 2010
60 mn

ADB — since 2011
77 mn of which
30 mn equity

Proparco Groupe Agence Française de Développement — since 2013
35 mn

OeEB — since 2013
55 mn

Black Sea Trade & Development Bank — since 2014
25 mn

OFID The OPEC Fund for International Development — since 2015
45 mn

Global Climate Partnership Fund managed by responsAbility — since 2016
45 mn of which
15 mn sub debt

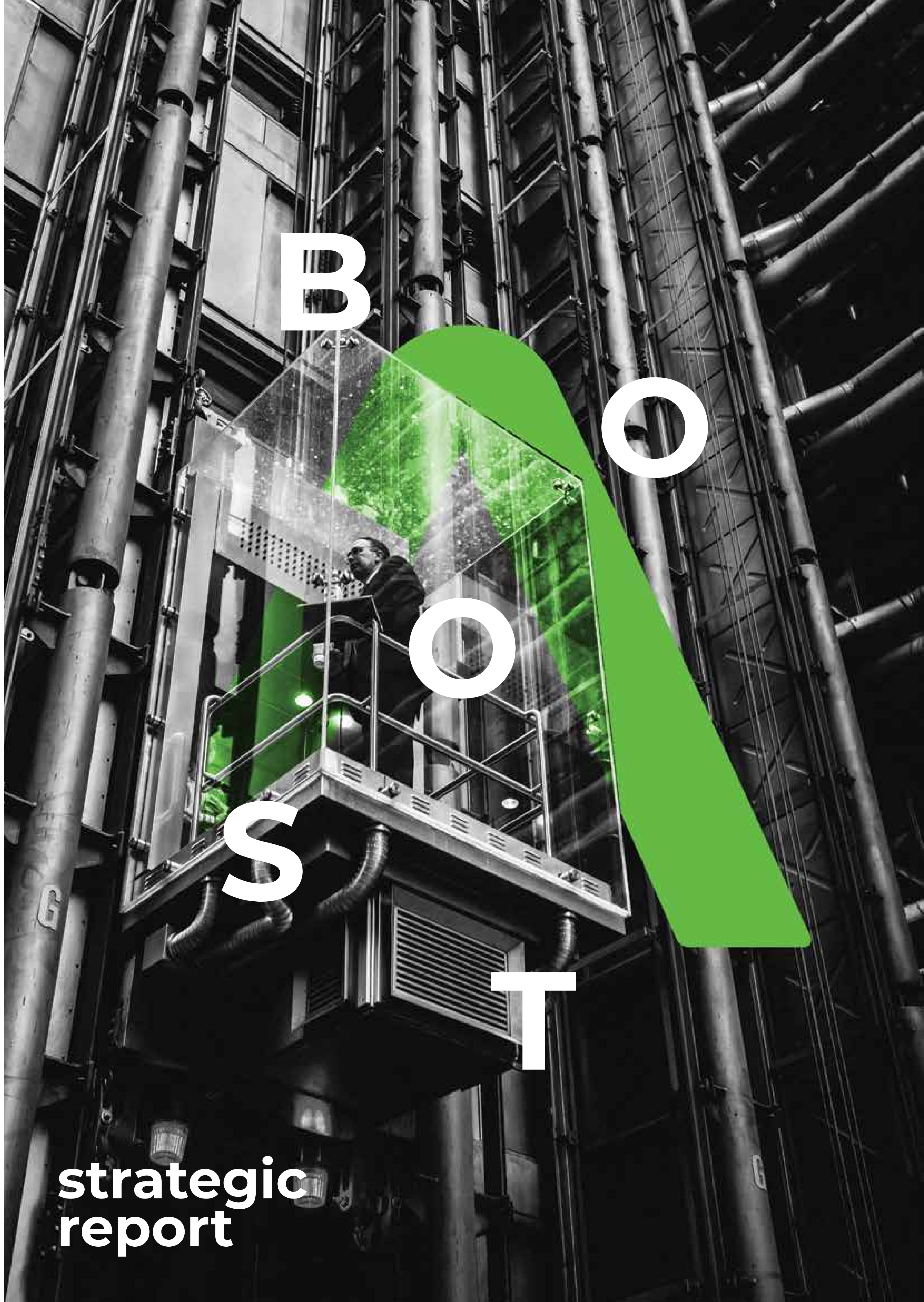
responsAbility — since 2016
38,4 mn of which
9 mn sub. debt

symbiotics — since 2018
11 mn

awards

2019 Awards & Certificates

- “Bank of the Year 2019” in Armenia by **The Banker** magazine
- **Euromoney** Award for Excellence 2019 as “The Best Bank” in Armenia
- ”The Best Investment Bank” in Armenia by the **Global Finance** magazine
- **IFC** award as the “Best Issuing Bank Partner in the Caucasus and Central Asia Award 2019”
- **IFC** award as “Best Bank Partner for Equipment Trade in Europe and Central Asia 2019”
- **ADB** award as the “Leading Partner Bank in Armenia 2019”
- **EBRD** award as “The Most Active Issuing bank in Armenia for 2018”
- **EBRD** “Agent of Change 2018” award for supporting green investments in greenhouses
- **AMX** Awards of Armenia Securities Exchange and Central Depository as “The Best Exchange Member on Government Bonds Market 2019” and “The Best Account Operator-Custodian of Depository System in Foreign Securities Market 2019”
- **Global CIO** recognition of Ameriabank’s data processing center as the best solution in its annual Project of the Year contest
- **WOW! HR** Armenia award as the winner in the nomination of “WORKPLACE” with “Ameria City” Project



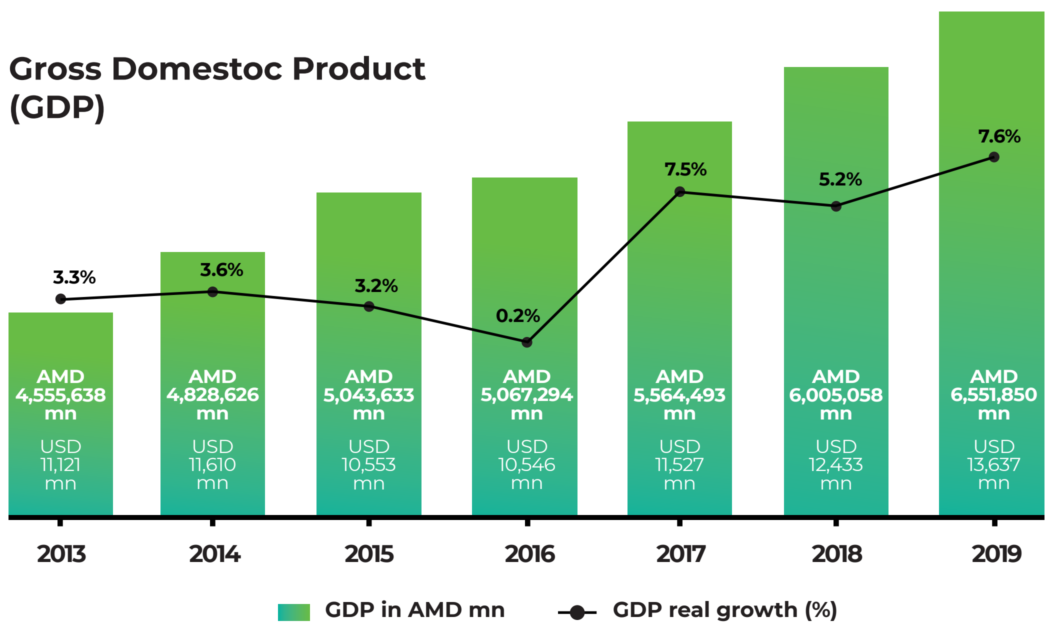
external environment*

Macroeconomic prerequisites

2019 was another successful year for Armenia in terms of macroeconomic environment despite relatively unfavorable global and regional economic situation due to geopolitical tensions and trade policy uncertainties.

The accelerated pace of economic growth of Armenia that started in 2017, experienced some slowdown, maintaining high pace of 5.2% in 2018, and registered another "champion-high" growth in 2019 – 7.6%. After a sharp decline in 2009, the economy was characterized by a period of moderate recovery during the period of 2010 to 2015 with an average annual growth of 4.0%, 2016 saw very slow growth of 0.2%, while during 2017-2019 average growth pace went up to 6.8%. 2019 economic growth was higher not only compared with previous years, but also the highest compared to peer and EEU countries.

Gross Domestoc Product (GDP)



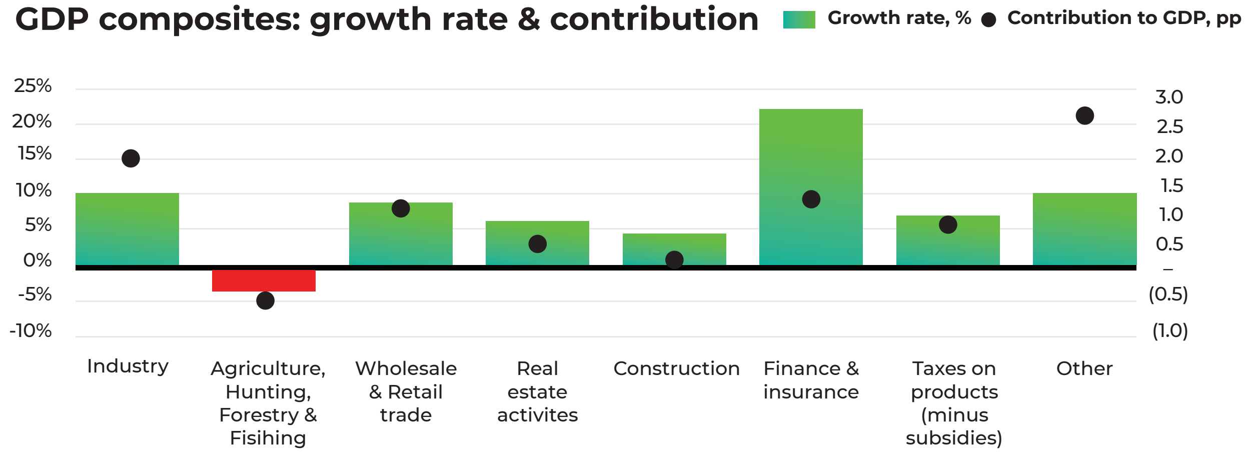
In 2019, the acceleration of economic growth was mainly fueled by **manufacturing**, which registered the highest contribution to GDP growth as well as surpassed the long-term leader – agriculture, by its share in GDP structure. The long-awaited growth of **construction** sector, started in 2017, was not only maintained, but also accelerated over the reporting year: the former leader started the year on a truly positive track, with some slowdown further during the year, yet the positive note was maintained.

* source - based on Statistical Committee of the Republic of Armenia data as of April 2020

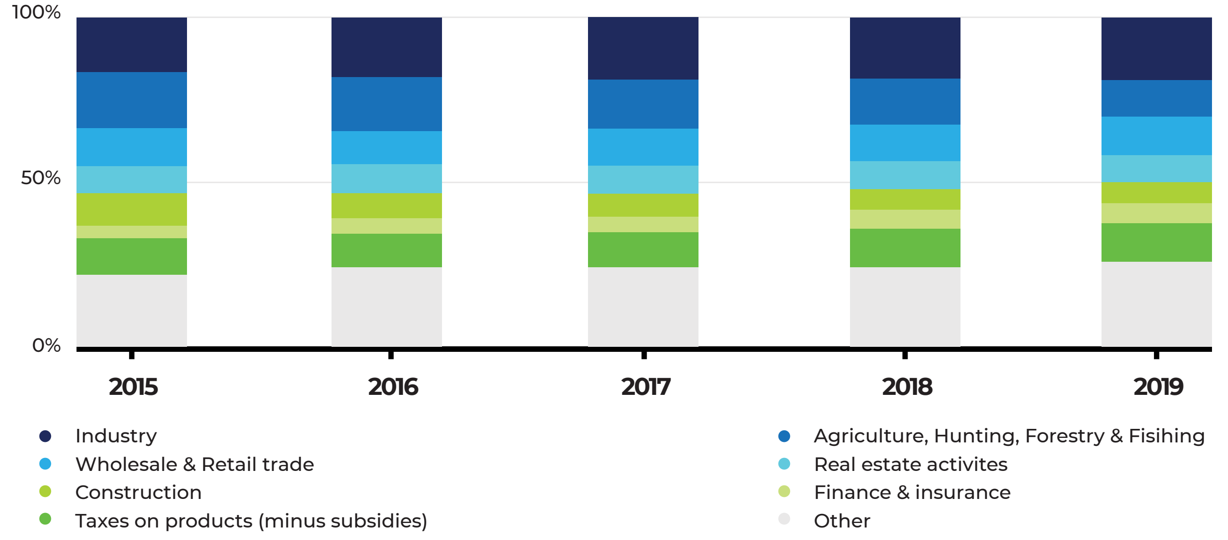
The second year in-a-row **accommodation and food service activities** sector is registering the highest positive change. Meantime, the **arts, entertainment and recreation**, already the third year in-a-row is not recovering the former leadership with growth rate. The former most rapidly growing sector – **financial and insurance services**, maintained the recovery growth, started in 2016, over the reporting period as well, with accelerated pace. **Agriculture** saw yet another year of decline, registering the largest negative contribution to GDP growth in 2019.

Share of sectors in GDP	2013	2014	2015	2016	2017	2018	2019
Taxes on products (minus subsidies)	11.1%	11.3%	10.6%	10.0%	10.3%	10.6%	11.4%
Agriculture, hunting, forestry & fising	18.4%	18.1%	17.2%	16.4%	15.0%	13.7%	11.6%
Industry	16.2%	16.0%	16.3%	17.8%	18.5%	18.4%	18.6%
Construction	10.5%	9.3%	9.4%	7.8%	7.3%	6.6%	6.2%
Wholesale & retail trade	12.0%	11.8%	10.9%	9.8%	11.1%	11.3%	11.4%
Real estate acivities	8.1%	8.4%	8.7%	8.6%	7.8%	7.9%	7.8%
Finance & insurance	4.0%	4.3%	3.9%	4.4%	4.9%	5.3%	5.9%
Other	19.5%	20.9%	22.9%	25.2%	25.1%	26.1%	27.1%

GDP composites: growth rate & contribution



GDP structure by selected composites, %



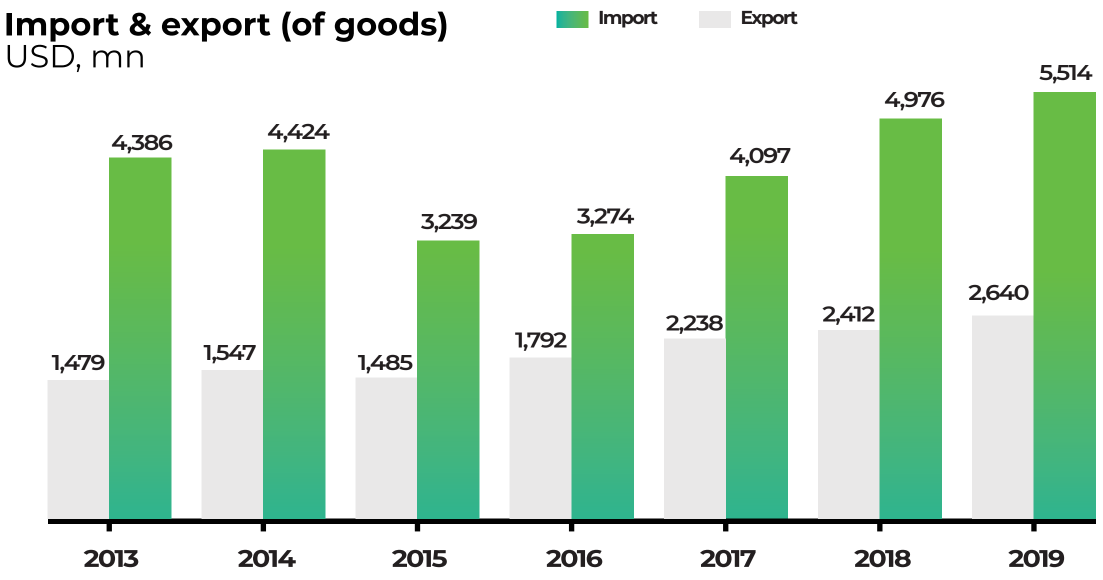
The **consumer price index** in 2019 (December to December) was 0.7%, which was below the CBA targeted inflation rate of 4% (± 1.5%). The average annual inflation was at 1.4%. Almost all product groups had comparably steady prices during the year. CPI is expected to remain comparatively stable and within the range of targeted inflation rate in 2020. AMD/USD **exchange rate** remained considerably stable throughout the year. There was also improvement in terms of **unemployment rate** : with 2019 annual results, the indicator comprised 18.9% - 1.6pp lower vs that of a year earlier.

Exchange Rate (AMD/USD) & CPI

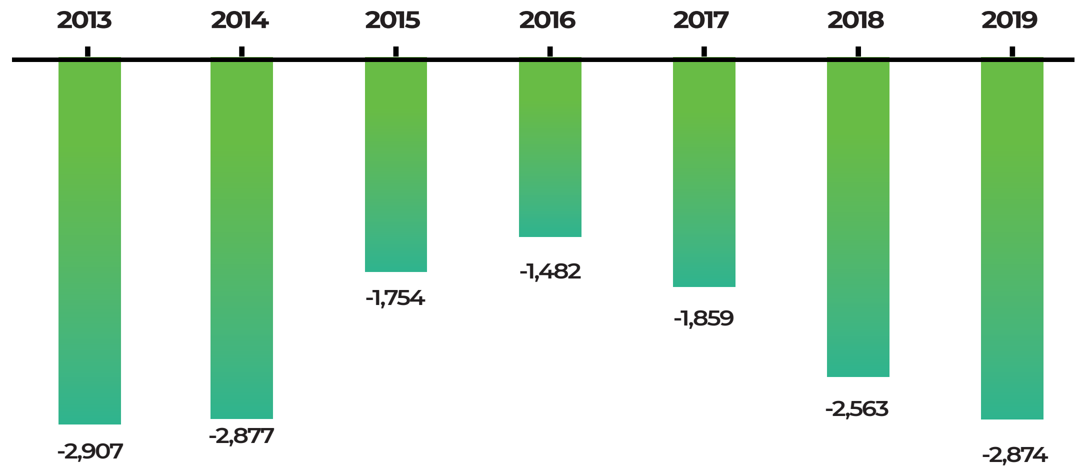
	2013	2014	2015	2016	2017	2018	2019
Average annual	409.63	415.92	477.92	480.49	482.72	482.99	480.45
End of year	405.64	474.97	483.75	483.94	484.10	483.75	479.70
CPI, % (December to previous year December)	5.6%	4.6%	-0.1%	-1.1%	2.6%	1.8%	0.7%
CPI, % (12m cumulative)	5.8%	3.0%	3.7%	-1.4%	1.0%	2.5%	1.4%

The growth trend of the country's **external trade** started in 2016 (after the quite tangible contraction experienced in 2015, due to worsened trade conditions affected by the slowdown of Russia's GDP growth, drop of metal prices as well as depreciation of regional currencies against USD and AMD) was maintained in 2019 as well. Over 2019, **exports** growth comprised 9.4% while that of **imports** – 10.8%: though over the first half of the year, the exports' growth was surpassing that of imports. Accelerated growth of imports in the second half of the year was mainly due to considerable increase of car imports resulted by Eurasian Economic Union's regulations, and will not have a sustainable effect.

Import & export (of goods)
USD, mn



Foreign trade balance
USD, mn



The recovery of **remittances inflow** maintained over the reporting period as well, with much accelerated trend compared to the previous year – 9.7% vs 1.6%.

Current Account (CAB) deficit-to-GDP is at -8.2%, that is 1.2pp better than 2018 (in 2018 CAB deficit to GDP ratio was -9.4%).

In 2019, the **external public debt** of Armenia amounted to 42.5% of GDP vs 44.5% in 2018. The total value of external public debt as of year-end 2019 was USD 5 790mn: 4.6% up from a year earlier. Government debt is 91.5% of the total external public (vs 90.1% in 2018) and the rest 8.5% (vs 9.9%) is with the CBA. Official **foreign currency reserves** increased by 25.7% in 2019, comprising USD 2.84bn. Situation with the **state budget deficit** continued to improve: in 2019 budget deficit was only 1.0% of GDP, compared to 1.8% for the previous year. **Tax revenue** in 2019 comprised AMD 1,507 bn (including AMD 42.8bn VAT returns to business) outperforming the planned indicator by more than AMD 100 bn.

As a result of strong macroeconomic performance and improved public debt indicators, Moody's upgraded Armenia's sovereign rating to Ba3 from B1. With these positive prerequisites, Armenia issued a **$500mn** 4.2% 10-year RegS/144A **Eurobonds** in September that turned out to be the lowest USD coupon achieved by any CEEMEA non-Investment Grade sovereign since January 2013 and the 2nd lowest USD coupon ever achieved by any CIS sovereign (incl. Investment Grade) for a 10-year or longer tenor. Later in 2019 there was another rating upgrade when **Fitch Ratings** upgraded Armenia's long-term foreign currency issuer default rating to **BB-** from B+ with a stable outlook.

Over the past few years, Armenia has taken steps towards improving the investment and business climate in the country as well. With **"Doing Business 2020"** report by the World Bank Group, Armenia ranked **47th** out of 190 countries; with the score going up from 73.2 in Doing Business 2019 to 74.5 in 2020, which implies improvement in business regulations over the course of the last year. With the World Economic Forum's **"Competitiveness index 2019"** Armenia ranked the **69th** (out of 141 countries) vs 70th (out of 140 countries) by 2018 results. The Heritage Foundation's **"Economic Freedom Index 2019"** ranked the country the **47th freest** (out of 180 countries, and labelling it Moderately free) in the world.

The country continued active economic cooperation with international institutions and allocation of the funds raised from WB, IMF, ADB, and EU. Particularly, the World Bank portfolio had more than 20 projects in active implementation in 2019. The projects are being implemented across many sectors including energy, agriculture, education, roads, health, irrigation, rural development, public administration, etc. The country operations business plan (COBP), 2020-2022 of Asian Development Bank (ADB) for Armenia is consistent with the country partnership strategy (CPS), 2019-2023 for Armenia, the strategic objectives of which are to support the government's efforts to ensure diversified growth and widen inclusiveness. The planned program is also well-aligned with ADB's Strategy 2030 operational priorities, particularly poverty reduction, livable cities, environment, governance, regional cooperation and gender equality, as well as with Armenia's national development program for 2019-2023. The EBRD Armenia Country Strategy (2019-2024) includes the following strategic priorities – (1) strengthen private sector competitiveness, improve governance and support business environment reforms, (2) promote sustainable infrastructure through commercialization and green economy transition.

banking sector in Armenia*

Solid macro fundamentals ensured positive results for the Armenian financial system in 2019, with registered growth by all key financial performance indicators.

Financial Institutions Operating in Armenia	2018	2019
Banks	**17**	**17**
Credit organizations	**39**	**43**
Insurance companies	**7**	**7**
Funds and investment Companies	**31**	**37**

Banks registered double-digit growth in terms of all major financial indicators, with total banking assets and loans growing by 16.2% and 16.3% YoY respectively.

There was significant growth of performance indicators in credit organizations sector as well – with 27.9% YoY growth of total assets and 33.5% YoY growth of total loans.

Aggregate pension funds grew by around 60% to top 251 billion AMD or 3.8% of GDP (from July 1, 2018, the mandatory funded pension system began to fully operate in Armenia: 2.5% is withheld from the employee's salary, and 7.5% is deducted from the state budget vs previously ratio was 5% each).

According to the results of 2019, all banks and part of credit organizations were included in the list of 1000 large taxpayers.

Armenia's financial system continues to be bank-dominated, with banks accounting for 85% of the financial system assets.

*Banking sector figures are based on each year Q4 unaudited financial statements

solid capital & fundamentals for growth

As of 2019 year-end results the banking system of Armenia is sufficiently capitalized and able to absorb major risks and shocks, which indicates that there are sufficient grounds for further growth and development. The liquidity indicators in the system are also high, which indicates the confidence of business and citizens in the banking system and the ability to confidently serve the economy.

This is also evidenced by regulatory indicators of banks, set by the CBA and showing that all the banks have high potential for financing of economy and accumulating new funds:

- **Capital adequacy ratio** of the banking system is 17.6% vs 12.0% minimum prudential of CBA
- **Liquidity ratios** are rather high as well: N2.1 – 27.1%, N2.2 – 111.7%

The regulatory environment in the banking system of Armenia is more stringent than in other countries in the region and even in many European countries.

2019 was the year of preparing banks for the new Basel III related standards, which will begin to operate in Armenia in 2020 and will further strengthen the stability of the system.

The Central Bank of Armenia now has two main objectives - ensuring price and financial system's stability. During 2019 Central bank of Armenia has maintained stimulating monetary policy and cut the refinancing rate twice: in January (by 0.25 pp to 5.75%) and September (by 0.25 pp to 5.5%)

Over the past 10 years, one of the indicators of **financial intermediation in the economy**, the loans to GDP ratio has almost tripled, though the country is still lagging by financial intermediation compared to Eastern European countries.

As of the end of 2019, loans to GDP ratio was 54.5%, while it was 17.8% in 2008. Banking system assets registered almost 16.2% growth in assets and 16.3% in loans. In 2019 there was an unprecedented growth of about 41% in socially oriented mortgage lending, which was the result of joint programs of the Central Bank and the government.

- *The Armenian government has submitted to the public discussion a draft law proposing to legally stipulate the right of borrowers in difficult situations to enjoy a mortgage vacation and the conditions for its realization The borrower may apply for up to 6 months of mortgage leave on terms agreed between the parties In this case, the credit rating will not change, no penalties will be charged.*

- *The Central Bank of Armenia is considering introducing a coefficient for calculating the payment to income ratio for commercial banks and credit companies of the Republic of Armenia. The need to introduce an indicator of PTI (payment to income) is determined by the intention to protect borrowers, in particular during applying for consumer loans of all types, including "quick" loans, mortgages, payments which subsequently place a heavy burden on their shoulders.*

High level of dollarization remains a key challenge for the banking sector, though there were positive changes in 2019. With a faster-growing dram-denominated loan portfolio, credit dollarization in Armenia declined to 51 percent at end of 2019 from 56 percent in 2018, the historically lowest level.

Organizing the customers' **migration to digital channels is the new challenge** in Armenian banking system Growth of competition and rapid penetration of digital technologies into all the areas of economy worldwide have eventually driven Armenian players to review and modernize their businesses to reach easier and faster transactions, have better services to offer and enhance growth. Synchronous outside developments and rapid changes in IT sector as well push banks to look at this direction.

- *Currently banks actively cooperate with IT companies as well as develop their own research and innovation departments to fasten the process of introduction of new digital – oriented banking products.*

- *Larger outreach, increase in client-base require the banks to reorganize their data management system - big data management solutions.'*

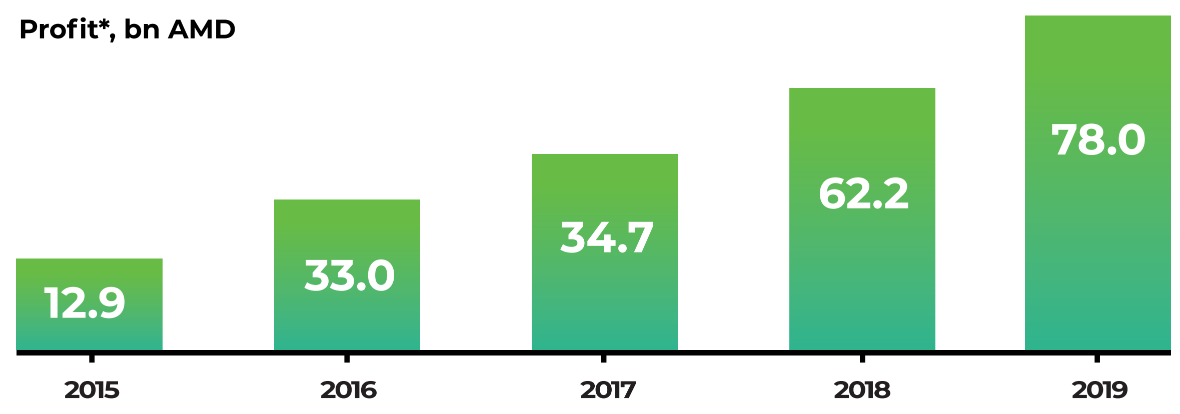
- *Because non-cash transactions are convenient and beneficial not only for client and bank, but also for the state (for example, in terms of tax collection), the government encourages non-cash and online operations by elaborating legislative initiatives.*

2019-continuous growth of banking sector with acceleration

Record profits of banks

Net profits of Armenia's banking sector for the 2019 totaled AMD **78 billion**, registering a YoY growth of 25.4%.

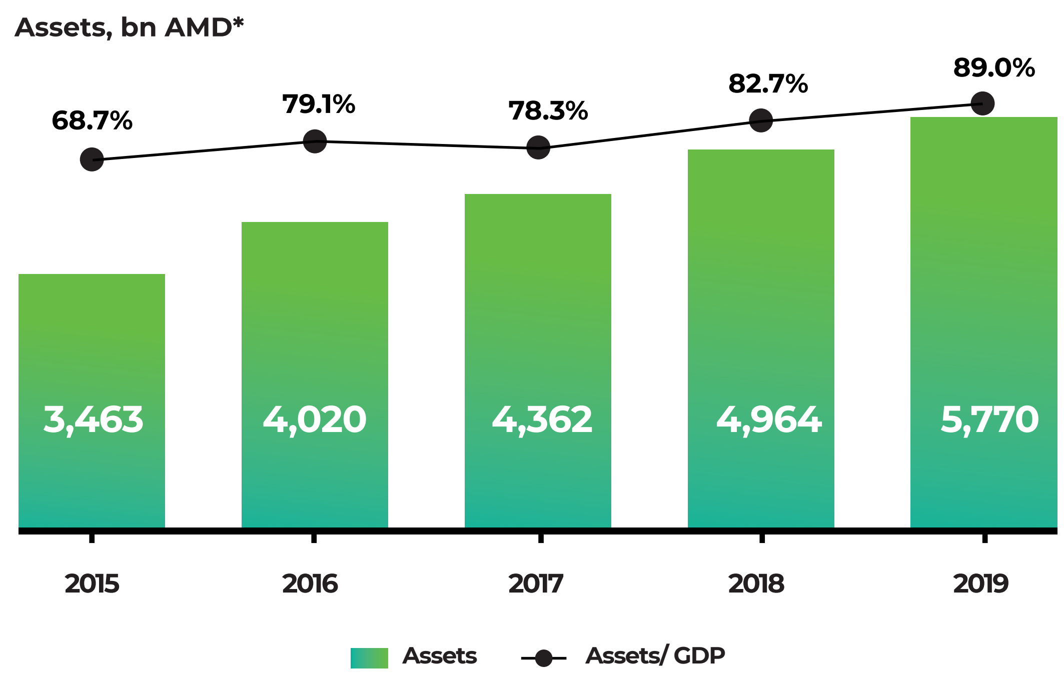
This is the best profit result in the history of Armenian banking system. In 2019 only 1 bank reported loss.

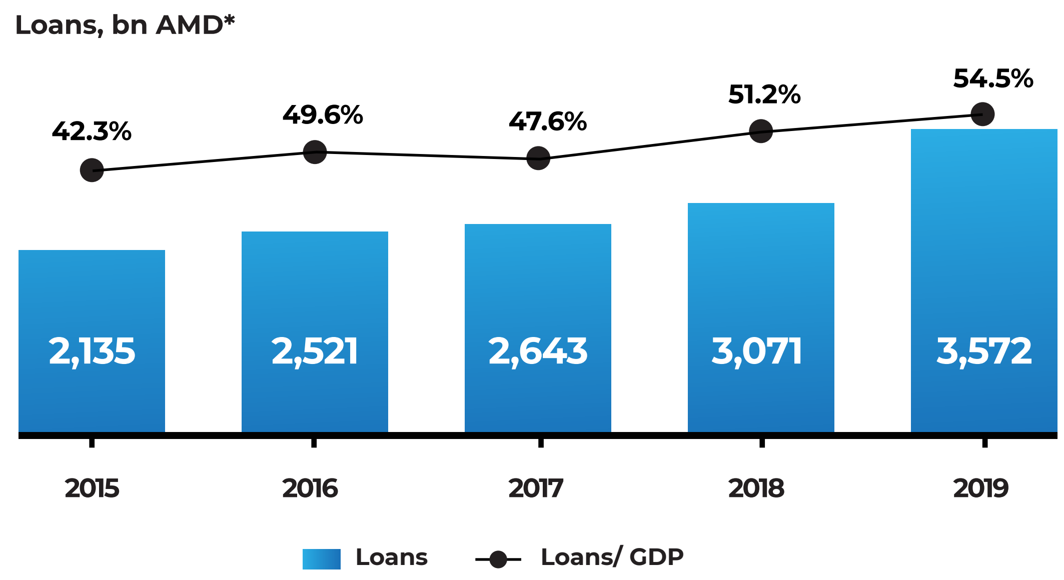


RA banking system **double-digit growth** was maintained over year 2019 as well with registered growth by all the major financial indicators.

During 2019 the sector's combined total **equity** continued to grow registering 13.4% increase vs a year earlier and reaching AMD 845bn. Thus, with the Y2019 results, the sector's share in the country's GDP comprised 12.9%.

Growth of equity was accompanied by corresponding growth of **assets** and **liabilities** by the end of the year. In 2019, **assets** of the Armenian banks increased by 16.2% to AMD 5.8 tn, while total **loans** increased by 16.3% to AMD 3.6 tn. As a result, the sector's combined assets' to GDP ratio comprised 88.1%, that of loans – 54.5%.

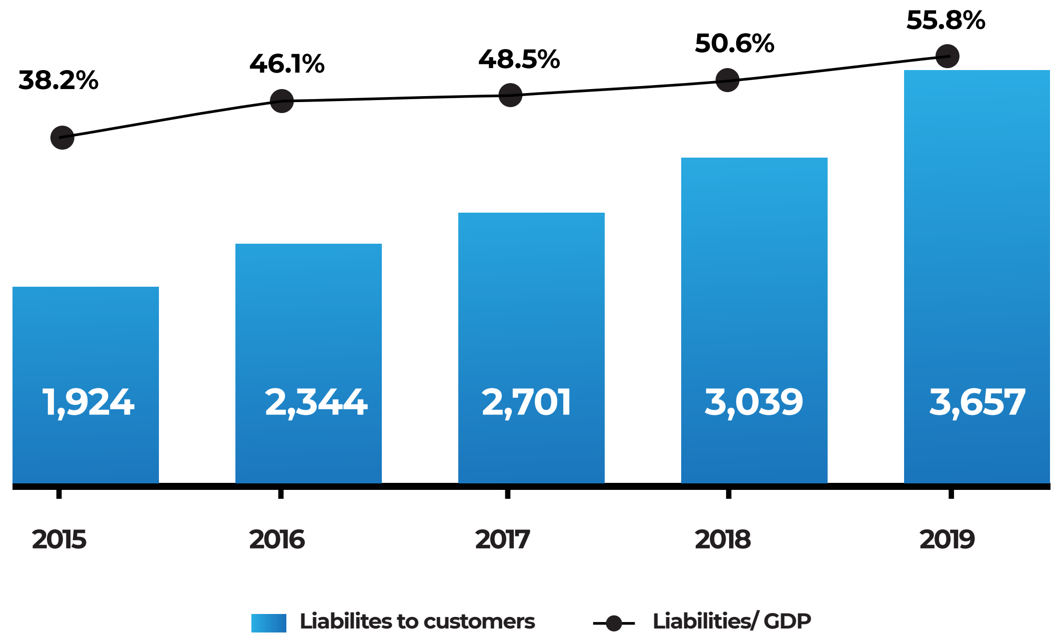




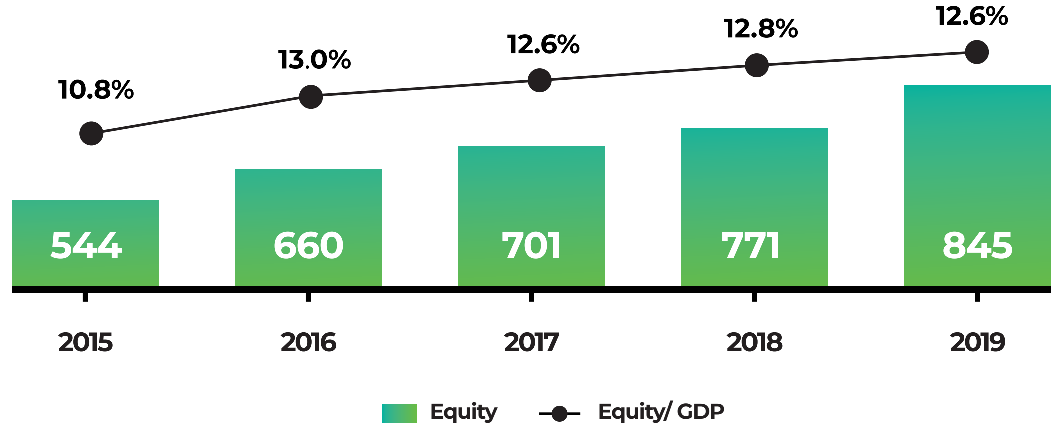
* based on the bank's year-end unaudited financials

Banks' **liabilities** increased by 20.3% to AMD 5 tn, with total liabilities to GDP ratio comprising 75.2%. Meantime, **current accounts and time deposits** increased by 21.6% to AMD 3.5 tn. As already mentioned, in 2019 banks continued to actively raise funds from the local capital market by issuing debt securities, hence, **including debt securities issued by the banks**, the absolute volume of total liabilities to customers will comprise AMD 3.7 tn.

Liabilities to Customers, bn AMD*
including securities issued by the banks



Equity, bn AMD*



According to CBA, the share of foreign capital in the banking sector of Armenia constituted 60.7%.

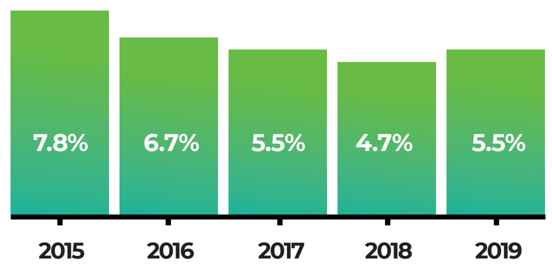
* based on the banks' year-end unaudited financials

improved asset quality & effeciency

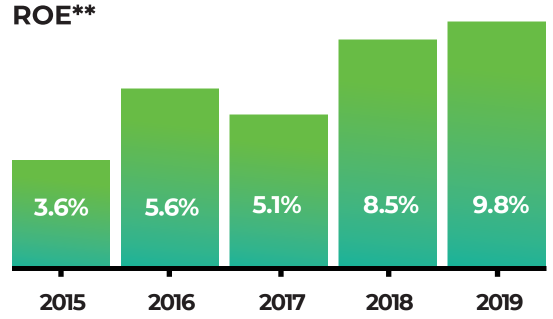
NPLs (non-performing loans) remained among one of the challenges faced by Armenian banking sector in 2019 as well, yet, worth to mention, that during last 3 years the system portfolio quality continued to recover: with Y2019 results the indicator comprised 5.5% (with CBA data) vs 6.7% 3 years ago. Meanwhile, several banks still have high level of non-performing loans in their total portfolio.

However, banks not only succeeded in suppressing further worsening of credit quality, but also registered improvement, cleaning up loan portfolios from past due loans. Among the factors that facilitated these were loan loss write-offs, growth of lending and partial recovery of "bad" loans.

NPL*



ROE**



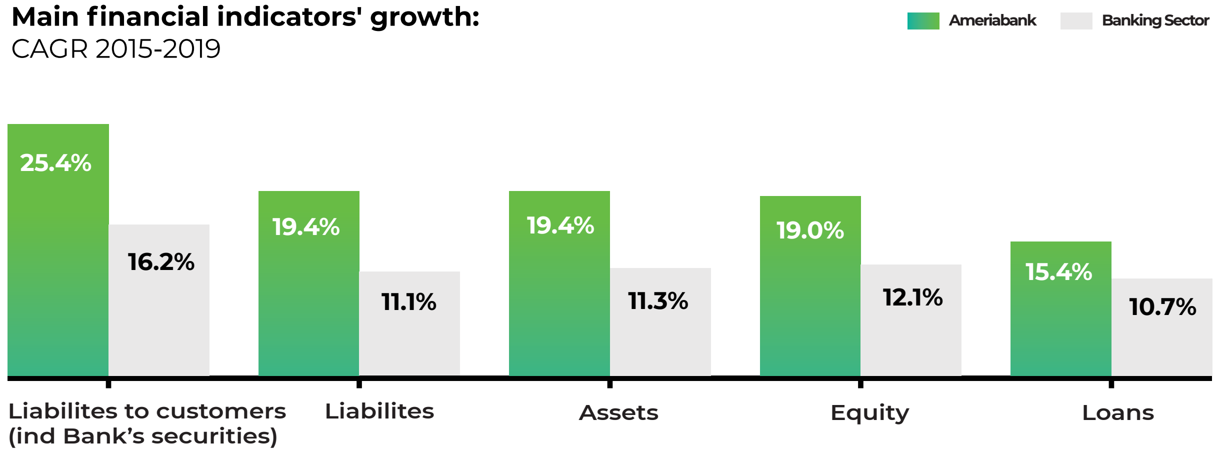
ROA**

* - source – Central Bank of Armenia
** - source – calculated based on banks' reports

position of Ameriabank in the banking Sector

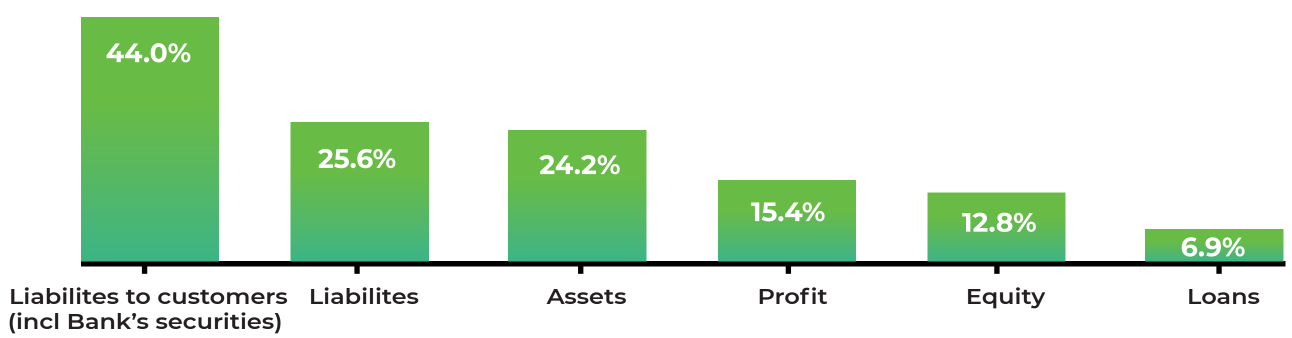
Over the last five years, the Bank showed high growth rates exceeding average banking sector growth rates. As a result, the Bank maintained its absolute leadership by almost all financial performance indicators.

Main financial indicators' growth:
CAGR 2015-2019



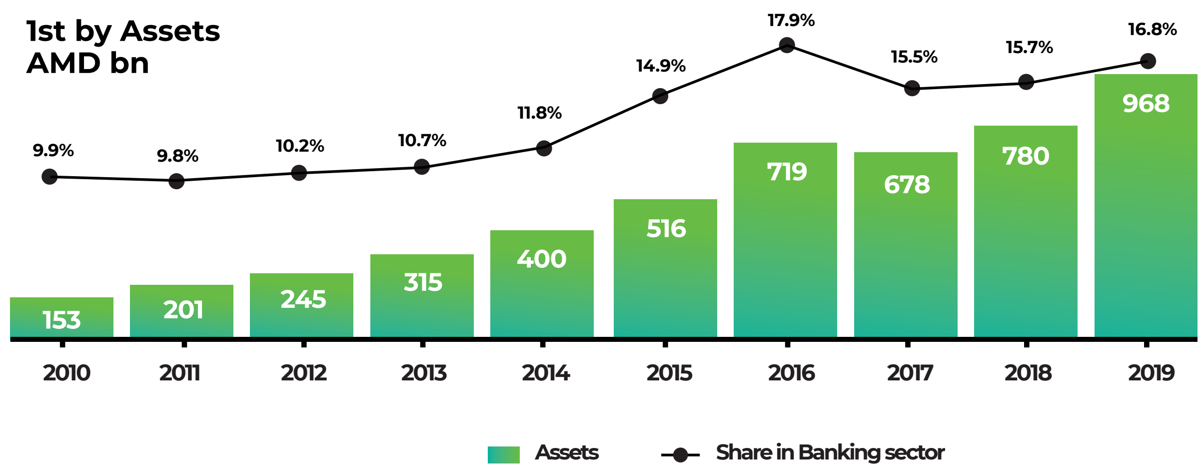
With the Y2019 results, the Bank was the absolute leader among RA banking system players by equity, profit, assets, loans, liabilities. Over the last year – in 2019 vs 2018, registering 12.8% growth in equity, the Bank now accounts for about 12.0% of total banking sector equity. Over the mentioned period, the Bank registered more than 24.2% growth in assets and 25.6% growth in liabilities, as a result owing correspondingly 16.8% and 17.6% of the banking sector assets and liabilities' total combined volume. Net loans and advances increased by 6.9% registering a market share of 16.4% in Y2019; and liabilities to customers increased by 48.6% (44.0% including securities), market share – 17.1% (17.7% correspondingly).

Ameriabank Main financial indicators' growth for 2019

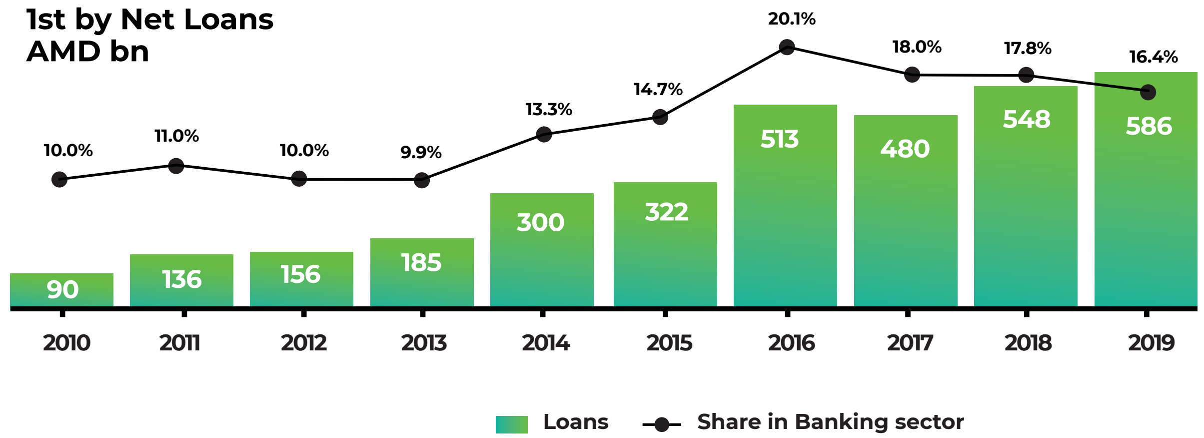


The dynamics of the Bank's key financial indicators as well as the corresponding shares in the system are presented in the following graphs.

As of YE2019 the share of loans in assets comprised 60.5% (vs 70.3% as of YE2018); meantime the share of liquid assets increased.

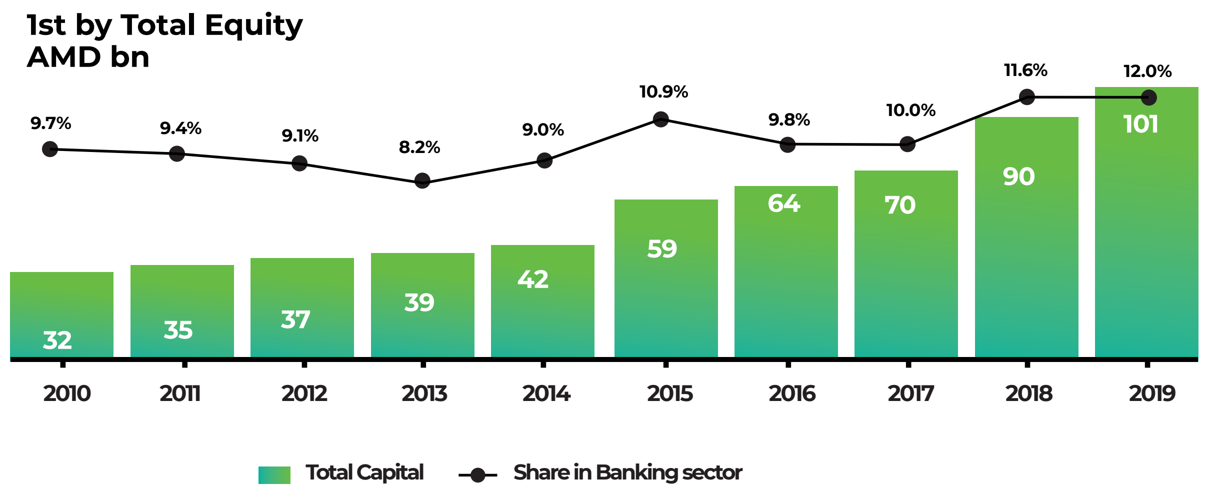


Credit portfolio's annual growth comprised 6.9% as of YE2019. Meantime, in accordance with the Bank's strategy, the main focus in 2019 was active development and growth of retail and SME lending. As a result, the annual growth of lending to individuals and sole entrepreneurs comprised about 50%, that of SMEs – circa 11%.

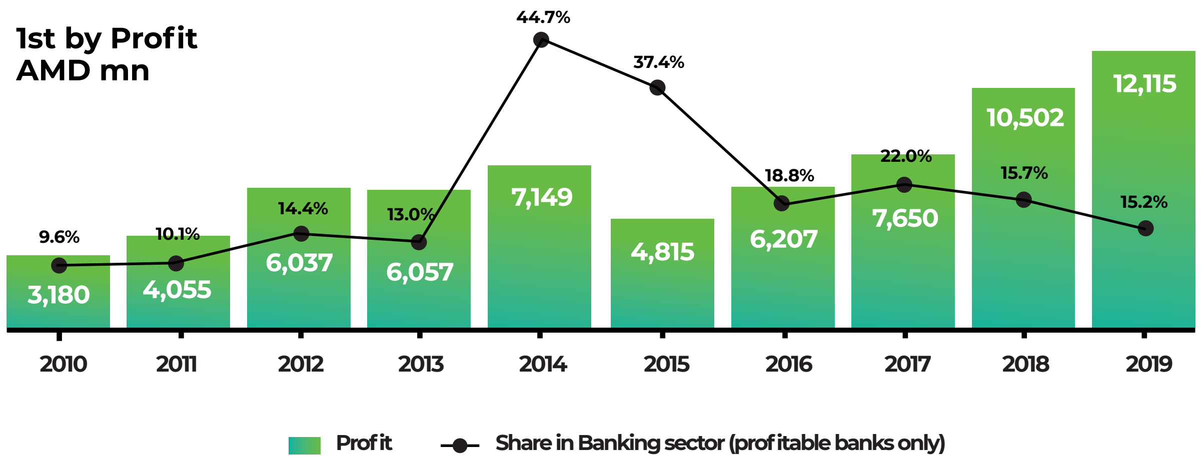


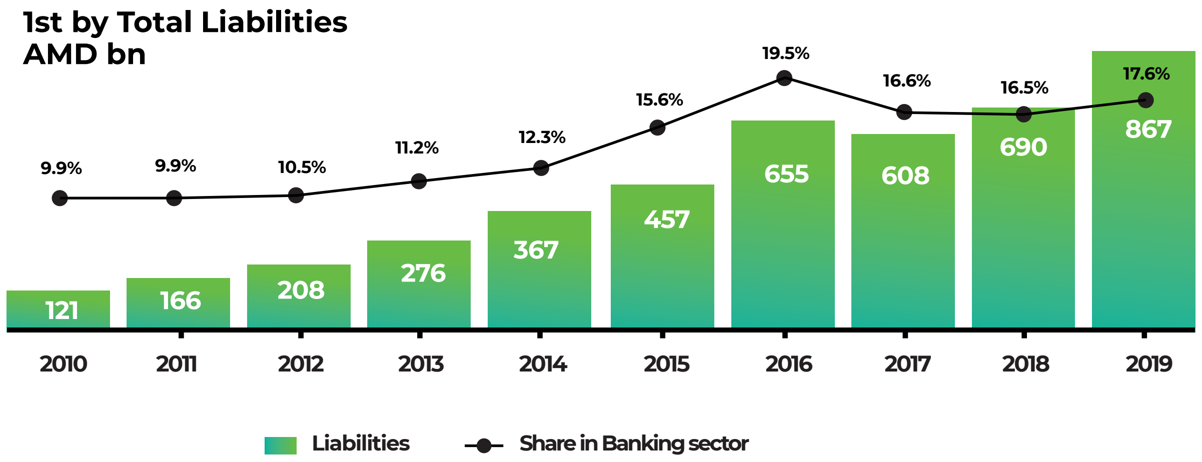
Gaining top positions in the market by total equity due to a new investor in early 2018, the Bank further maintained its leadership in 2018 and 2019 as well. The Bank's total equity grew by AMD 4.7 bn or 12.8% in 2019. The growth was mainly due retained earnings. As a result, the Bank's share in the banking sector by total equityl reached 12%.

The Bank registered increase in terms of capital adequacy levels: CAR composed 14.74% - 1.04pp increase YoY, ensuring sufficient financial strength, so that to maintain the right level of capital for balancing safety and returns



The annual growth of liabilities comprised 25.6% as of YE2019; simultaneously, the diversification of liabilities continued. The Bank actively attracted funds both from clients and financial organizations.





Ameriabank registered significant improvement of profitability ratios as well. As of YE results the Banks ROE ratio was significantly higher than the banking sector average indicator – 12.8% vs 9.8%.

business model & strategy

The year 2019 was another quite successful year of operations for Ameriabank. The Bank further strengthened its position as the leading bank in Armenia, reaffirming its role as competitive, stable and modern financial institution with untapped opportunities for further growth and development.

With a special focus on customer experience, the Bank has also positioned itself as a leader in innovation and service standards. Moreover, the Bank has continually honed its organization and corporate governance practices, service channels and is constantly working to enhance its product mix, develop a skilled and professional staff and ensure that the required resource base is always available.

Bank has re-affirmed its commitment to adopted strategy of building a universal bank. 2019 has been another year of exceptional work in the following directions: the Bank enhanced the list of retail products and services and continued investments in branch and ATM network expansion. The share of Retail and SME has consistently grown over the past years and despite the fact that the respective portfolio has grown approximately 8 times since the decision to become a universal bank was made, there is still another mile to go before the target is reached. Now, the Bank is in another cycle of internal re-engineering, tailoring processes, products and channels in accordance to customer needs. A larger leap is expected with more active exploitation of digital products and channels. Digital Innovation projects are segregated as projects on internal efficiency, digital products & services, digital channels and technological backbone.

The Bank's strategy and its respective actions are anchored on the adopted Mission.

Mission:

to improve the quality of life

by

- **Providing** world-class financial services and business solutions to our clients.
- **Implementing** business and social projects, significantly impacting the well-being of the society.
- **Creating** unique corporate culture and development model of an international company, uniting the efforts of successful people
- Consistently **increasing** our shareholder value.

Though the Bank's operations are largely guided by the Mission statement, the Bank has also identified five key focus areas for medium-term development as well as certain mid-term goals.

- Be **market leader**: expand more rapidly than the system. To maintain market leadership, the Bank plans to further optimize regulatory capital, measure profitability per RWA, boost non-interest income, further enhance its consumer base, improve cross-selling based on customer preferences as well as explore M&A opportunities.
- Improve **efficiency**: ensure adequate level of ROE and maintain low level of cost to income ratio. In order to improve efficiency, the Bank plans to implement a number of projects to automate internal processes and functions, and finalize organizational & business model optimization, which should have a positive impact on efficiency.
- Boost **digital transformation**: become leader in distance banking and automate processes where possible. The Bank will be making significant and long-term investments into this area to ensure it is the leader in digital transformation. Digital channels should provide opportunity to increase the number of distance banking users, while digital products should ensure speed and ease of customer service.
- Increase **diversification**: focus on Retail & SME and increase the share of transactional banking. As a continuation of the Bank's strategy, the Bank will continue to stimulate lending to Retail & SME customers throughout upcoming years, offering financing and comprehensive solutions to existing and potential customers.
- Enhance **customer & employee experience**: be customer centric in all propositions and ensure superior net promoter score and customer experience index. The Bank constantly contributes to continuous learning, development and motivation, which should improve communication skills of the staff, provide better customer service, and enhance customer satisfaction. The Bank also conducts market analysis to understand needs and preferences of customers and continuously tailors propositions per changing needs of the market.

In the current stage of its development, the Bank also prioritizes data-based decision making. To this end, the Bank has begun enriching its databases and preparing for more sophisticated applicable analysis to support better decision making. The Bank stays committed to running a responsible business and maintaining positive culture and team spirit. It is also important to note that the Bank has fully implemented corporate governance best practices, with a diversified board and three functional committees at the Board.

Based on the analysis of the socio-economic situation in Armenia as well as conjecture on potential developments in banking services and actions of main competitors, the Bank sees untapped opportunities for growth that will be exploited during the coming years.

Although there are ample of growth opportunities in corporate business main stress will be on retail and SME business development to balance the loan portfolio. It is expected that with a more universal profile net income from transactional banking will also be on a rise.

retail banking

2019 highlights

30% **Retail Loan Share** in Total Gross Loans

48% **Retail Deposit & bonds** Share in Total Deposit Base

82.4% **Offloading** Ratio

Operating Profit AMD thousand	2018	2019	
	15,087,119	17,372,124	14.7% YoY growth

overview

Ameriabank continues to invest in the development of retail banking sector as one of its key strategic objectives. We strive to be the first choice for both for personal and premium customers and are committed to deliver personalized solutions and tools for lifelong cooperation. We are also focused on retail business banking customers (micro and small-sized businesses) by offering special designed banking solutions and innovative products.

We offer a wide range of products through our omni-channel platform and are committed to delivering an exceptional customer service. Being focused on the customers' comfort, we continuously upgrade our digital offerings to have our products and services available anytime anywhere. As a result, in 2019 the number of our retail customers increased by 45% reaching over 294,800, and the digital penetration rate reached 34%. In addition, our retail loan portfolio increased by 48.3%, at the same time demonstrating improvement in portfolio quality with NPL ratio standing at 1.9%, down by 1.9 pp compared to the previous year.

main achievments

- 48% **Total Retail** loans growth
- 51% **Retail business** loans growth
- 75% **Mortgage** loans growth
- 27% **Consumer** loans growth
- 27% **Retail deposits & bonds** growth
- 45% **No of Customers** growth

retail sub-segments

personal banking

Payment cards

Growth of card business was among the priorities of our Retail business in 2019. We reported increase in all key areas including the number of cards issued, the volume of payments, e-payments, POS & vPOS network transactions, etc.

Particularly, the total number of the cards issued grew by 33% in 2019.

In addition, we embarked on a number of projects to increase financial literacy among students as future potential bank clients. Namely, we implemented a joint student campaign with VISA Inc., to promote the use of cards among students supporting them to create their bank history. Valuing the satisfaction and the enthusiasm of youth, we also organized a private concert for them within the campaign.

Ensuring superior customer service, we implemented the launch of one-time password cards in June, which considerably speeded up the card provision and activation processes enabling the customers to activate their cards themselves by performing several simple actions at the cash machines.

Payroll cards

Payroll projects have always been under our focus. In 2019 more than 1,000 companies with a total of about 100,000 employees were using Ameriabank cards to pay salaries to their staff. To promote payroll projects among small businesses, we launched a campaign at the end of 2019, offering ARCA payroll cards free of annual service fee.

Growth of card operations

Highly prioritizing the role of non-cash operations in the economic development and reduction of shadow economy, we took targeted steps to boost card operations in 2019.We secured 30% growth in the volume of card payments via joint campaign with VISA, where winners got tickets to Armenia-Italy soccer match, which served also as a means to support soccer in Armenia.

In late 2018 we launched Visa Pay Sticker as another way to boost card payments. The service was an immediate success with about 4,000 stickers issued during the first months.

Total card payments hit the 100 bn AMD mark in 2019.
Growth of POS & vPOS network and its upgrade to support contactless payments has been highly instrumental in achieving this goal. Internet Acquiring (vPOS) services posted 76% Y-o-Y growth in turnover to reach AMD 9.3 bn vs AMD 5.3 bn a year earlier, and 74% Y-o-Y growth of operations to reach 2,285,726 vs 1,317,345.

Ameriabank has maintained a leading position on the market by e-commerce and POS business. In 2019, the number of virtual POS terminals increased by 25% to reach 395, and the total volume of transactions increased by 112%. The number of POS terminals increased by 31% to reach 2,639 and total volume of transactions increased by 54%.
The offloading ratio (the share of transactions executed via distance and digital banking channels) comprised 82.4 % in 2019.

Deposits

In 2019 demand deposits grew by 27% to reach AMD 93.5% bn, while time deposits grew by 29% to reach AMD 173.4bn.

To encourage savings in local currency, we launched the “Live Armenian” campaign in April. Key focus of the campaign was to promote deposits in Armenian drams, but we also supported local manufacturers by offering “made in Armenia” gifts to clients making deposits in Armenian drams.

Cooperation with Repat Armenia

Repat Armenia was another successful initiative implemented in May 2019, under which we signed a cooperation agreement with Repat Armenia offering attractive service packages to the members of the Repat Armenia community. The core goal of the project was to support repats to utilize their economic potential by becoming the bank of the best choice for Diaspora in Armenia.

Scoring-based online consumer loans

Customer convenience is key to us. Back in 2018 we launched a scoring-based loan platform enabling clients to get the loan or credit line they need within minutes. The system was continuously improved throughout the year as a result of which scoring-based loans accounted for 74% of total volume of consumer loans provided by Ameriabank in 2019.

We added a new module to our scoring system in 2019 to refinance loans. This is an important upgrade especially for payroll card holders who are now able to refinance their loans at preferential rates under payroll projects. We are currently working on AI-based lending schemes which are expected to be launched in 2020.

Car loans

In 2019, we expanded our operations in car lending sector, at the same time maintaining high quality of the car loan portfolio. As of the year-end the loan book had grown by 49% to reach AMD 3bn.

Ameriabank cooperates with almost all car dealers in Armenia. We have designed specific beneficial terms of only 10% advance payment and even more simplified provision process for the customers purchasing cars from the primary market, which relieves them from additional equipment valuation process.

In 2019 we also established a special platform for car loans - a car market ecosystem, featuring available offers from car dealers and with embedded calculators and enabling customers to apply for car loans online.

Considering several factors, such as the general trend in finance and banking towards digitalization, the need to maintain our competitive position and customer expectations with respect to easier and simpler lending procedures, in late 2019 we began the process of launching a scoring system for car loans which is expected to become operational in Q1 2020. Fully online car lending is expected to become available in Q3 2020.

Mortgage loans

real estate purchase/ renovation and consutruction loans

In 2019 we expanded our operations in mortgage lending, at the same time maintaining high quality of loan portfolio. As of the end of year our mortgage loan book had grown by 75% to reach AMD 78bn.

We are carefully following the real estate market and expand our network of cooperating developers. As of year-end 2019, we were cooperating with 27 developers. Clients wishing to purchase housing from these developers can get a loan with only 10% advance payment and simplified procedure where no collateral appraisal is required; instead, the bank relies on written statement of price provided by the developer. This scheme allows us to effectively manage the large inflow of clients and increase mortgage loan portfolio.

As part of our digital ecosystems initiative, we launched mortgage loans platform featuring available offers from our partner developers. Here clients can search for property by a number of parameters, such as monthly loan payment, location or total price, etc. A special calculator helps clients to calculate the amount of loan they can apply for, or calculate monthly payments based on the price of property, advance payment and other terms. Clients can also submit applications and inquiries through the platform. Next stage for our mortgage loan platforms will be provision of loans without physical visit to the bank.

business banking

Structurally, our retail banking direction serves the sector of micro and small-sized businesses with up to AMD 150 mn financing limit. The valuation process includes 4 different scenario lines depending on the loan amount and type.

Within our digital strategy, in 2019 we completely automated the loan application and confirmation process meeting the rapidly growing demands of the customers.

We also launched an unprecedented loan product in Armenia in December 2019, where the loan officer is able to perform analysis via tablets and provide up to AMD 20 mn loans right at client's business location.

As a result, in about a month we provided AMD 708 mn-worth loans via tablets, comprising 25% share of total retail business loan book generated in December.

In 2019 we launched solar panel and heater loans and issued a total of AMD 500mn loans during the year. We also began to provide agricultural loans and joined government-subsidized programs.

Loans worth amounts up to AMD 30 mn are being provided based on automated scoring models which is unprecedented in Armenian banking system.

We improved the terms of scoring-based SME loans to make them more attractive for clients. We provided around 1300 SME loans with a total amount of AMD 3.1bn in 2019, which accounts for 52% of total number and 22% of total amount of loans provided in 2019.

Development of customer-focused ecosystems is a priority within our digital agenda. We launched a Business Loan Platform online – an SME ecosystem, where customers can get comprehensive information about small and micro business loans and apply for one online.

Online loan applications comprised 45% of total loan applications in 2019.

corporate & investment banking

2019 highlights

70%
Corporate Loan Share in Total Gross Loans

51%
Corporate Deposit & bonds Share in Total Deposit Base

Operating Profit AMD thousand	2018	2019	
	16,216,859	**18,541,699**	**14.3% YoY growth**

overview

Ameriabank has been the leading corporate and investment banking services provider in the local market for many years now. Initially being established as a corporate and investment bank with limited retail banking, Ameriabank has deep sector knowledge and expertise and has been serving the largest corporate clients and financing the largest strategic projects. Though we have shifted towards universal banking model with more focus on retail banking for the recent years, corporate banking remains our competitive advantage and we aim to maintain our leading positions in this regard.

In 2019 we went through a strategic transformation by merging our Corporate Banking and Investment Banking business lines into a fully integrated Corporate and Investment Banking department. This advisory focused business model will enable us to provide customized solutions for each customer, optimizing their financial and capital structure. We have also established dedicated coverage teams for each major sector of the economy, with professionals that have deep knowledge and profound experience in their respective sectors.

In line with Bank's strategy and mid-term targets, we aim to maintain our leading positions in Corporate and Investment Banking, with further focus on diversification and lowering of concentration levels in Corporate Banking portfolio. Among our key mid-term targets will be higher share of SME loans & Trade finance facilities in our total portfolio and higher level of non-interest income in our operating income.

Corporate gross loan book structure

2019	2019	2019	2019	2019
Large Loans	**SME**	**Factoring**	**Leasing**	**Receivables from L/Cs**
AMD 322.1 bn	**AMD 77.7 bn**	**AMD 10.7 bn**	**AMD 5.9 bn**	**AMD 5.1 bn**

corporate banking

Large enterprise lending

2019 highlights

- LE total gross portfolio **AMD 322.1 bn**
- LE share in total corporate gross loan portfolio - **76%**
- LE share in total gross loan portfolio - **54%**

In 2019 Ameriabank maintained its leading positions in corporate lending.

The Bank remained focused on its decentralization policy to increase the share of small and medium businesses in loan book, while continuing to finance large, economically significant projects, among which was the LSE AIM listed company Chaarat Gold Holdings Limited's acquiring of 100% of shares of "Kapan Mining and Processing Enterprise" CJSC for USD 55mn. The transaction was arranged by Ameriabank with successful syndication with two other partner Armenian banks, raising a USD 40mn loan, USD 32mn of which was issued by Ameriabank.

The Bank also continued its role as local co-lender under major international business finance programs in Armenia. In 2019, a number of such programs were implemented in the sectors of energy and agriculture.

Corporate SME lending

2019 highlights

- Corporate SME total gross portfolio **AMD 77.7 bn**
- Corporate SME share in total corporate gross loan portfolio - **18%**
- Corporate SME share in total gross loan portfolio - **13%**

Within the strategic objective of decreasing concentration and focusing more on SME lending, the Bank continued to expand the geography and segments of SME lending by offering competitive and new financing products.

In 2019 SME portfolio registered a significant improvement both in terms of volume and quality.

The Bank's targeted SME lending policy resulted in 18% SME loan share in the Bank's total corporate portfolio. The growth was mostly fueled by increased volume of financed innovative and green SME projects (solar, wind plants, etc.) with competitive rates and high-quality service.

SME financing is targeted to the main developing industry sectors in Armenia – energy, agriculture, construction, tourism, etc. In 2019 the Bank placed stronger emphasis on energy efficiency and energy saving projects, offering most favorable terms of financing. Strengthening the collaboration with our partner IFIs, we implemented number of projects under green economy and green lending programs.

In 2019, we launched an online platform for SME loans and overdraft financing offering our clients a unique and simple procedure, which also enabled digital on-boarding . This is only the start of business lending digitalization with planned expansion in coming years.

Leasing

2019 highlights

- Leasing total gross portfolio - AMD 5.9 bn
- Leasing portfolio YoY growth - 156.6%
- Customers number YoY growth – 137%

2019 was notable particularly for Ameriabank's Leasing division, which achieved impressive results and improved efficiency by attracting new clients, developing new products and expanding supplier network. The main focus of our leasing strategy was the enhancement of the finance lease portfolio scope by emphasizing the awareness and the advantages of the lease sub-segments, due to which we were able to strengthen our market position with 156.6 % YoY growth of leasing portfolio as of year-end.

Ameriabank's Leasing division serves both large corporates and SMEs, providing comprehensive and customer-tailored leasing solutions, as well as advisory services. Ameriabank cooperates with both local and international partners. Striving to establish and strengthen strong and beneficial partnership relations, we doubled our collaboration network offering the vendors and suppliers various promotional financing deals and campaigns.

2019 was remarkable in terms of launching new financing lease sub-products based on customer preferences and market trends, such as Express Leasing, All Inclusive Leasing, Solar Leasing and others.

Promoting the financing of Solar power plants, in 2019 Ameriabank financed more than 50 solar projects with a total amount of AMD 3,5 bn under Solar Leasing product - a special program of Green Economy Financing Facility as part of the agreement with European Bank for Reconstruction and Development (EBRD).

Ameriabank actively cooperates with governmental projects as well. The lease portfolio under the "State Support of Leasing for Agricultural Equipment" project, aimed at supporting the development of agriculture industries by subsidizing interest expenses of companies, reached AMD 455mn in 2019. Meanwhile, striving to contribute to environment protection, we also provide financing for energy-efficient equipment.

Factoring

2019 highlights

- Factoring total gross portfolio - AMD 10.7 bn
- No. of transactions - 464

The Bank's factoring portfolio covers mainly such industries as energy, construction, transportation, trade, public services, etc.

Given clients' financing needs, factoring best suits them for assigning their accounts receivable to the Bank at discounted prices and therefore receiving prompt cash payment with short maturities to keep up with their financial operations and to expand their scope of production.

A significant portion of transactions covers export factoring, though domestic factoring is also being actively used by clients. In the scope of export factoring, Ameriabank continues its cooperation with the Export Insurance Agency of the Republic of Armenia – which has significantly increased the range of opportunities for exporters to have more reliable and seamless financing options with their overseas partners.

In 2019 more clients started using factoring operations. Being a flexible financing tool, factoring delivers funding to market players that encounter working capital and cash flow shortages during their ongoing business cycles. Another advantage of factoring is that it provides an opportunity for the clients to network with their partners on deferred payment terms and conditions and thereof improve their credit standing with them.

Trade Finance

2019 highlights

IFC

- Best Issuing Bank Partner in the Caucasus and Central Asia Award 2019
- Best Bank Partner for Equipment Trade in Europe and Central Asia 2019

ADB

Leading Partner Bank in Armenia 2019

European Bank for Reconstruction and Development

Most Active Issuing bank in Armenia for 2018

In 2019 Ameriabank sustained its leading role in Armenian trade finance market and proved once again to be a reliable, dynamic and trusted business partner in trade finance.

In 2019 the Bank's priority was diversification within the growth-generating sectors of the economy. The focus for trade financing fell on the following sectors of the economy: manufacturing, energy, mining, IT, construction, healthcare and commodities.

Ameriabank is actively involved in Trade Facilitation Programs with all major IFIs: EBRD (TFP), IFC (GTFP) and ADB (TFP). Remarkably, in addition to its issuing bank status with these IFIs Ameriabank was also the first Armenian bank to receive confirming bank statuses under the Trade Facilitation Program (TFP) of EBRD in 2013 and under Trade Finance Program (TFP) of ADB in 2018. Using the large credit limits provided by these IFIs and partner commercial banks for trade finance development, Ameriabank provided its clients with the best solutions for operational continuity and development of their businesses.

During 2019 Ameriabank was funding trade by issuing local and international payment instruments, servicing export and import operations, providing direct financing of import and export transactions to companies and raising funds from leading global banks and IFIs. Specifically, in 2019 the volume of finance attracted from partner banks and IFIs for trade purposes exceeded AMD 38.2 bn.

By building close relationships with its clients, the Bank is able to offer advice and innovative solutions for clients' financing needs. Particularly, the volume of L/Cs and guarantees issued by Ameriabank during 2019 went beyond AMD 28.4 bn with 27% growth compared to the previous year.

In 2019, through its large network of partner banks and due to its experienced team, Ameriabank made it possible for Armenian exporters to expand the geographical reach of their products and services to many unexpected new destinations in terms of both distance and absence of prior economic relations.

Ameriabank's leading role in Armenian trade finance market has been recognized through multiple awards from prestigious international organizations for many years. Among such awards are: Most Active Issuer in Armenia by EBRD, Most Active GTFP Issuing Bank in the Caucasus by the IFC, Deal of the Year by EBRD for financing the building of the new generation fiber-optic network in Armenia, Deal of the Year–Energy Efficiency by EBRD for greenhouse energy efficiency improvement project, Best GTFP Issuing Bank for Energy Efficiency by the IFC.

In 2019 Ameriabank received 4 more new awards, 2 of which were from IFC as the 2019 Best Bank Partner for Equipment Trade in ECA award being presented for the first time in 2019, and the 2019 Best Issuing Bank in Caucasus and Central Asia, which was awarded to Ameriabank for the second consecutive year. Ameriabank was also named the Leading Partner Bank in Armenia by ADB and the Most Active Issuing bank in Armenia by EBRD.

Due to agility, high quality of service, and active involvement in most of major projects in Armenia Ameriabank has developed a sustainable cooperation with a number of international banks, such as Unicredit, Citibank, Deutsche Bank, KBC Bank, Banca Popolare Di Sondrio, among others.

As of year-end 2020, total financing limit obtained by Ameriabank from major commercial banks and IFIs is over AMD 80 bn.

The Trade Finance strategy of 2020 is further diversification of client base, continuing support to our clients in their aspiring business expansion projects and improvement of the service quality and network of partner banks. For 2020 Ameriabank plans to continue the approaches adopted in recent years paying specific attention to:

- Green projects
- Energy-efficient projects
- Projects with high female participation rate
- Solar energy projects

investment banking

2019 highlights

- N1 Lead arranger and underwriter - **11 tranches with USD 116.5 mn total volume**
- Largest debt capital markets project in Armenia – **ZCMC USD 50 mn bonds project**
- Largest issuer of bonds in the local market – **22.3% market share**
- One of the largest real estate M&A deals in Armenia – **KAMAR BC project**

overview

Ameriabank is the pioneer of investment banking services in Armenia. With its debuts and landmark transactions, Ameriabank has retained its leading position and contributed immensely to the development of Armenia's evolving local financial market. Ameriabank offers a wide range of investment banking services and solutions, such as corporate finance, capital markets and M&A.

Ameriabank's investment banking products and services are channeled via the following business units:

Mergers & Acquisitions

- Buy-side Advisory Services
- Sell-side Advisory Services
- Valuations

Capital Markets

- Debt Raising in public capital markets
- Equity Raising in public capital markets
- IPO Advisory

Corporate Finance

- Debt Raising in non-public capital markets
- Equity Raising in non-public capital markets
- Rating Advisory

mergers & acquisition

Our M&A services help clients achieve their mergers and acquisitions objectives in all types of transactions, whether public, private, cross border or domestic in nature. Our M&A advisory services include:

- search and identification of the investor or target and preparation of relevant outreach documents (teaser, Information memorandum);
- deal strategy, negotiations and project management advisory;
- financial and legal Due Diligence reports and support in the processes of their administration and presentation;
- business plan development, financial modeling and sensitivity analysis;
- business valuation reports, Synergy valuation report;
- transaction support, including:
    - loan origination and leveraged buyout assistance;
    - deal structuring, payment structuring, ownership change, company registration/re-registration of companies or rights;
    - advisory on antitrust filing with state authorities (State Commission of Economic Competition Protection, Public Services Regulation Commission);
- legal drafting (Letter of Intent, Non-Disclosure Agreement, Term Sheet, Share Purchase Agreement, Shareholders' Agreement) and negotiation support;
- post-deal review and analysis.

Valuations: We market the following valuation services:

- Business/Equity Valuation Report with value conclusion;
- Business/Equity Valuation Report with value calculation;
- Fairness Opinions on Business/Equity Valuation Report.

In the recent years, Ameriabank has won more mandates than any of its rivals, and currently has an impressive portfolio of ongoing mandates covering sectors such as commercial real estate, hospitality, media, telecom/ IT and mining. Ameriabank is highly recognized for its local reach and involvement in landmark M&A transactions across almost all sectors.

main achievements in 2019

In 2019, the Bank reinforced its leadership position in the market by executing one of the largest real estate M&A deals in Armenia's history - the sale of "Kamar" BC. "Kamar" BC is the first "green building" in Yerevan with unparalleled quality and unique design. Our team's scrupulous valuation amounting to the determination of USD 42mn enterprise value and the captivating presentation of the business center led to a quick attraction of investors and a mutually beneficial deal.

In late 2018 and early 2019 our M&A team advised LSE AIM listed Chaarat Gold Holdings Limited company in its acquisition of 100% of shares of "Kapan Mining and Processing Enterprise" CJSC, and with the support of our CF team arranged USD 40 mn acquisition finance facility for Chaarat.

capital markets

As a leader in the local capital markets, we offer our clients a full range of debt and equity capital markets services – from arranging initial public offerings to facilitating liquidity in the secondary market (market making). Our public fundraising services mainly include:

- pre IPO due diligence and IPO advisory;
- corporate governance advisory and regulatory reporting assistance;
- prospectus drafting and filing assistance;
- securities underwriting and placement assistance;
- market making services;

Ameriabank is the only investment banking service provider in the market that has a dedicated Capital Markets team as a separate unit. It's a significant competitive advantage that lets us ensure high quality of the services, by organizing the whole preparation process for issuance and placement of securities independently.

main achievements in 2019

2019 was a truly outstanding year for our Capital Markets unit which successfully initiated 11 debt capital markets projects/bond placements, in 2019, including:

- two bond tranches of the largest mining company and taxpayer in Armenia – "Zangezur Copper Molybdenum Combine" CJSC, with the total amount of USD 55mn;
- three bond tranches of the largest agricultural company in Armenia - "Spayka" LLC, with the total amount of USD 10.5 mn;
- six bond tranches of Ameriabank with the total amount of USD 51 mn.

With six new bond tranches Ameriabank retained its leading position as an issuer in the local market with total outstanding bonds of USD 104 mn based on Financial Statements and 24.0% market share.

The bond issue for ZCMC CJSC was an unprecedented transaction for the capital markets of Armenia representing the largest historic placement of the kind. ZCMC CJSC is the largest mining company in Armenia which operates the biggest mine in South Caucasus with its copper and molybdenum deposits – the Kajaran mine. The company has a huge impact on the economy and is a major contributor to the country's GDP, thus it was quick to earn the trust of investors. Besides, thanks to the assistance of Ameriabank's Rating Advisory services, the company was able to obtain a B2 (stable) credit rating from Moody's which was another ensuring factor.

The success of the project became apparent when it was complete 5 weeks ahead of the initially announced deadline with both USD 50mn and AMD 2.5 bn tranches fully allocated by the end of October. ZCMC bonds are currently the most actively traded and demanded corporate bond on the Armenia Securities Exchange.

A deal of no less significance was the issuance of bonds for "Spayka" LLC. Spayka is engaged in the production and international trade of agricultural goods and in international transportation. It is the leading agricultural holding in the region, as well as the largest freight forwarding company. The bonds were issued and allocated in 3 tranches - **AMD 600 mn, AMD 800 mn and USD 7.6 mn.**

corporate finance

Our corporate finance services provide a comprehensive, coordinated approach to project and structured financings, including private finance initiatives and public private partnerships. We provide full-fledged debt and equity fundraising advisory services, including:

- lender/investor identification (we have a large database of international lenders and investors willing to finance viable businesses in Armenia);
- project analysis and pitching;
- due diligence and legal support;
- term sheet structuring and negotiations;
- loan agreement/syndicated loan agreement/share purchase agreement terms structuring and negotiations;
- conditions precedent support.

Besides the core services, our corporate finance unit also provides credit rating advisory services, including:

- inception talks with rating agencies;
- advise on rating agency selection;
- SWOT analysis based on appropriate methodologies;
- assistance in preparing the management presentation and getting ready for the management meeting.

Throughout the years, Ameriabank's Corporate Finance unit has established long-standing and fruitful partnerships with the most reputable and renowned financial institutions.

main achievements in 2019

The year of 2019 was put to start by advising the LSE AIM listed company Chaarat Gold Holdings Limited in acquiring 100% of shares of "Kapan Mining and Processing Enterprise" CJSC for USD 55 mn. It was the first time that a foreign strategic investor acquired an Armenian mining company through joint financing of three Armenian banks. The acquisition finance was arranged by our Corporate Finance unit with successful syndication with two other Armenian banks. The three banks jointly extended a USD 40 mn loan out of which USD 32 mn was provided by Ameriabank.

Another significant deal was made again with "Zangezur Copper Molybdenum Combine" CJSC by means of the provision of credit rating advisory services. As a result the Moody's credit rating agency assigned a B2 (stable) credit rating to the company. This laid the foundation for the issue of senior unsecured bonds of the company also arranged by Ameriabank's Investment Banking department that led to ZCMC being the only credit rated non-bank corporate issuer in Armenia.

trading

highlights

- Largest primary dealer in Armenian Government Securities
- The leading foreign exchange trader in the market
- 28% growth in the number of brokerage clients
- Brokerage services available on more than 100 specialized platforms in 23 countries

According to FY 2019 results, Ameriabank remained one of the leaders in the local market by trading operations. In 2019 net income from trading (foreign exchange, gold and securities) and revaluation increased 32% to constitute a significant 14% of banking sector trading operations.

Armenian foreign exchange market was relatively stable during 2019 and there were no significant exchange rate fluctuations. The Bank kept its leading position in the foreign exchange market and reported a nearly 43% growth in the number of foreign exchange transactions of clients. The Bank continued to offer a large spectrum of foreign exchange products and services to its resident and non-resident clients including a wide range of foreign exchange spot and derivatives instruments (currency forward, swap and others). In 2019 the Bank initiated the process of offering CNY conversion service to its corporate clients and will be ready to launch it early in 2020.

Ameriabank also continued to be very active in Armenian and other sovereign Eurobonds markets and continued to be one of the largest corporate bond investors in the Armenian banking sector. The Bank ranked second by investments in Armenian government bonds and interest income from bonds, and first among primary dealers (agents) by RA Ministry of Finance.

Simplified brokerage account opening process for qualified non-resident clients, broader availability of brokerage services as well as the launch of advisory service resulted in a significant increase of the number of Ameriabank brokerage clients –28% in the reporting year.

Ameriabank's brokerage services are available on more than 100 specialized platforms in 23 countries worldwide, enabling clients to trade in multiple securities and keep track of latest market developments. Brokerage accounts with Ameriabank give access to all major stock exchanges worldwide such as NYSE, NASDAQ, AMEX, ARCA, CBOT and others (US), Toronto Stock Exchange, Montreal Exchange (Canada), LSE, LSE International Order Book (UK), Frankfurt Stock Exchange FWB (Germany), Vienna Stock Exchange VSE (Austria), Euronext Brussels Stocks, Nasdaq OMX Europe NUROEN (Belgium), Euronext France SBF (France), Swiss Exchange SWX (Switzerland), Borsa Italiana (Italy), Bolsa de Madrid (Spain), Tokyo Stock Exchange TSE JPN (Japan), Hong Kong Stock Exchange SEHK (China), Australian Stock Exchange ASX (Australia) and many others. The Bank's brokerage clients can trade in securities denominated in multiple currencies and follow quotations in real time 24 hours a day.

Active participation in local foreign exchange and securities markets in 2019 earned Ameriabank's trading team several awards, including Best Exchange Member in Government Bond Market by Armenia Securities Exchange and Best Foreign Exchange Provider by Global Finance.

In line with the Bank's strategy and mid-term targets we plan:

- To remain the leading foreign exchange trader in the local market and top quality currency conversion service provider to the Bank's retail and corporate clients.
- To sustain and improve the Bank's position in the market as one of the leading Primary dealers (Agents) of the Ministry of Finance of the RA through active participation in government bonds primary auctions as well as active trading of bonds in the secondary market.
- To continue offering skilled and high quality market making services to corporate issuers, increase the number of quoted securities under market making agreements and become one of the top 3 market making service providers in the local market.
- To expand the coverage of Ameria Global Trading platform.
- To provide top quality brokerage services to our clients through full automation of Brokerage operations in frame of strategic digitalization of the Bank.
- To maintain leading positions as the best broker in Armenia constantly improving our service and bringing in new features.
- To attract new customers both for our brokerage and advisory services.

innovation & digitalization

Ameriabank is committed to the implementation of its digital strategy and continuous improvement of its digital services through technological innovation. Our principles are designed with strong focus on innovation and efficiency, which are fundamental elements for technological improvement and business growth in such rapidly changing world. The Bank strives to create value for all its customers stressing continuous improvement of its digital services thought for both individual and corporate customers including not only local but also regional markets.

Offering well-suited digital solutions to all the stakeholders, we continue to invest much time and efforts in R&D, dedicated product design and technological leadership. Due to specific concentration on our cutting-edge technological solutions, we deliver top-notch performance, bringing new levels of usability and convenience to our customers. Having superior customer experience, the Bank constantly meets the complex needs of our customers offering them diverse financing solutions, namely; special offers for workers of certain industries, referral rewards, special rates for the loans with the purpose of purchasing energy-efficient equipments, production lines, etc.

While implementing our innovative policy, Ameriabank promotes the following principles:

• To form digital Agenda with clear strategic goals for automation and digitalization till 2025

• To create shared real-time online repository aimed at monitoring all the digital projects inside the Bank
• To establish a Digital Steering Committee for prioritization and impact analysis of the new projects

• To focus on Digital Maturity Index for the automation of the internal processes

The dedication to innovation, technological leadership and customer experience expeditiously spurred the Bank into a leading position in the Armenian banking system.

Currently, Ameriabank is the **leading financial institution** in Armenia having proven expertise as a reliable partner, ready to face and overcome new challenges adhering to the pace of international trends and demands.

During the year of 2019 customer migration to digital channels continued at a high pace, with a growing engagement on digital onboarding channels for individual customers as well as loan origination channels for SMEs. There was a 10pp YoY growth in online banking penetration rate, comprising 34% as of year-end. Upon deploying customer-centric standards for product development practices, we continuously work with our customers closely to understand their needs further to make the experience of all the channels appealing and engaging. Delivering an improved customer experience journey remains the highest priority for the Bank..In 2019 Bank undertook a direction of smart chat-bot technology development based on natural language processing capabilities (NLP) first time in Armenian language. We believe that the maturity of such technology will bring a totally new level in usability and convenience of Bank's online and mobile applications.

To make the Bank's operations and core non-banking services more accessible, secure and comfortable to use, in 2019 Ameriabank implemented a series of internal and external improvements. During 2019, the Bank launched the following digitally enabled services: SME online lending stage II (with secured loans), online Auto loan portal (automarket.ameriabank.am), online Mortgage portal (Estate.ameriabank.am) and e-signature for individual clients. , that streamlined customer experience by 25% as well as delivered 40% cost savings for account opening operations. In addition Ameriabank also cooperated with Zangi company, launching a new service which enables customers to contact Ameriabank via Zangi messenger free of charge from anywhere across the globe, irrespective of the mobile operators and the availability of roaming services.

Improved loan decision-making speed and increased operational efficiency for small and medium enterprises (SME) were and are Ameriabank's top organizational priorities. As a continuation to highly successful SME Phase I implementation which enabled receiving up to the limit of AMD 10 mn loans, by the end of 2019 Ameriabank successfully launched SME Phase II implementation with more advanced online and in-branch scoring module powered by machine learning (ML), which enabled the SME segment to get AMD 10 mn and higher limit secured loans only in a few minutes.

In addition to fully redesigning and delivering user-friendly experience for SME clients, Ameriabank also revamped its onboarding process for individual clients, making it fully digital and interactive. Nowadays, new customers are on-boarded on a digital channel by just providing their personal data, scanning their photo ID and completing the process with a selfie for a liveness check. This simplified process allows customers to start using their limited accounts and activate their full banking functional via either a scheduled video call or a personal visit to any of our branches.

internal efficiency & automation

Ameriabank continues to make investments in the development of internal IT direction with strong focus on ensuring that its systems and processes are both efficient and resilient to delivering exceptional customer experience via seamless integration between front, middle and back offices processes automation.

From this scale, the Bank has defined a special indicator – Digital Maturity Index, that combines all the processes of the Bank, organized by complexity and impact and set a clear goal on the way to automate all the key processes with target of meeting 75% automation by 2025.

Ameriabank continues to invest in IT with a focus on ensuring that its systems and processes are both efficient and resilient and the Bank's customers' experiences are improved via seamless integration between front office and back office automation of key customer journeys.

Having readily available information for client managers is critical to account management and customer satisfaction. In order to improve loan origination and account management processes for our customers, in mid-2019, Ameriabank launched a CRM upgrade project. The new CRM upgrade along with Microsoft Dynamics assures 360-degree customer view, improved business process management capabilities and seamless integration between front, middle and back office operations for loan origination processes. The system also includes enclosed documents, contracts, invoices, incoming correspondence and NPS survey result that enables us to better serve our clients. This project in near future will also enable two-way integration between core banking and CRM so that client managers can effectively onboard new customers, manage accounts and handle collateral-secured loan applications through customized workflow processes. Ameriabank is anticipating these new automated workflows to significantly decrease secured loan processing time. And 360-degree customer view capability will help client managers to better see customers' needs from one place and proactively offer new, relevant and targeted products.

In order to provide with customer service excellence, we need to have best-of-breed talent management and analytics mechanisms. As part of that goal Ameriabank automated its HR recruitment processes (hiring and onboarding, recruitment, announcement, sourcing and selection), as well as took an initiative to upgrade internal HR management platform making it accessible and a mobile-friendly application.

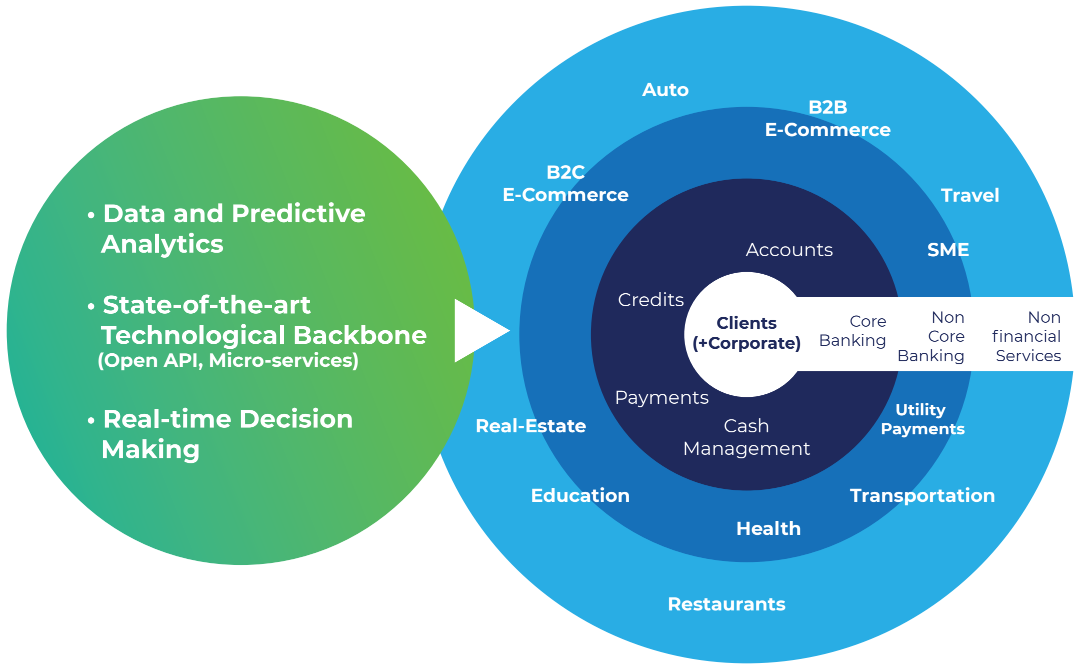
future developments

Digitalization and Innovation are and will continue to be the primary driver for our sustained growth. We identify development directions based on four main pillars:

- **Internal Efficiency and Automation**
- **Digital Channels**
- **Digital Products and Services**
- **Backbone Re-engineering**

The key enabler of our Digital Products and Services as well as Digital Channels directions is Backbone Re-engineering pillar. Consequently, Bank initiated a massive architectural and technological re-engineering initiative with the purpose of delivering scalable, efficient and secure technology infrastructure built on micro-services based architecture. This initiative will offload Bank's operations from current third-party core platform by 75%, distribute and balance load and performance requirements among newly built micro-services as well as serve as a key framework for our Digital Products and Services pillar.

We build Digital Products and Services pillar around open, integrated ecosystem-based architecture. The Bank sets three key directions for ecosystem development: Housing Ecosystem, Auto Ecosystem and SME Ecosystem. All these ecosystems will run on unified technological core enabled by shared, efficiently integrated micro-services and data repository. By 2025, Bank sets aggressive targets of reaching at least 50% market share along those three directions. In addition to those three directions, having powerful and scalable technological core, Bank targets other directions also such as e-Commerce marketplace, Student marketplace and a list of other financial and non-financial services delivered by Bank's partners integrated on one technological platform enabled by the Bank.



* includes both Ameriabank and third-party terminals

Key dimensions of the unified architecture are:

- Reduction of friction between related services through one unified experience through State-of-the-art Technological Backbone (Open API, Micro-services)
- Data as a key asset that enables real-time decision making powered by predictive analytics through machine learning
- Leverage of network effects through partnership and smooth integration procedures and technology

On the path of creating successful customer-centric Digital Products and Services, the Bank initiated unprecedented redesign program for all the key digital customer experiences, putting forward world-class design and usability standards and practices. As a part of that initiative there is an upcoming launch of fully re-designed web experience, as well as development of completely redesigned Mobile and Online banking services.

Ameriabank's digitalization and Innovation direction has the following important features and components:

agile mindset

We committed to bring and adopt agile practices throughout the Organization as an enabler of high efficiency, time to market as well as transparent communication. The way we collect ideas, transform ideas into concepts, build products, form teams, design customer experiences, collaborate on all the directions be that internal automation or external product development, we mov e towards higher degree of agility and efficiency.

unified architecture and technology standards

We build products, integrate partners, collect data, and manage services in a technological environment that is built with scalable and modular architectural patterns as well as clearly defined technological standards. We call it a Technological Backbone- our key enabler of Digital Agenda.

data-driven

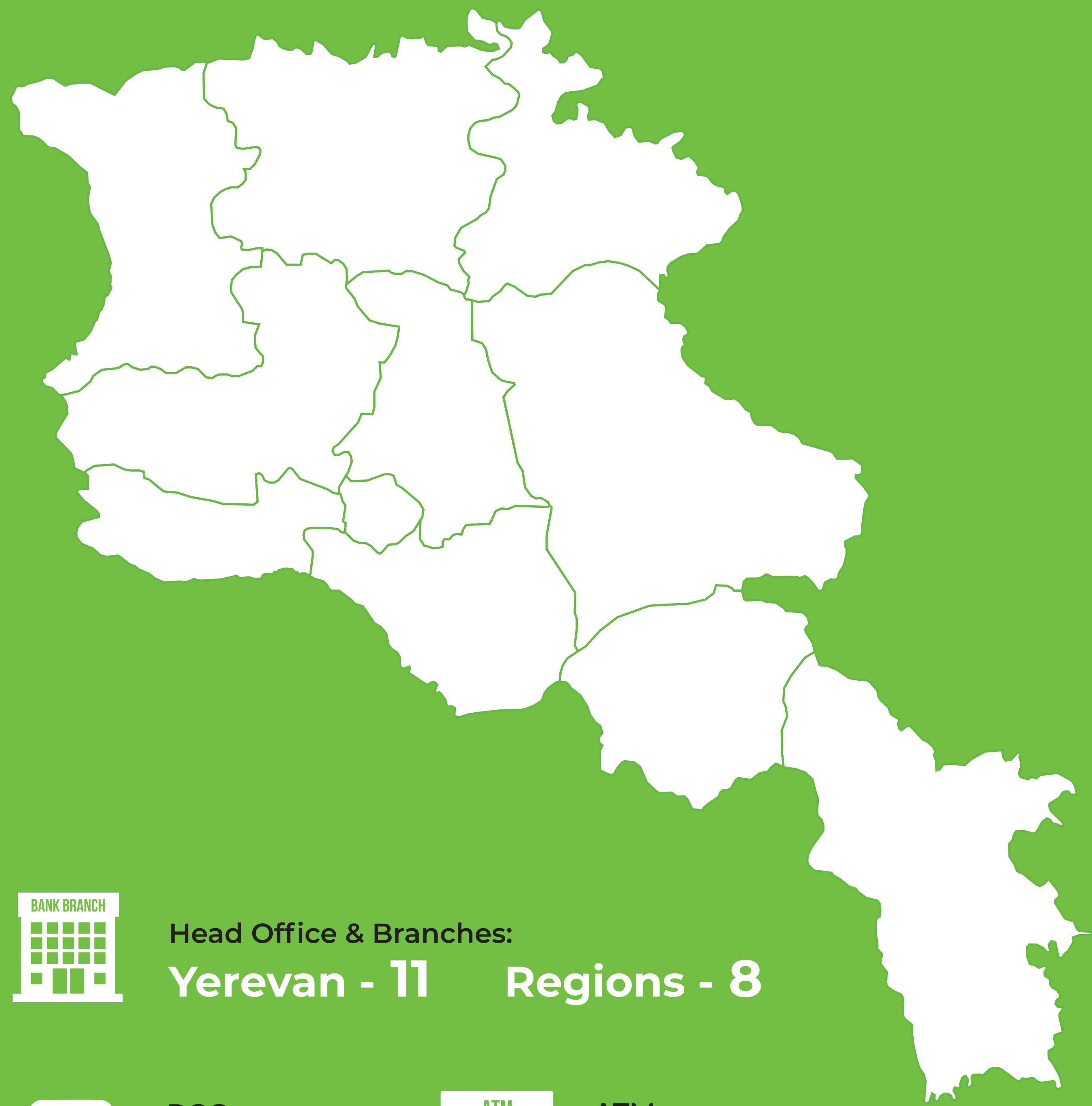
We are committed to become fully data-driven by 2021. Bank is building a large-scale data warehouse center that will bring data analysis, forecasting, reporting and data mining practices to a completely new level. We believe in real-time decision-making and 100% data driven decisions.

geographical footprint

We aspire to develop a next generation bank with advanced omni–channel distribution platform with a primary focus on digital channels. As a result of ongoing changes in the habits of the Bank's clients in 2019 the number of Internet/Mobile banking users grew by 89% and the number of transactions through Internet/Mobile banking grew by 76% YoY. The number of total transactions through digital/self-service channels (including ATMs, express banking self-service spots and terminals) grew by 78% YoY. The share of transactions through digital banking/self-service channels in overall transactions constituted 82.4% and had positive trend, whereas the share of other channels (in-branch transactions, backoffice-handled transactions and phone banking) increased by 3%, which distinctively showed the readiness of Ameriabank's clients to move to digital products and services with the Bank.

In 2019, the Bank opened two branches: Abovyan branch in Kotayk region, and Ejmiatsin branch in Armavir region. The Bank's geography covers major urban areas of Armenia, namely: Vanadzor (Lori region), Dilijan (Tavush region), Kajaran (Syunik region), Kapan (Syunik region), Gyumri (Shirak region), Jermuk (Vayots Dzor region), Abovyan (Kotayk region), Ejmiatsin (Armavir region) and the most dynamic districts of Yerevan (the head office and 11 branches in Yerevan).

Ameriabank has been also actively enhancing and optimizing its distance channels - ATMs, payment and POS terminals in particular, aiming to provide more convenient banking channels for its clients available on 24/7 basis. In 2019 we increased the number of our own payment terminals from 32 to 43 and started to cooperate with all national payment and settlement organizations; this includes more than 5500* payment terminals.. As of year-end 2019 the Bank had 147 ATMs, 2639 POS terminals, 395 virtual POS terminals and 61 POS cash terminals installed.



BANK BRANCH

Head Office & Branches:

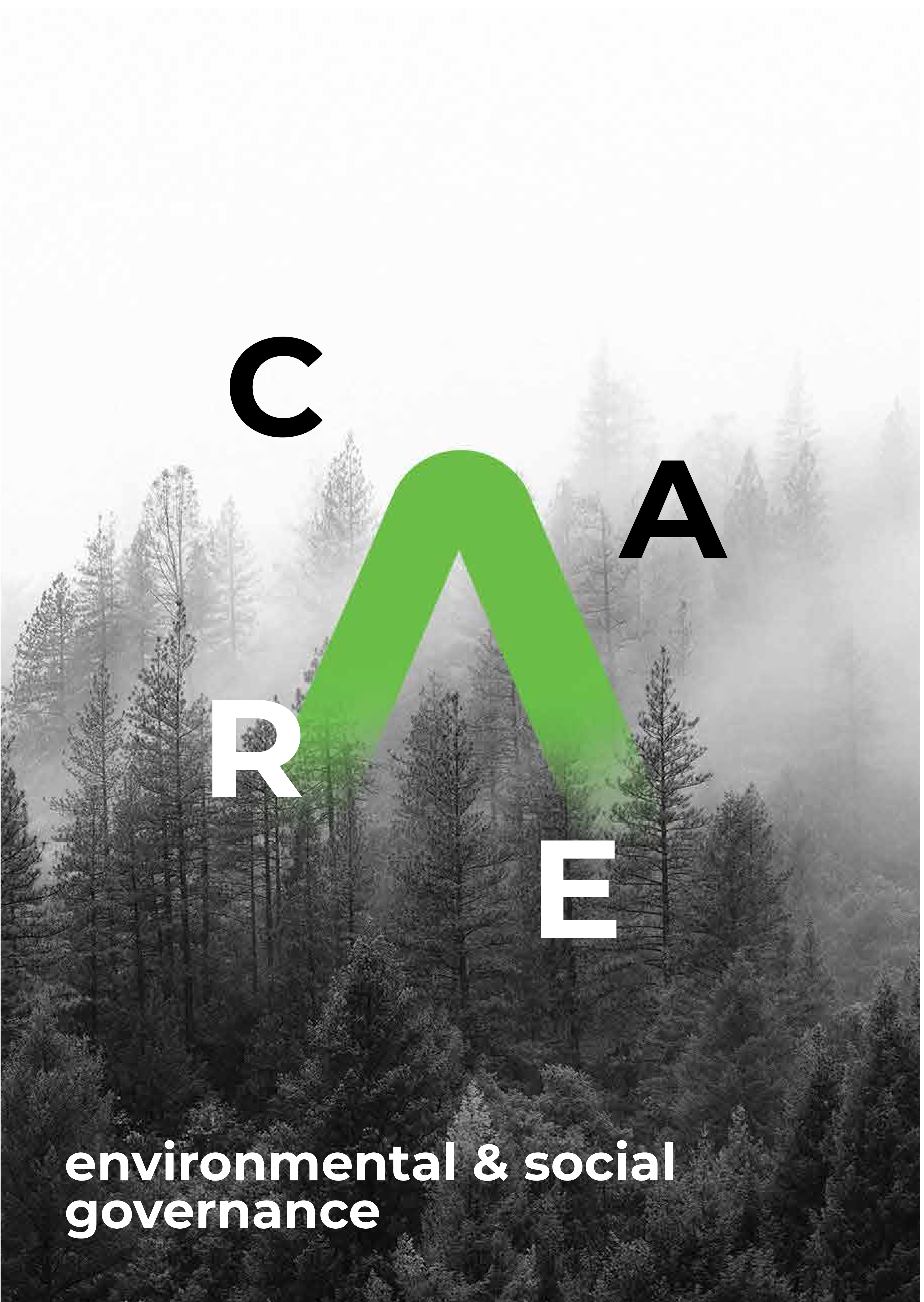
Yerevan - 11 **Regions - 8**

POS terminals **2,639**

ATM **147**

Virtual POS terminals **395**

POS cash terminals **61**



environmental & social governance

Following best practice international ESG standards, Ameriabank is committed to conducting its business in a responsible and sustainable way to reduce environmental footprint from its direct and indirect activities. All potential projects and companies that are to be financed are evaluated based on Ameriabank's Environmental and Social Risk Management Policy. The latter is based on international best practice guidelines, ensuring responsible lending and envisages thorough monitoring of creditors to avoid adverse environmental or social impact.

In line with its mission of "improving the quality of life" Ameriabank has also a standing practice of giving back and contributing to the development of the society.

This practice continued to evolve in 2019 as well, with strong focus mainly on the sectors of education, health care and culture.In 2019 Ameriabank actively participated in the implementation of several CSR projects:

- educational programs: financing scholarships of UWC Dilijan College and American University of Armenia students from low-income families
- cultural programs: Friends of Armenian Classical Music Initiative by My Step Charity Foundation, Armenia Art Fair featuring contemporary artworks, etc.
- children's health care projects in close cooperation with our partner charities: City of Smile, Let's Help Armenian Children, SOS Children's Villages, Sourb Astvatsamayr Medical Center, etc.

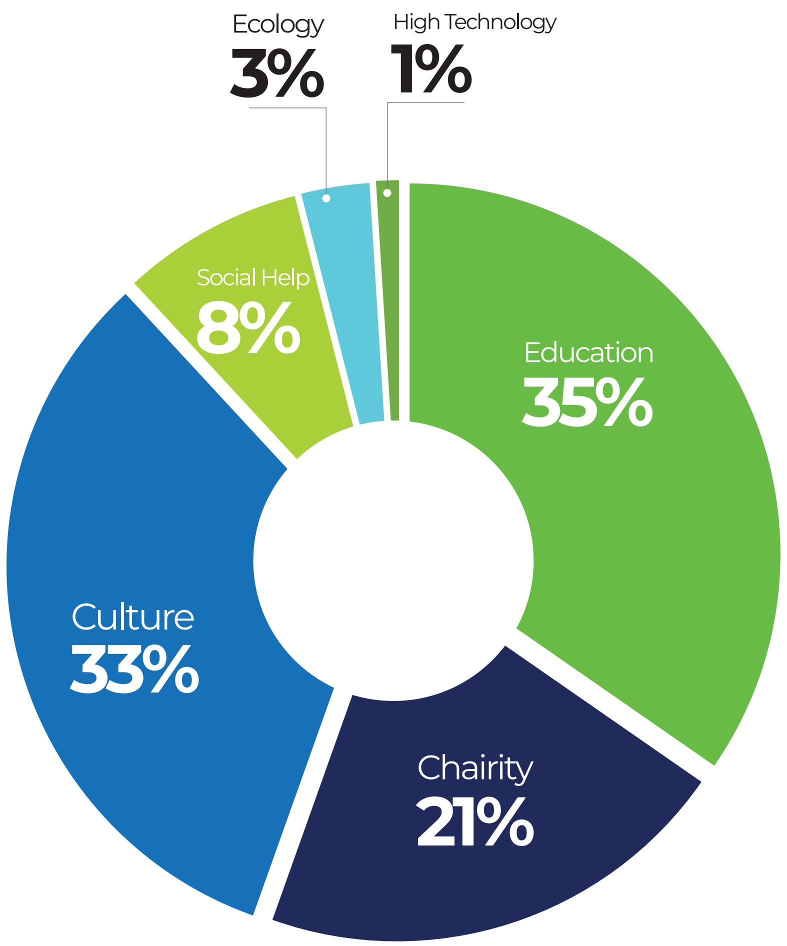
Around AMD 124 mn was allocated for CSR purposes during the reporting year, a significant part of which was channeled into support of educational and cultural programs with AMD 43.6 mn and AMD 40.6 mn respectively.

Considering the high-tech industry a driving force for the development of Armenia and valuing the importance of it, in 2019 the Bank sponsored a number of events, such as Sevan Startup Summit 2019, ReactConf2019, Barcamp2019, JSConf2019, etc. The Bank also initiated and held ScaleUp Innovation Forum within the scope of the collaboration between Ameriabank and Amazon Web Services. All these events were consistent with our continuous commitment to promoting technological advancement and were aimed at exploring the latest technological developments and trends on the path of digitalization and innovation.

The Bank actively participated in business forums held by the Government of Armenia in four provinces of Armenia to promote the development of SME sector: "My Step for Shirak Province", "My Step for Syunik Province", "My Step for Tavush Province" and "My Step for Lori Province". These forums brought together diverse companies in a common platform to build a dialogue and raise the economic development issues faced by rural areas.

In addition, , acting as a main sponsor, the Bank supported the implementation of Yerevan Ride Bike Sharing program in 2019, first-of-its-kind bike sharing system in Armenia aiming to mitigate one of the major infrastructure issues in Yerevan. The program enabled the people of Yerevan to use bicycles as means of green transportation fostering the use of an eco-friendly transport and leading a healthy lifestyle.

Raising the awareness to the environmental issue and increase the engagement in CSR activities, the Bank encourages its employees to be actively involved both in internal and external CSR practices. Each Amerian is committed to "think green, go green" principle embedded in the CSR policy of the Bank. In terms of waste management, we make responsible choices by reducing water and paper consumption, saving energy and using reusable materials at the workplace. From this scale, having the paper and plastic waste of our head office recycled, we saved 238 liters of oil and 3.5 trees in within just the first months of implementation. Additionally, redesigning New Year calendars customarily used on the local market we saved 13.5 trees. We also held a number of environmental protection initiatives engaging our staff, such as tree planting and city cleanup activities with high-level engagement of our staff aiming to improve and preserve the green areas of the city.



risk management objectives & principles

Risk management policy of Ameriabank sets:

- Risk management objectives and principles
- Bank's risk appetite structure and setup rules
- Distribution of authorities between the Bank's decision-making bodies and other functions in relation to risk-bearing operations
- Key benchmarks and criteria of operations
- Terms and conditions of exercising control over them
- Risk appetite framework
- Other provisions

Risk management is implemented by the Bank's Board of Directors, Management Board, managers and other employees, starting from development of the Bank's strategy and involving all aspects of the Bank's operation. Ameriabank's risk management policy is an integral part of the Bank's development plans and serves as a basis for regulating the Bank's risk-bearing processes. It is a unity of principles adopted by the Board of Directors aiming to effectively organize the Bank's operation by minimizing the possible impact in case of occurrence of adverse events. Risk management policy is revised on a regular basis, depending on the Bank's strategy, sophistication level of the business and current or expected macroeconomic environment. According to the established Management Information System (MIS), the Bank's risk management department performs risk assessment reporting on monthly, quarterly and annual basis and reports the results to the Management Board or specialized committees (Credit Committee, Assets and Liabilities Management Committee, etc.), Board of Directors and the Central Bank of Armenia (CBA).

Primary goals of risk management in the Bank include:

- Achieving optimal quality of financial instruments portfolios in terms of maximum value for the Bank under acceptable risks
- Making all possible losses and risks predictable, measurable and manageable
- Maintaining all risk ratios at an acceptable level, with proper (expected) cushions above the limits
- Adjusting risk appetite allocation framework, in order to support the achievement of strategic goals of the Bank.

In order to achieve the risk management goals the following tasks should be fulfilled:

- Timely identifying potential risks in the course of the Bank's operation
- Identifying factors impacting specific types of risks
- Conducting qualitative and quantitative assessment of specific risks
- Approving acceptable risk limits
- Collecting, processing and communicating appropriate information on potential risks to management bodies
- Approving the methods of internal control (monitoring) of risks
- Defining the responsibilities of the Bank's Board of Directors and members of executive body for managing specific types of risks
- Development and the control over the implementation of appropriate measures and methods for risk forecasting, assessment and mitigation.

The following are the key conditions for timely identification of risks: regular monitoring of the Bank's key internal prudential standards and adherence to acceptable risk limits; regular analysis of changes in the Bank's balance sheet; adherence to the key prudential standards established by the CBA; wide range of history based, forecasted and critical stress testing estimates over all portfolios and exposures; monitoring of the domestic and global macroeconomic environment, model based forecasting, availability of internal regulations for management of specific risks in the Bank describing risk identification and management methodologies and mechanisms.

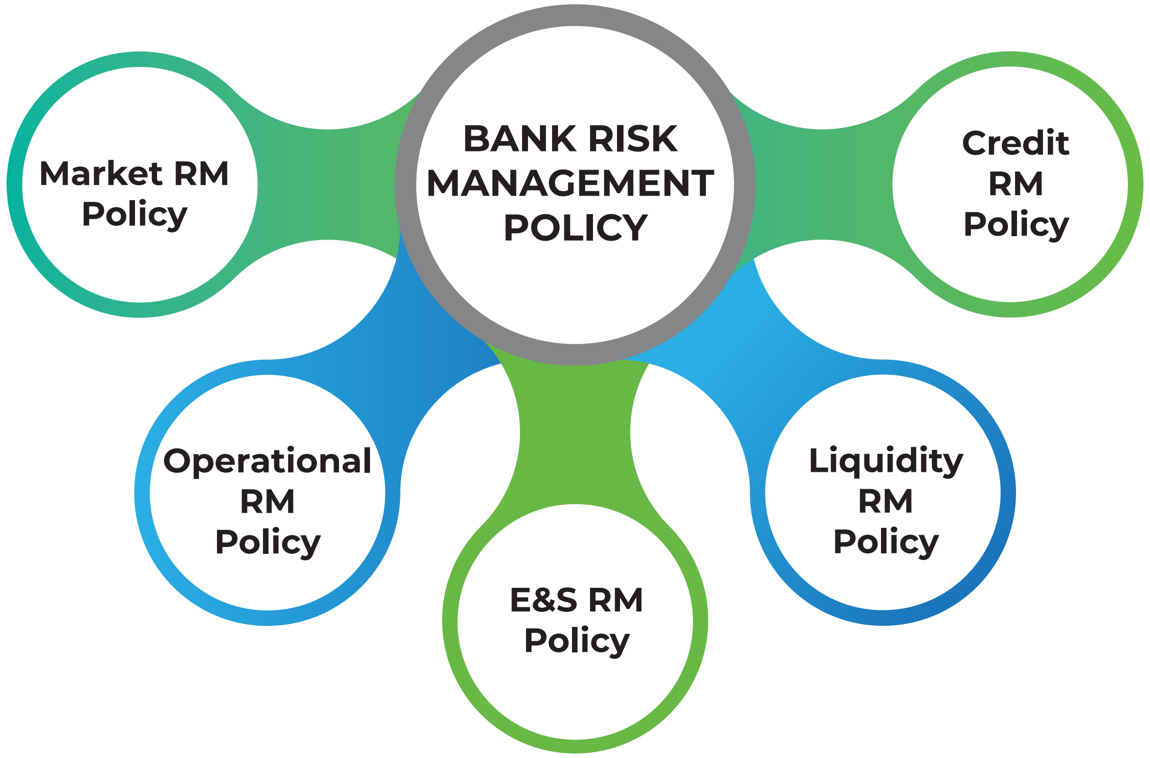
The Bank's risk management policy is based on the following principles:

- Unified risk management system is implemented in the Bank as a key element of the Bank's strategic management.
- Risk management in the Bank has a proactive role and permanent and continuous nature. Risks are identified and assessed as part of all processes of the Bank and appropriate measures are constantly being taken to ensure their adequate management.
- The Bank's risk management system is based on a risk/return ratio of maximum accuracy. The Bank selects those risk-generating transactions which can be effectively assessed and handled.
- The Bank strives to get to know its clients and understand their financial needs. The Bank avoids establishing business relations without adequate information on clients' financial position. We follow the best practice KYC (Know Your Customer) principles in our interaction with clients.
- Risk-generating instruments are approved by the "four-eye" principle, in some cases independent risk management specialists are involved, too (e.g. loan applications are approved by one credit officer and one authorized risk management officer). Approval process for each instrument is defined in details by appropriate policies and procedures.
- The scope of authorities (including approval limits) and responsibilities is clearly specified and documented for each of the Bank's instruments and processes. Moreover, internal controls are documented for each process.
- Any deviation from the Bank's policies and other internal regulatory acts must be authorized by the body approving the policy in question or the body having the appropriate authority (Management Board, Board of Directors).
- Each business within the Bank is responsible for identification and regular monitoring of risks.
- Management information systems (MIS) are in place, enabling more effective portfolio management.
- The risk management approach for each banking instrument (approval limits, acceptable parameters, portfolio volume, variances from adopted policies, etc.) is established by relevant internal regulations and/or policies and approved by the risk management department of the Bank.
- Internal audit regularly assesses the effectiveness of risk management function in the Bank.
- Management bodies regularly analyze and assess the Bank's operations.

Ameriabank annual report 2019

The Bank's risk management system includes the following elements:

- **Risk appetite:** Board of Directors defines the acceptable level of losses/risk for each financial year in line with the Bank's goals and expected macroeconomic developments. The risk appetite is structured around all types of risks (credit, market and operational). All risk parameters and limitations are set depending on the risk appetite assigned to each type of risk.
- **Standards and reports:** this structural element includes specification of (i) instruments approval standards, (ii) risk categories, (iii) instrument-specific standards, and (iv) management reporting standards.
- **Limits and rules:** decision-making authorities, portfolio limits and appropriate rules are established for all financial instruments of the Bank.
- **Investment guidelines and policies:** the Bank's investment strategies, criteria and acceptable level of variances are established. These guidelines serve as a basis for the Bank's hedging, asset/liabilities management and other policies.
- **Risk/return ratio:** risk-return framework is a basis for investment decisions across all financial instruments of the Bank. Accordingly, appropriate employee incentive mechanisms are developed.



risk appetite

Risk appetite is the acceptable risk level, which the Bank is ready to undertake in order to achieve its short-term/mid-term planned indices. From the viewpoint of losses, risk appetite is the extent of potential losses/risk, which the Bank is ready to assume to achieve its short-term/mid-term goals and programs within the projected microeconomic environment. There is a strategic risk appetite (risk coverage for mid-term/long-term economic cycles) and a current (operational) risk appetite.

Strategic risk appetite is the maximum amount of the risk, which can be taken to reach 3-year goals under macro scenario of "acute tension", while operating risk appetite is the maximum amount of the risk, which can be taken to reach 1-year goals under predicted macro scenario. Both the strategic and the operational risk appetite are determined for the risks that emerge within a year.

Strategic and operating risk appetites are determined for the Bank's principal business directions, such as corporate lending, retail lending, and trade operations. The risk types include:

- Credit risk is the total risk appetite approved for as corporate and retail lending.
- Market risk is the sum of the risk appetite approved for trade operations (FX risk, securities/counterparty risk) and the risk appetite envisaged for the current interest rate specified in the Bank's balance sheet.
- Operational risk appetite is approved for risks resulting from internal processes, human factor, technology, systems, and external factors.

The Bank's strategic risk appetite cannot exceed the Bank's risk capacity or envisage any violation of the CBA's standards. The Bank's strategic risk appetite is approved/revised by the Board of Directors at least annually.

For the current year, the Bank's Board of Directors approves the current risk appetite, which cannot exceed the Bank's strategic risk appetite. Current risk appetite limits' ranges are justified by macroeconomic and market expectations developed in the result of discussions related to the Bank's strategy, considering planned indicators and stress scenario values of the Bank's respective parameters.

Risk appetite is managed by Assets, Liabilities and Equity Management Committee (ALCO) or Large Credit Committee and the Board of Directors, if the limit is breached.

BANK RISK APPETITE

key risks & risk profile

As part of risk/return approach and distribution of attributable risk appetite, the Bank uses different methods and tools to assess and mitigate risks. The Bank's risks are categorized into credit risks, market risks, operational risks and other risks.

Credit risk

The Bank is exposed to credit risk of losses due to failure of clients or counterparties to meet their obligations to pay outstanding amounts when due. Credit risk is the most material risk faced by the Bank as long as the Bank is engaged mainly in traditional lending activity with a simple balance sheet. Due to highly dollarized economy, currency-induced credit risk is a significant component of credit risk; it is about risks arising from foreign currency loans to unhedged borrowers. Credit risk also includes concentration risk, which is the risk associated with impairment of credit portfolio quality due to large exposures to single borrowers or groups of related borrowers.

A strong credit risk management function is critical for maintaining a balanced loan portfolio and delivering sustainable returns. For that purpose, a prudent credit risk environment has been established focusing on maintenance of efficient processes for credit risk identification, measurement, and monitoring. Credit risk management by appropriate credit risk teams – retail and corporate – is performed both on transaction and portfolio level. Credit risk management units are involved in transaction-level analysis, rating and approval of risks for each loan. Special internal risk assessment and rating methodologies are applied. The purpose of credit risk management is to establish effective oversight and quality monitoring of portfolio, as well as develop and maintain a credit risk management framework based on stress-testing, early warning and key risk indicators and parameters, system and sector-specific analysis and monitoring.

The Bank uses a risk-oriented monitoring system to timely react to market developments, identify credit portfolio weaknesses and outline solutions to make well-reasoned risk management decisions. Monitoring processes encompass individual credit exposures, overall portfolio performance and external trends likely to affect the portfolio's risk profile. Early warning signals serve as an important early alert system for detection of credit deteriorations, leading to mitigating actions. Statistical analysis is applied to monitoring of overall portfolio performance. Credit risk management unit conducts regular oversight of monitoring and selective checks. Corporate credit risk management team is responsible for on-site monitoring of business loans. This process enables to promptly identify risky loans at an earlier stage and undertake appropriate actions.

The team analyzes portfolio trends on a regular basis, including total credit portfolio exposure, portfolio quality, migration analysis, concentrations and portfolio quality performance, and submits credit risk reports to the Credit Committee on a monthly basis. Reports on quality of credit portfolio are presented to the Management Board and Board of Directors on a monthly basis. With its credit risk management system the Bank is able to identify and mitigate risks by amending its policies in a timely manner.

Market risk

Market risk assessment and mitigation in the Bank are based on the same risk/return approach with appropriate risk appetite. The latter is further distributed across the following risks: interest rate risks, price risks, currency risks, equity price risks. Market risk exposure arises from mismatches of maturity, currency and interest rate structure between assets and liabilities, all of which are exposed to market fluctuations of exchange rates, interest rates and yield curve shape. Market risk also includes the volatility of prices for securities, real estate or other fixed assets owned or used as collateral by the Bank.

Generally, market risks are managed by ALCO. The Bank aims to manage market exposures, set up limitations and a decision-making framework in order to keep possible market losses within the set risk appetite. Early warning and key risk indicators in line with a wide range of stress-tests are aimed to build up estimates for different market scenarios and help to understand the limits of adequate market exposures distributed across all market risk sources. Scenarios for stress-tests are regularly updated based on market conditions. The set of risk parameters is closely linked to and incorporated into obligatory actions, responsible persons, zones of risk level as well as reporting and decision-making rules. The whole system of market risk management is reviewed and upgraded on a regular basis in line with the Bank's product line development and market environment.

Currency risk

The Bank is exposed to currency risk due to large volume of assets and liabilities denominated in foreign currency (mostly USD), which in pair with low liquidity in the local market becomes the reason of open currency positions. In such environment exchange rate fluctuations can affect the value of risk-weighted assets (RWA) and put strong pressure on the Bank's equity ratios. In order to mitigate currency risk, the Bank applies a value-at-risk methodology based on both historical and simulated rates considering historical correlations of various currency rates, jumps and probability distributions. The risk parameters system also includes aggregate open position parameters, which are restricted by risk zones, decision-makers and actions to be taken in case of breach of limit. Several stress-tests, each with 3 main scenarios, are used for early prediction of currency risk, open position loss and any growth of RWA likely to affect the Bank's equity, CAR and liquidity. Additionally, Ameriabank uses a more complicated extreme value approach, which is based on a simulation engine and provides currency risk measures of high confidence level used for hands-on exposure (expected loss) control.

Interest rate risk

Interest rate risk is the risk of drop in net interest income over a fixed time horizon due to changes in market interest rates. One major source of exposure is investment portfolio, which is mainly comprised of debt instruments. Another source of interest rate risk is the non-zero gap between assets and liabilities under floating rate (mostly LIBOR). Since floating rate lending products are not well developed in the local market, the Bank is exposed to floating rate volatility. Exposure to interest rate risk is controlled and mitigated via a large number of risk parameters covering fixed rate repricing gap value, unhedged part of floating rate position and securities portfolio. There are more than 30 different layers in the system of interest rate risk parameters. Securities portfolio risk is managed by a separate policy covering such aspects as portfolio parameters, stress-testing, decision-making limits with respect to asset allocation and early warning indicators, all of which are updated on a regular basis in line with growth of the Bank's business. The general policy set by the Board of Directors and managed by ALCO and Management Board implies limitation of exposure to interest rate risk to specific risk appetite. Possible loss is estimated based on stress-testing scenarios, statistical simulations, value-at-risk and expected shortfall measures.

Price risk

The Bank is exposed to price risk in terms of decrease of credit loss coverage brought about by market fluctuations of prices for collateral and equity instruments. The main source of price risk is supposed to be the risk of depreciation of pledged real estate. The price risk also arises due to changes in market prices of equity instruments, commodities, fixed assets, movable collateral and other financial instruments. The price risk is essential in terms of credit risk, when real estate price fluctuations can generate large uncovered credit exposures due to increase of LTV (loan to value) ratio. Another part of credit risk, which is related to price risk, is the risk of decrease of creditworthiness of borrowers involved in international trade who could be exposed to market price risk of different goods and commodities. Possible systemic deterioration of creditworthiness of domestic businesses is part of macro environment risk monitoring. These risks are covered by tightening lending terms, setting limits for deviations and a solid decision-making order incorporated in total risk parameters system. The Bank has developed a set of action plans to ensure business continuity and early response to handle risks connected with possible price shocks estimated within the general stress-testing framework.

Liquidity risk

Liquidity risk is the risk that the Bank might not be able to meet its debt obligations without incurring essential losses. Liquidity risk can become essential if:

- there are large gaps in maturity structure of assets and liabilities,
- the balance sheet is too weakly diversified
- there are large concentrations of exposure to a single major depositor and borrower
- financial market experiences currency shocks with resultant outflow or conversion of deposits into foreign currency,
- there is lack of liquidity on financial markets,
- problems with quality of securities portfolio, or
- if financial instruments (repos, swaps, overnights, etc.) suddenly become inaccessible.

The Bank strives to ensure an adequate level of highly-liquid assets at all times, taking into account the volume of demand as well as short-term liabilities and total assets. The structure of highly-liquid assets in terms of currency, cash and non-cash funds is subject to the structure of the Bank's liability side. While allocating funds the Bank tries to ensure diversification of instruments and continuous reduction of concentrations through diversified distribution of funds per clients, groups of clients, tools, industries, etc. The Bank also defines and controls the weight of allocated funds in the Bank's total assets. Liquidity risk parameters (such as concentration, assets and liabilities gaps, interest rate gap, highly-liquid assets ratios and others) are set up in risk parameters system managed within the general risk management framework including risk level limitation, reporting principles, action plans, decision-making policies, responsible persons and stress-testing principles.

Operational risk

Operational risk arises in the Bank as a result of failure or malfunctioning of internal processes and systems, as well as human factor or external events. The Bank performs identification and measurement of operational risks on a permanent and consistent basis. A unified system is used to manage the risk level. Before launching new processes or products the Bank assesses them in terms of their significance and the Bank's sensitivity to related operational risks. Risk likelihood-impact assessment plays a critical role in assessment of process- and system-related risks. In order to be able to calculate the likelihood and impact of incidents, the Bank keeps an automated database of operational incidents and losses. This database enables us to analyze sources of risks, their nature, identify the reasons and trends and perform an internal calculation of capital volume required to cover operational losses that may arise in future. We also implemented a model of capital distribution per product using an in-house methodology. This model enabled the Bank to identify the priorities in assessment of product issuance-related

processes and systems. To be protected from major emergencies, the Bank holds insurance policies to cover assets, operations, liabilities and its employees in line with best business practices. The Bank insures assets against a range of risks, including fire, explosion, natural disasters, unlawful actions of third persons, strikes, riot, civil commotion, terrorism, as well as obtains third-party liability insurance coverage for its clients. The Bank also maintains Bankers' Blanket Bond and Directors' and Officers' Liability Insurance.

Strategic risk

Strategic risk arises when changes in market conditions, customer behavior and technology appear, which may affect the Bank's performance negatively if adaptability to external environment is compromised. Like any other business institution, the Bank is exposed to strategic risks. Strategic risk management framework is based on regular strategic discussions and planning, performance reporting to the Board of Directors and Management Board and ongoing control of all specific directions of development. The strategic planning and implementation processes in the Bank are subject to the Procedure of Strategic Analysis, Business Planning and Monitoring.

Twice a year the Bank holds strategy sessions to discuss its strategy, risk appetite, goals and objectives for the upcoming years and submit them to the Board of Directors for review. The strategy sessions are followed by business planning for a 3-year horizon. Once the business plan is approved, it may be revisited only in case of essential changes in the fundamentals and assumptions.

Environmental risk

Environmental risk is an actual or potential threat of adverse effects on environment by effluents, emissions, wastes, resource depletion, etc., arising from the organization's activities, or the risk that a certain business activity will cause destruction to the surrounding natural environment. Environmental risk management seeks to define what environmental risks exist and then determine how to manage them in a way best suited to protect human health and the overall environment. Social issues may emerge in the workplace of a client's/investee's operations and may also impact surrounding communities. Ameriabank has adopted the best international practices of environmental and social risk management and is committed to ensuring that its clients (borrowers) properly comply with environmental and social obligations as well. The key elements of environmental and social risk management system are:

- Environmental and Social Risk Management Policy
- Environmental and Social Risk Management Instruction
- Tools required for assessment, introduction and implementation of this process based on best practices

The Bank has an environmental and social risk manager as an environmental and social coordinator specialist responsible for implementation, maintenance and day-to-day operation of the system.
The Bank is also exposed to other types of risks, such as reputational risk, compliance risk, legal risk and AML risk.

Reputational risk

Reputational risk is the likelihood of losing the organization's reputational capital resulting in decline of the organization's overall value and/or increase of regulatory or other costs. It includes adverse events related to ethics, safety, security, sustainability, quality and innovation. Reputational risks are managed on the level of the Management Board. In order to ensure sound decision-making different departments, such as Customer Relations Management, Public Relations, Investor Relations, Security and other teams are involved in the processes where the Bank can be exposed to a reputational risk. Reputational risks are mitigated through a dedicated body – Disclosure Committee. The committee qualifies information as inside or not, approves the list of spokespeople, insider lists, public announcements regarding market rumors. Compliance risk is the risk of compliance-related issues given that the Bank is governed by local regulations as well as creditor covenants. Compliance risk is managed by a dedicated unit, legal service and AML teams. The Bank meets regulator's requirements and applies international standards to treat possible discrepancies in internal regulatory acts. These risks are covered by internal policies and procedures, three-level decision-making and control structure including special units, specialized committees and the Management Board.

Macroeconomic risk factors

2019 was another successful year for Armenia in terms of macroeconomic environment despite relatively unfavorable global and regional economic situation due to geopolitical tensions and trade policy uncertainties. GDP increased by a solid 7.6%, while 12 month CPI comprised 1.4%. Main factors that affected negatively the economy of RA were relatively low level of foreign direct investments, declined oil and metal's prices, relatively low level of CPI.

Armenian banking sector main indicators as of year-end: NPL average - 5.5%*; CAR - 17.6%; ROE - 9.8%; liquidity ratios exceeded regulator limits almost twice; total equity grew by 13.4%.

Ameriabank worked under moderate risk pressure: all risks were within acceptable limits, including the Bank's credit risk indicators. The credit risk level (NPL) improved essentially by year-end and was way below the Armenian banking sector average. The main pressure on the quality of banks' loan portfolio in 2019 was still-weak domestic demand; low levels of recovery of remittances and foreign direct investments; inflation level below CBA target range, wages and loan service ratio. Essential global risks in 2019 were connected with price volatility in commodity markets, "trade wars" between US and China, Federal Reserve policy on interest rates, geopolitical tension around Russia, political decisions in the USA. The economic situation in Armenia was characterized by 7.8% economic activity index for 2019/2018 with GDP growth of 7.6% for 2019. CBA refinancing rate was cut twice to reach 5.5%. The strong trend of market interest rate increase, which was present in the second half of 2018, changed during 2019 amid US-China trade wars and Fed rate cuts. Downside slope for UST curve was common during 2019.Obligatory regimes changed during 2019 in order to weaken demand of AMD. LIBOR rate declined amid Fed rate cuts. Notwithstanding the challenges, the planned risk appetite of the Bank in 2019 remained safely within the limits. Actual losses were fully covered by the Bank's capital. CAR was at acceptable level throughout the year. Credit risk was the main source of risk in 2019. Actual losses from all sources of risk were within risk appetite limits.

Actions Performed
Based on trends and expectations in 2019 the Bank:

- Implemented a new concept for risk appetite, in line with strategy of the Bank and macroeconomic expectations
- Eased credit policy for reliable borrowers, since the macroeconomic situation is expected to be optimistic

* - source – The Central Bank of Armenia

- Resolved a significant part of non-performing loans and improved risky loans monitoring
- Enhanced credit product line and diversity of assets, attracted new retail clients and credits from the market
- Developed new models for behavioral stress testing in order to estimate the sensitivity of Bank's economic value of equity from behavioral factors.
- Developed validation methodology for machine learning and econometric models.
- Developed new models and stress testing methods for interest rate risk management in balance sheet.
- Developed data warehouse system for gathering data from many different sources within the Bank for analysis.

Credit risk

Risks and Uncertainties

During 2019, the Bank operated under an optimistic regime and medium credit risk pressure.

Key Risk Indicators

The Bank's NPL showed positive dynamics. By year-end the ratio comprised 2.9% – much lower than industry average NPL of 5.5%*. Corporate segment NPL ratio was 3.3% and retail segment NPL ratio was around 1.9%. The cost of credit risk was 1.2% of loan portfolio. Loan loss reserves covered 80% of total NPL. Sector concentrations were at a low level, maximum concentration in the biggest wholesale trade sector did not exceed 15.7% of loan portfolio. The quality of portfolios in different sectors improved during the year, except in agriculture where overall portfolio quality was affected by few large borrowers.

Risk Mitigation Actions in 2019

- Actions taken to stimulate lending to borrowers with strong financials and, in general, some parameters eased to attract more low-risk clients.
- Risk-based pricing approach implemented in lending.
- New system developed for scoring-based retail lending via digital channels and appropriate risk appetite allocated for that purpose.
- Developed new artificial intelligence tools for modeling credit risks.
- Reshaped lending limits system for retail crediting.
- Developed risk based monitoring planning tool.

* - source – The Central Bank of Armenia

Market risk

Risks and Uncertainties

The Bank was exposed to market risk associated with potential exchange rate hike and interest rates fluctuations on domestic and global markets. Armenian dram maintained stable exchange rate in 2019 as well. As global economic growth slowed amid "Trade Wars", US Fed rate was cut three times, moreover negative UST slope was common for the second half of the year. Libor had a negative trend during the year. It had direct positive impact on the Bank's IRR due to negative gap typical for Armenian banks. Hedging opportunities are limited given the cost of hedging and absence of local market instruments. However, open positions were within the limits of the Bank's risk appetite and were managed accordingly. Armenian securities performed well amid more or less flat AMD rate and CBA policy of key rates reduction.

Key Risk Indicators

Total actual losses driven by market risk in 2019 were below 1% of the Bank's equity. Open currency position during the year was mostly long due to general expectations of USD growth, NPL growth risks and usual essential level of loan book dollarization. FX position revaluation for 2019 was negative, around 0.11% of equity. As global interest rate had declining trend tor the year, Bank had positive revaluations from interest rate GAP repricing, since the IR risk position is short. Market risk scale of securities portfolio was acceptable and within the risk appetite limits due to short duration (below 4 years) and portfolio size. Major part of portfolio consists of local Government bonds (89%).

Risk Mitigation Actions in 2019

- Risk appetite and possible losses were managed via internal parameters and limits, regular special stress-testing, monitoring of trends and scenario forecasts.
- Open currency positions were under special monitoring regime on daily basis.
- Interest rate risk was managed within the limits of open exposures and stressed losses. Rate movements and expectations were regularly (at least monthly) estimated and monitored. High hedging costs limited risk mitigation opportunities, but the risk was managed by means of swap contracts, strong efforts toward floating rate-based lending.

Operational risk

Risks and Uncertainties

There is a strong tendency of growth of cybercrimes and card frauds in global banking world which can generate essential financial losses, loss of functionality and risks of business continuity. As people get more involved in trading and banking via internet and mobile banking the amount of card frauds also increases globally. In modern times cyber security issues are common for all financial institutions around the World.

Key Risk Indicators

Operational risk is low due to well-regulated and controlled processes. Total amount of operational losses in 2019 did not exceed 0.01% of capital. 61% of losses occurred in execution delivery & process management in Retail Banking Department. The number of remote banking clients as well as cardholders of Ameriabank increases significantly year by year. Notwithstanding this, operational losses were at an acceptable level and are not expected to increase. All systems of the Bank are expected to operate in low risk conditions.

Risk Mitigation Actions in 2019

- Taking into account the strong tendency of growth of cybercrime and card fraud worldwide the comprehensive insurance policies against these frauds were approved in the Bank.
- 100% reinsurance clause by reinsurance companies with strong requirements and direct cut-through clause were implemented in majority of Bank's insurance policies.
- The Information Security Incidents and Insurance claims were developed in internal exchange system and were integrated with the operational risk database.
- IT risk assessments done regarding ISO/IEC 27001 standard implementation

Liquidity risk

Risks and Uncertainties

Liquidity level in the Armenian banking sector slightly decreased but was well above CBA minimum requirement. LCR and NSFR ratios are expected to be in force during 2020, which can put pressures on some Banks to restructure Balance sheets and improve liquidity management by currencies.

Key Risk Indicators

All liquidity ratios met regulator's requirements even under the worst stress scenarios. During 2019 liquidity risk was insignificant; it was mitigated within the general risk parameters framework. Stress-testing on liquidity GAP showed very optimistic results even under most risky scenarios.

Risk Mitigation Actions in 2019

Allocation of highly-liquid assets was diversified through wide and high-grade counterparty network and more detailed investment portfolio structure. The Bank enhanced its counterparty network, established new connections with financial institutions overseas to have easy access to a wide range of financial instruments and liquidity providers.
To ensure deposit base stability and further growth, the Bank managed interest rates of deposits according to market trends. The Bank also targeted other funding sources, e.g. IFIs.

Environmental & social risk

Risks and Uncertainties

Environmental and Social (E&S) risks management has become more critical for business success of companies. Ameriabank strives to collaborate with those clients who properly manage their environmental and social risks. The Bank also offers support to its clients in terms of organizing their environmental and social risks management. Ameriabank's E&S frameworks encourage clients to do business in a sustainable way. IFC, EBRD and ADB Performance Standards and Performance Requirements, which are the cornerstones of the E&S framework of Ameriabank, have become a benchmark for environmental and social risk assessment in the lending process. The Bank uses technical reference documents with general and industry-specific examples of Good International Industry Practice to identify E&S risks.

Key Risk Indicators

E&S risks of the Bank's loan portfolio are on an acceptable level. Over 80% of environmental and social risks are concentrated in low and medium risk categories. There were no "High A" risk borrowers in total loan portfolio. The Bank's E&S and lending policies are designed to reduce negative impact of financed projects by means of setting financing conditions, instructions and terms to be implemented, providing consultancy and involving E&S specialists.

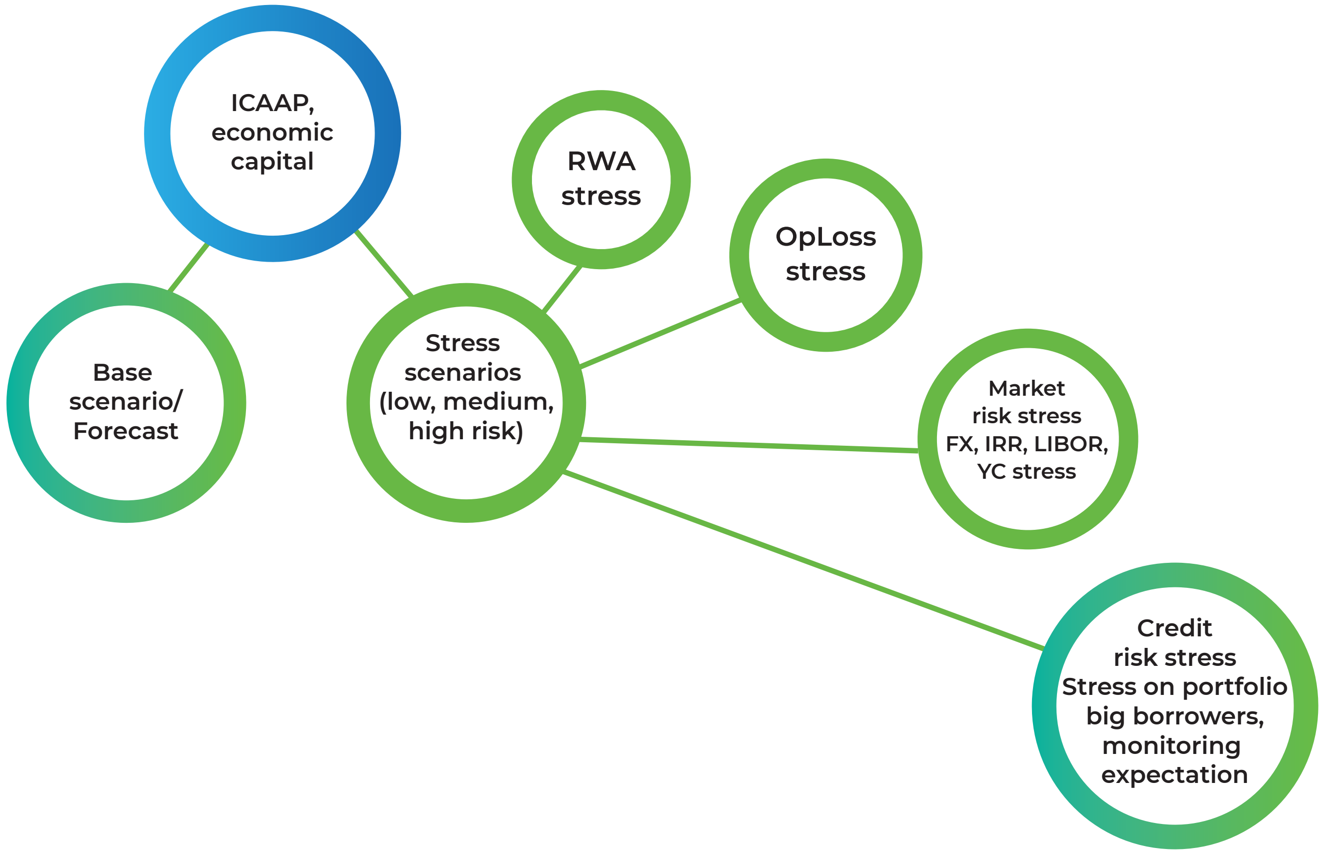
Risk Mitigation Actions in 2019

E&S risks were managed in accordance with the lending procedures of the Bank, by applying E&S risks management system effective at each particular time. This system is developed based on international best practice (EBRD, ADB and IFC Performance Standards/Performance Requirements). Each project financed by Ameriabank was subject to E&S assessment, and included legal documentation review, risk identification and mitigation, monitoring and reporting. Findings of assessment and all identified inconsistencies were documented and included in contracts with borrowers as necessary E&S conditions of financing. In order to ensure that borrowers meet best practices and standards of environmental and social risk management in 2019 the Bank continually implemented an E&S management system for High category projects (including all Small Hydro Power Plants), describing the procedures that should be followed by borrowers in their activities. E&S risk monitoring for High-risk clients was conducted, including sector monitoring. At the end of the 2019 E&S team implemented E&S scoring system in the E&S risk assessment processing. During 2019 a number of E&S trainings were organized for the Bank staff involved in corporate lending.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank uses an ICAAP model to ensure adequate capital to support undertaken risks and determine forward-looking target capital level adequate to risk exposure and environment. In order to assess the impact of losses from possible risks on capital, simultaneous stress-tests are conducted, e.g. simultaneous occurrence of all major risks is considered under four different scenarios. The Bank assesses the size of capital and its adequacy ratio over a certain time horizon, calculates the minimum required capital attributable to undertaken risks, as well as the capital benchmark and risk-weighted assets (RWA). The types of risks in case of occurrence of which the Bank may incur losses are defined as follows: credit risk (portfolio quality risk, concentration risk), market risk (floating rate, yield curve, fixed rate gap, FX and equity instruments price risk); operational losses, RWA growth and other possible risks. Four separate stress scenarios are used for possible future loss and capital assessment, starting from base scenario without stress on risks, up to the most risky scenario. If the assessed expected value of CAR, under the most probable (adequate to macro expectations) scenario, does not meet the minimum requirements specified by CBA regulations, the Bank undertakes actions to keep CAR on acceptable level. This parameter is under strict control by high-level management bodies of the Bank, as the Bank has adopted a growth strategy for upcoming 3 years.

STRESS-TESTING: CAPITAL RATIO UNDER CUMULATIVE SCENARIO



All amounts are in mn AMD

	Dec - 19	Jun - 19	Dec - 18
Capital (w/o risk adj.)	**115,150**	102,935	97,771
Tier 1 (CBA)	**93,091**	84,083	76,998
Tier 2 (CBA)	**22,059**	18,852	20,773
RWA	**781,287**	763,883	713,735
Total CAR (base scenario)	**14.74%**	13.5%	13.7%
Total CAR (low risk scenario, expected the most)	**13.94%**	13.0%	12.3%

risk management system development

To ensure the efficiency of the Bank's risk management system in 2019 nearly all principles, processes and methodologies related to risk assessment and mitigation were reviewed. A number of new instruments and methods were implemented.

With regard to credit risk management in 2019 the Bank implemented:

- New approaches to stress testing based on the developed IFRS 9 macro model.
- New Consumer finance risk-based pricing and lending process based on machine learning model
- Developed new lending model for SME loans.
- New scoring-based lending product, risk-based pricing and lending process based on machine learning model.

The Bank's management also was up to speed with loan portfolio quality, data concerning various industries, loan products, key risk indicators and other risk factors and their dynamics via monthly reports on credit risk making it possible to give specific tasks aimed at risk assessment and mitigation. Loans involving high risks were under ongoing control via out-of-turn inspections, which helped to cut their volume significantly by the end of the year. Application of risk identification, assessment and management mechanisms enabled the Bank to substantially minimize the credit risk in 2019 and make it controllable to the most possible extent.
With regard to financial risk management in 2019 the Bank:

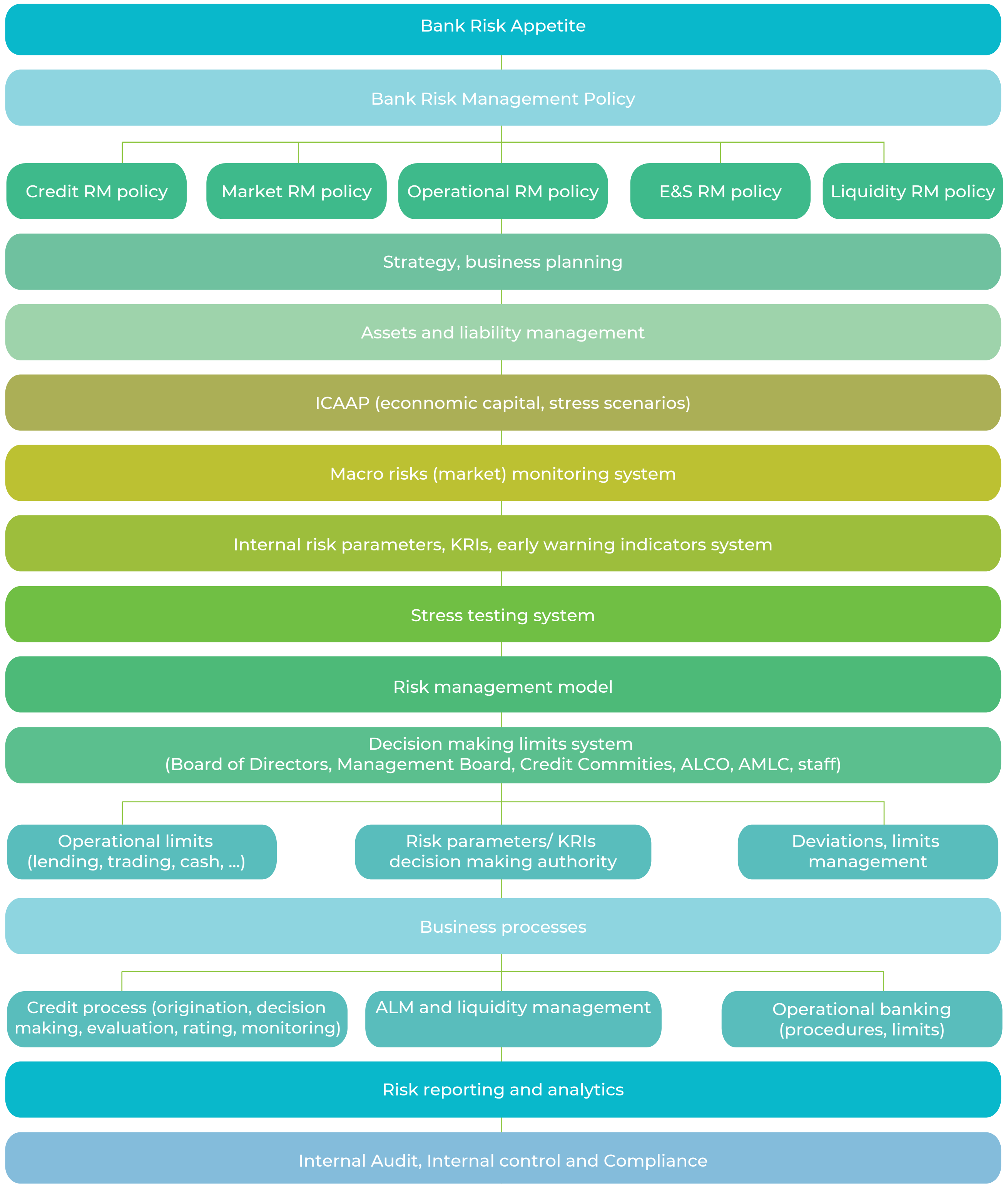
- Improved risk appetite allocation framework, in order to support the achievement of strategic goals of the Bank.
- Developed new model for interest rate risk estimation.
- Developed new models for behavioral stress testing in order to estimate the sensitivity of Bank's economic value of equity from behavioral factors.
- Improved current stress-testing system and scenario design to be in line with economic realities.
- Developed reverse stress testing model in order to identify the point at which Bank's business model becomes unviable and identified scenarios and circumstances that might cause this to occur.
- Enhanced the investment limits system to obtain more flexibility in liquidity management.

With regard to operational risk management in 2019 the Bank:

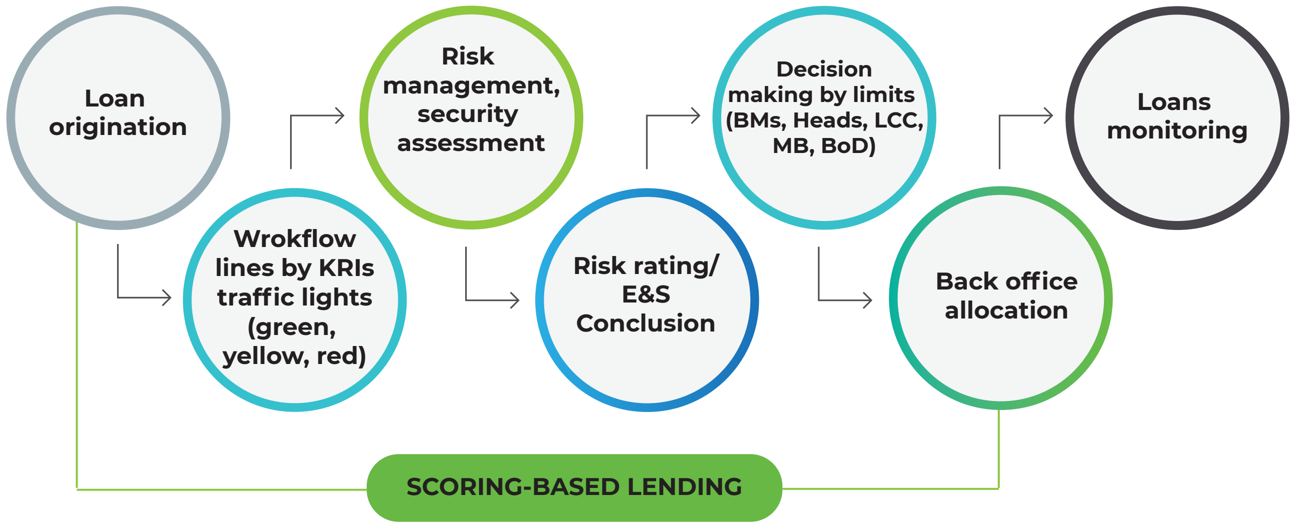
- Assessed and reassessed a number of internal processes and systems (including new generation products for digital banking) in order to ensure proper management of operational risks.
- Developed risk prevention and/or mitigation measures and implemented them with respect to some designated high risk activities.
- Improved and centralized new functions in the automated operational risks/incidents and losses database.

risk management framework

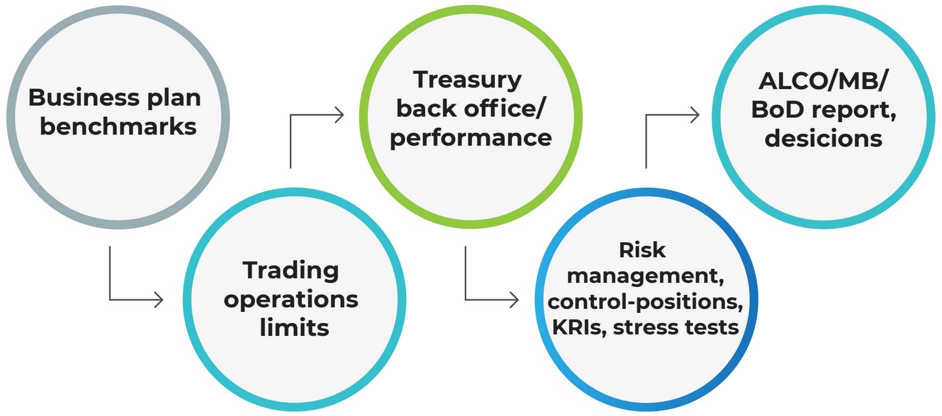
The general logic of the Bank's risk management framework is presented below. It is a well-developed structure with several lines of defense against possible risks coming from external and internal sources.



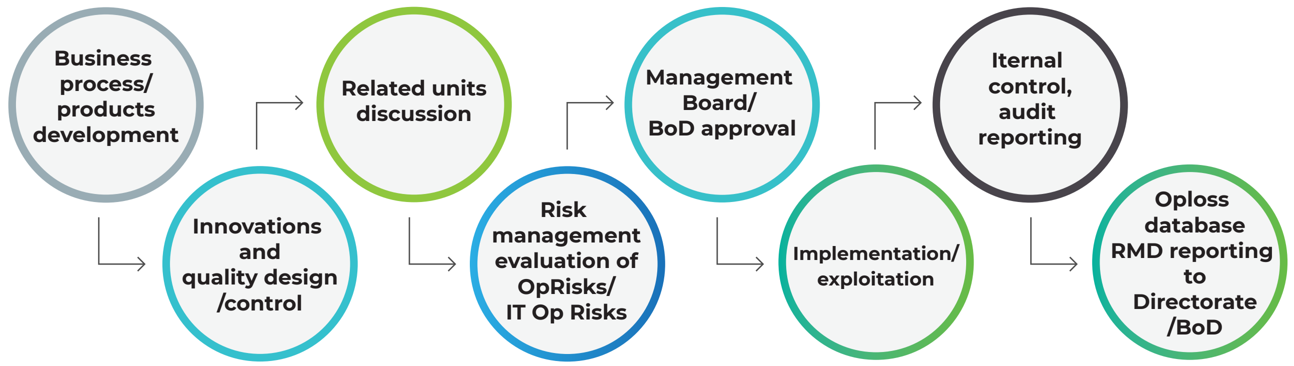
lending risk management workflow



trading risk management workflow



operational risk management workflow

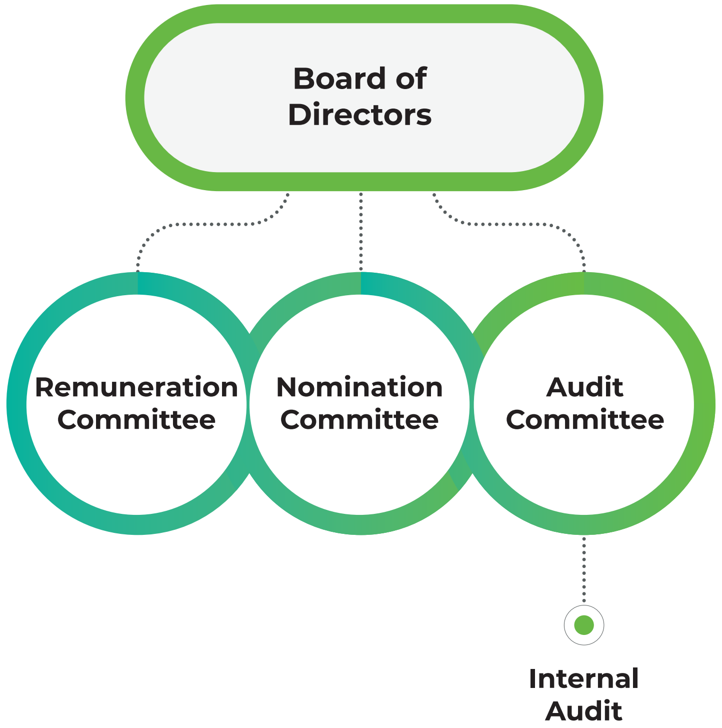


risk organization & governance

The Bank's risk management is incorporated in all structures of the Bank. It reflects governance and risk-taking authority distribution based on the risk appetite of the Bank.

The Board of Directors (BoD) approves the Bank's strategy, as well as risk management, credit and other policies and internal regulatory acts necessary for its implementation; defines the Bank's risk appetite (the acceptable risk criteria and limits), including the Instruction on Risk Management Parameters and Internal Standards; controls the effectiveness of risk management system, the level of risks undertaken by the Bank, their compliance with the risk appetite; approves those deals and transactions which are beyond the Bank's Management Board limits and criteria.

The executive management, namely the Chairman of the Management Board - General Director, the Management Board and its members undertake risks within the scope of BoD-approved policies and perform their day-to-day management; coordinate operations of business lines; carry out risk management under the risk management parameters established by the BoD. The Chairman of the Management Board - General Director and the Management Board report to the Board of Directors. The Management Board may delegate the authorities specified above to specialized collegial bodies – committees (Assets and Liabilities Management Committee, Credit Committee, etc.). The institute of specialized committees with delegation of authorities from the Management Board was established in the Bank in order to manage risks arising from all main business activities of the Bank.

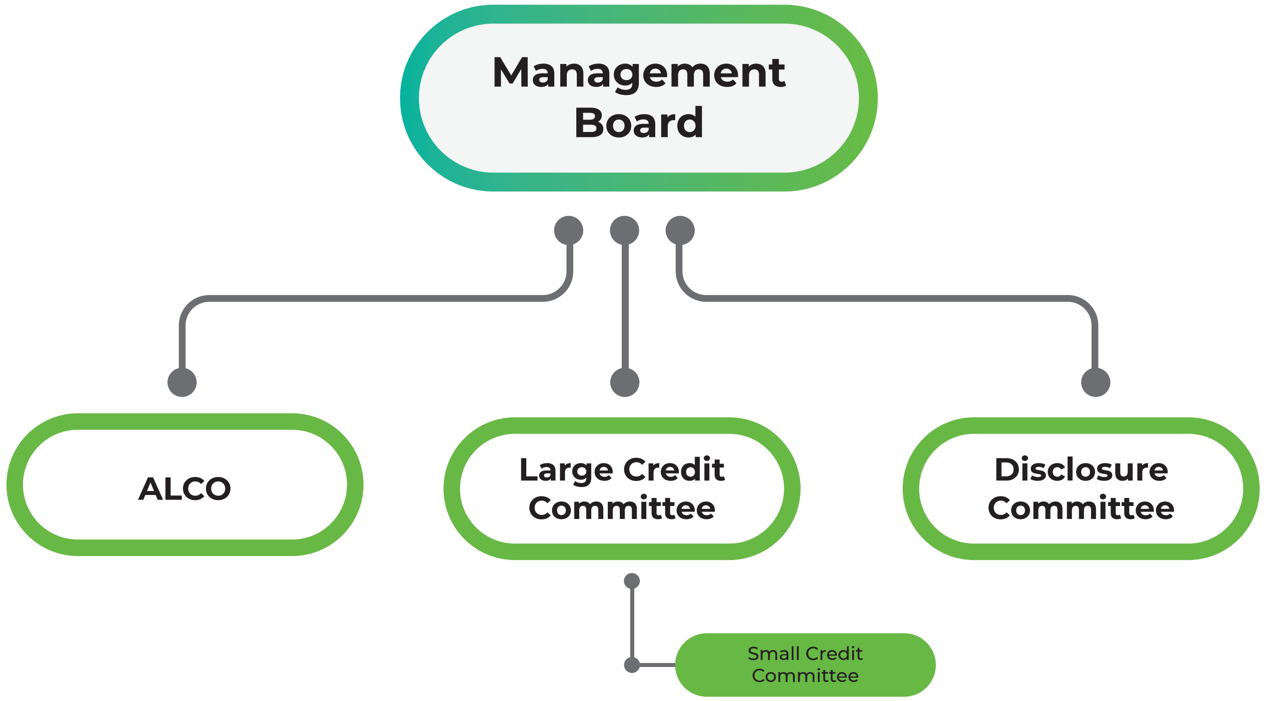


Large Credit Committee (LCC)

The main purpose of the Large Credit Committee is to implement the lending policy of the Bank and form a loan portfolio with high profitability under acceptable level of credit risk. LCC makes decisions based on conclusions of various business lines, risk management and security services within the limit of 10% of total book capital. Loans with non-standard terms are also reviewed and approved by LCC.

Small Credit Committee (SCC)

The key purpose of the Small Credit Committee is the same as LCC's, with smaller limit and loan products. SCC reviews and makes decisions on retail and SME loans. Loans with negative opinion from at least one of responsible departments cannot be reviewed or approved by SCC.



Assets and Liabilities Management Committee (ALCO)

The Assets and Liabilities Management Committee is a permanent corporate collegial body of the Bank entitled to make decisions within the framework of the assets and liabilities management policy. The goal of the ALCO is to ensure sufficient preconditions for efficient and harmonized management of the Bank's assets and liabilities to achieve maximum profitability within the acceptable level of liquidity, interest rate and currency risks. Investment policy, interest rates, currency and liquidity management, capital adequacy and risk parameters management issues are reviewed and approved by ALCO.

Lending decision-making limits are distributed among various authorities including both collegial management bodies of the Bank and individual decision-makers. Limits are set within the general concept of risk appetite distribution among decision-makers and are reviewed on a regular basis.

Deviations from approved lending parameters are subject to the same framework of limits depending on type and sum; decisions are made based on voting schemes (simple majority, overwhelming majority). Furthermore, depending on how stable the macro environment is, the Management Board adopts 1 out of 4 possible regimes for approval of loans with deviations; regimes tighten the system of limits in case of risky macroeconomic developments.
The Risk Management Center has a wide range of responsibilities, which include but are not limited to the following:

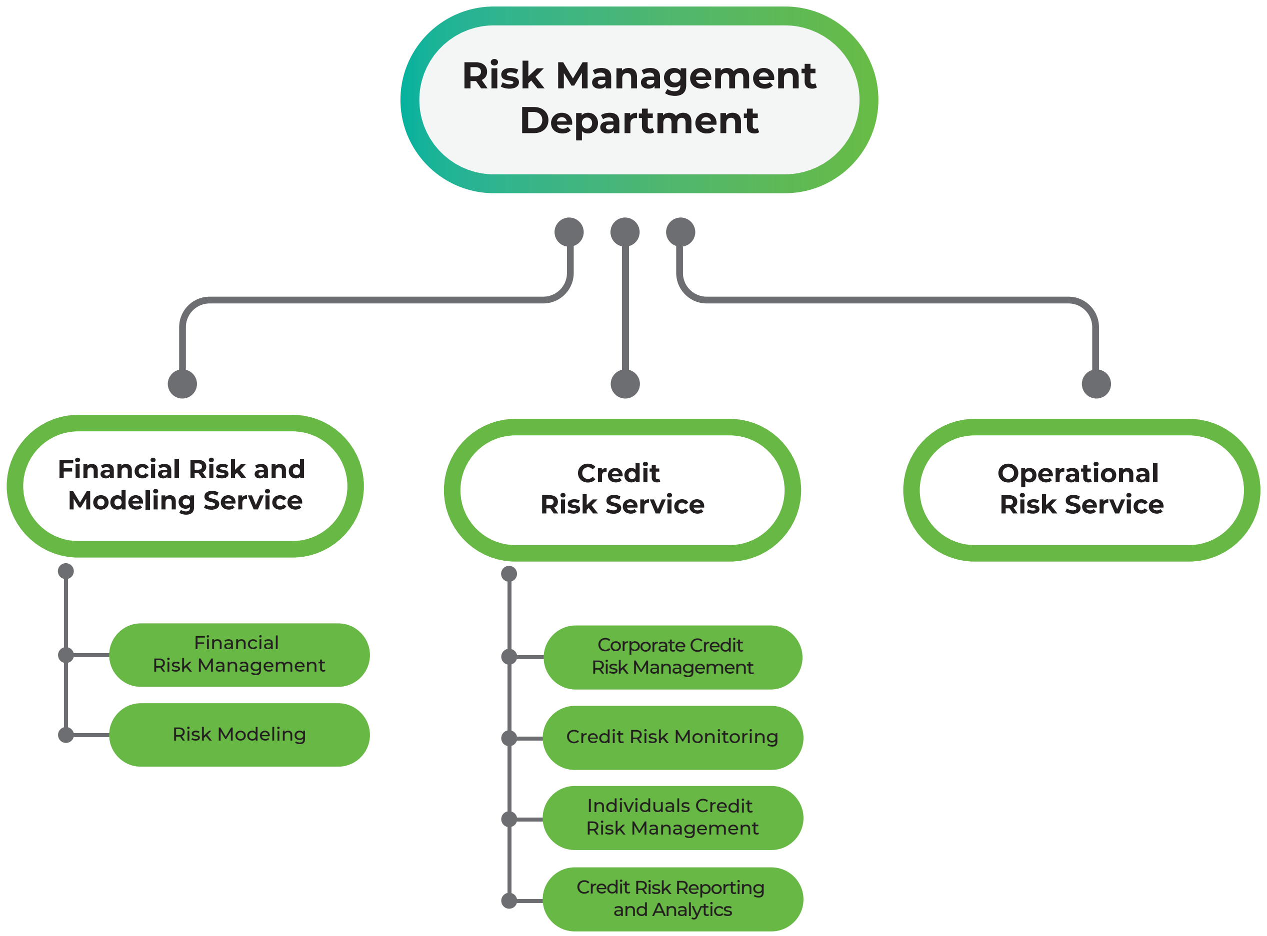
- Develops risk management policy and structure
- Implements risk management (internal control) system at the level of business processes
- Provides risk management recommendations concerning newly implemented instruments
- Provides conclusions on the Bank's transactions within established limits
- Develops and elaborates risk management reports and presents them to the Bank's management
- Increases awareness and conducts trainings on risk management in the Bank

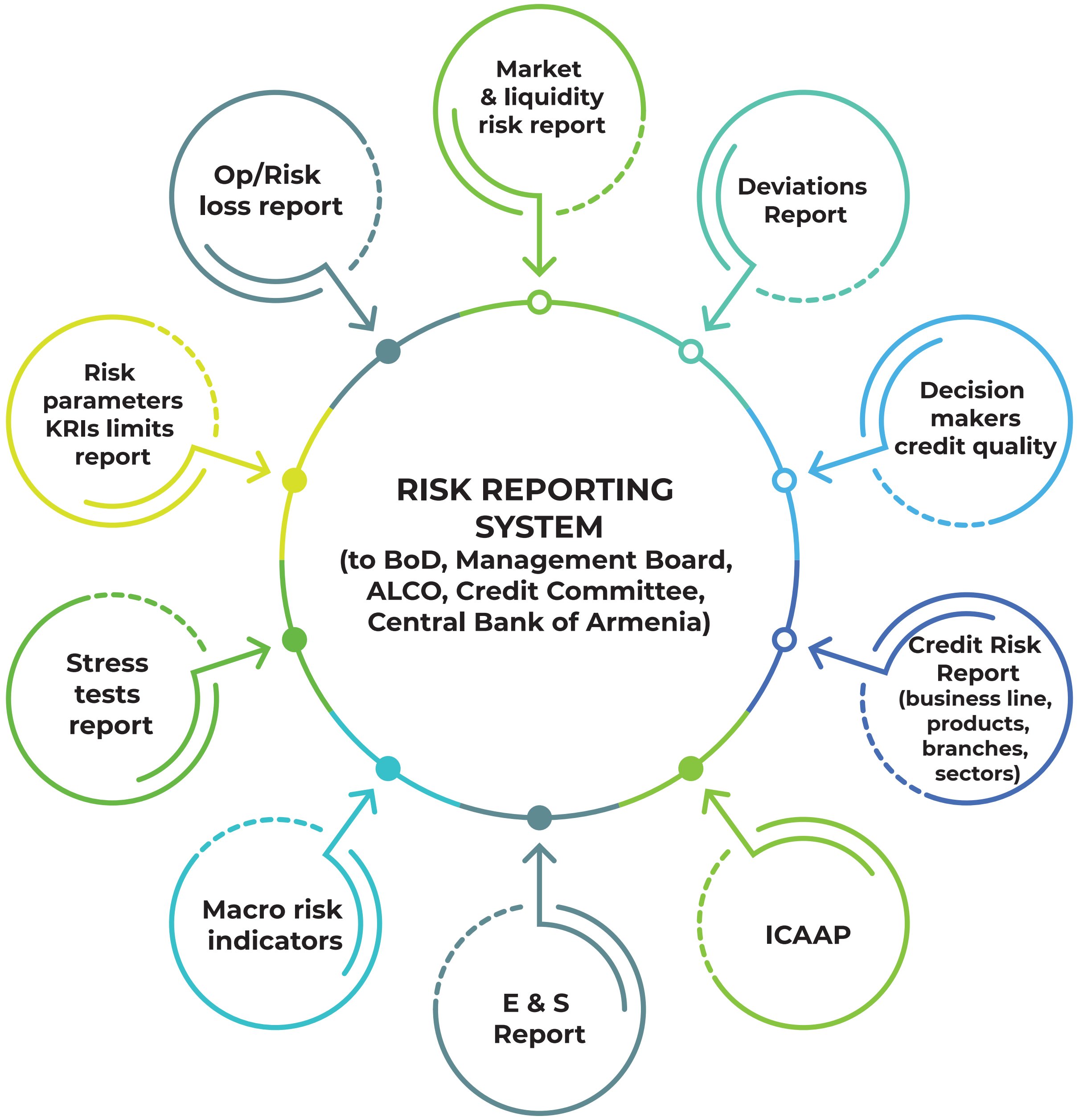
Internal Audit assesses the effectiveness of the Bank's risk management system and the Bank departments' adherence to established criteria; provides recommendations for enhancing the system's effectiveness; reports to the Bank's management and Board of Directors on identified risks.

In order to have an effective risk management framework, at management information system (MIS) is established in the Bank, which provides adequate vertical and horizontal information flows for decision-making purposes.

The MIS is designed to provide the Bank's management team with leading, lagging and coincident indicators concerning loan and other portfolios. The Board of Directors and Management Board have access to all reports concerning emerging risks, their implications as well as collapse of control mechanisms. In particular, the following data is presented to the Bank's vertical and horizontal line managers in terms of specific instruments via different reporting lines:

- Structure of portfolios/investments
- Yield and maturity structure of portfolios
- Structure of overdue assets and liabilities
- Structure of pledged assets and collateral
- Information concerning non-performing loans and concentrations
- Collectability of defaulted loans
- Other information on effectiveness





governance report

chairman's corporate governance statement

Dear Investors,

As Executive Chairman of the Board of Directors of Ameriabank, Armenia's largest and the most reputable financial institution, with great privilege and pleasure I hereby present for your kind consideration the Bank's Corporate Governance Report for the financial year ended 31 December 2019.

It is our firm belief that good corporate governance practices are of vital importance for the Bank's development and growth, as these practices maintain corporate integrity, ensure necessary checks and balances, more accountable and efficient decision-making, provide necessary strategic insight to the Management, as well as promote trust of investors and encourage new investments.

We successfully continued our efforts aimed at establishing corporate governance system in full compliance with international best practice for banks and public companies.

After undergoing through major structural and internal regulatory changes at Board level in 2018, in reporting year 2019's the main focus was on structural and functional changes at lower levels, namely the Management Board and relevant internal departments and units were restructured followed by redistribution and update of their functions and competence.

We have been working further towards the Board-related practices improvement, creating an environment which encourages an effective and transparent relationship and reporting line between the Board and Management to enable necessary level of debate, challenge and support in the decision-making process.

Another area of focus was to encourage further active involvement of the Board committees in the discussion and decision-making process of essential issues aiming to provide Board with exhaustive data/recommendation for decision-making and thus enabling it to allocate more time for strategic issues discussion.

Though many significant changes have been implemented already towards finding the right balance of skills, knowledge and diversity of Board Members, as well as ensuring the effectiveness of the Board. Our target for 2019-2020 was and will be a new Board concept and composition to be consisted almost fully of independent non-executive directors with skills, expertise and background, which will enable the Board collectively to fulfil its role and even more improve its performance and efficiency.

Upon completion of the above-mentioned transformation new independent non-executive Board members will be engaged, preserving the Bank's Board status as one of the most experienced and professional Boards in the market, with non-executive directors from different markets with profound knowledge not only in finance and banking, but also in other areas.

Andrew Mkrtchyan
Chairman of the Board of Directors

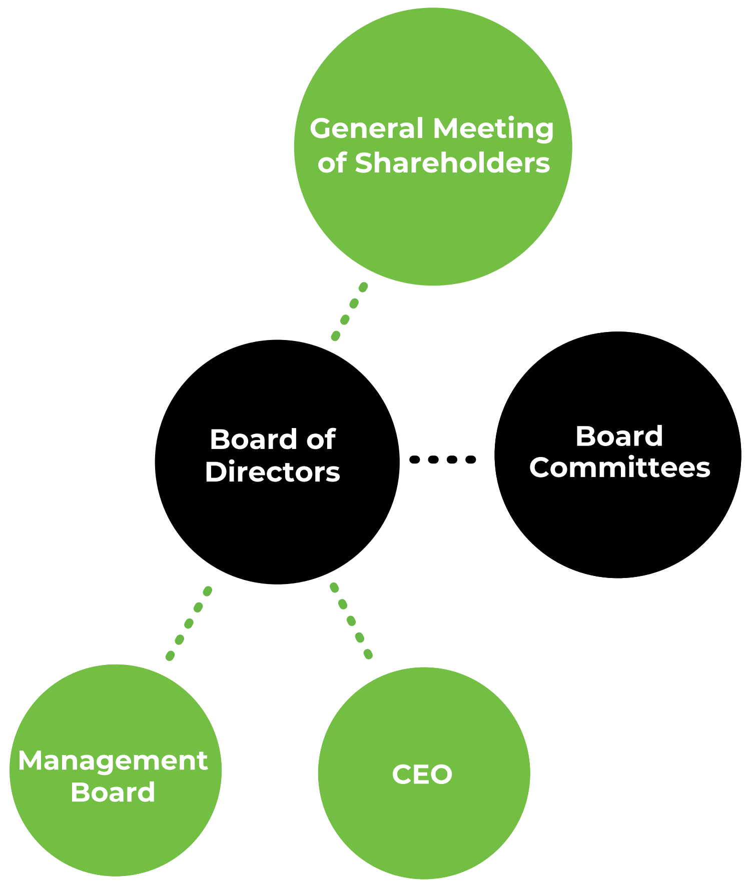
corporate governance structure

Corporate Governance at Ameriabank is essentially aimed at balancing the interests of Bank shareholders, Board of Directors, senior management and other stakeholders, providing the framework for corporate decision-making, as well as introducing corporate governance system that promotes an environment of trust, transparency and accountability necessary for fostering long-term investments, financial stability and stronger growth.

Ameriabank is continuously improving its corporate governance practices in line with highest international standards and applicable legislative requirements and regulations.

The Bank's corporate governance structure consists of the following bodies: the General Meeting of Shareholders (GMS), which is the supreme governing body of the Bank, the Board of Directors, the Board Committees, the Management Board and the CEO.

Corporate Governance Structure



board of directors

The purpose of the Board of Directors is to ensure long-term success and maximum investment value of the Bank, as well as to serve as a bridge between the Bank's shareholders and the executive management.

One of the primary objectives of the Board is formulation of the key areas of the Bank activity and strategy development, implementation of effective internal control system and proper control of risks associated with the Bank's activities, by determining the acceptable risk appetite.

Since full access to information and management processes is instrumental in the effectiveness of the Board, the Bank has deployed an online platform for Board interaction – a Board Members' portal. It is an environment enabling to organize Board-related activities and circulate all Board-related data, arrange voting, interaction with the Board Members, including sharing of diverse documents and information and finalizing meeting minutes. Users can access the portal from various devices, which enables Board Members to participate in Board activities from any part of the world with remote access.

Apart from this, the Board of Directors holds regular in-person meetings, as well as conference calls, meetings of all and individual Board members with the Bank management and other individuals. The Chairman plays a particularly important role by ensuring that all Board Members have the opportunity to express their opinion on all matters, and promoting effective communication between the shareholders and the Board, as well as the Board and the management.

In 2019, the Board held 18 distance and 4 in-person meetings. In addition to other matters, during in-person meetings the Board discussed the strategy and business plan of the Bank, performance and results presented by the CEO and CFO, strategic initiatives, political and macroeconomic situation and its possible impact on the Bank's business activity. The Board has received and reviewed regular reports from the Risk Management Department, Internal Audit and Compliance, Strategy Development, Human Resources and Investor Relations.

The Board has primary responsibility for ensuring that it has the appropriate skills, knowledge and experience to perform its role effectively.

The Board at Ameriabank is governed by the Board of Directors Regulation that outlines the key goals and objectives, scope of authorities, procedure of preparation, summoning and holding of the Board meetings.

The members of the Board of Directors are appointed by the General Meeting of Shareholders. Those shareholders who own up to 10 and more percent of the placed shares of the Bank may be appointed or represented on the Board without election, subject to the procedure and terms defined by the Armenian laws and Charter of the Bank.

The term in office of Board Members is determined by the General Meeting of Shareholders but is limited to a period from 5 to 10 years. The Chairman and Members of the Board can be reelected.

The size and composition of the Board, qualifications of its Members, their skills and expertise have a significant impact on its effectiveness. The Board regularly reviews these matters, both in terms of what is needed now and what might be needed to be successful in future.

As of December 31, 2019, the Board comprised a Chairman-Authorized Member and six non-executive directors.

composition of the board

Name, last name	Position	The year of first being elected in the Board
Andrew Mkrtchyan	Chairman of the Board of Directors	2007
Ruben Vardanyan	Board Member	2007
Noubar Afeyan	Board Member	2010
Robert von Rekowsky	Board Member	2012
Pierre Gurdjian	Chairman of the Board of Directors	2016
Lindsay Forbes	Board Member	2018
Philip Lynch	Independent Board Member	2018

board committees

The primary purpose of the Board Committees is to support Board activities, thoroughly review all the matters falling within the scope of the Board responsibility and enable the Board to make informed decisions.

Activity of the Committees does not affect or reduce the authority or responsibility of the Board of Directors. According to the Bank internal regulations, almost any topic that needs Board approval and thorough elaboration should be first discussed at the Committees' level before being referred to the Board.

Currently the Bank has three Board-level committees: Audit Committee, Remuneration Com mittee and Corporate Governance and Nomination Committee.

composition of the committees

Committees	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee
Andrew Mkrtchyan			Head
Ruben Vardanyan		Head	
Noubar Afeyan		Member	
Robert von Rekowsky	Member		Member
Pierre Gurdjian	Head		Member
Lindsay Forbes	Member		
Philip Lynch		Member	

Audit Committee

The main purpose of the Committee is to ensure that the interests of shareholders are properly protected by overseeing and increasing the efficiency of financial reporting, external audit, risk management and internal compliance functions at the Bank.

In 2019, the Audit Committee held 6 meetings during which the Committee discussed quarterly IFRS reporting, Internal Audit quarterly reports and overall effectiveness of internal control systems.

Remuneration Committee

The Committee is to assist the Board in developing and maintaining an effective remuneration system in the Bank, assessing its quality and monitoring applicable remuneration practices to attract and retain the best-qualified directors and eliminate any possibility of abuse.

In 2019, the Remuneration Committee held 3 meetings. As a common practice, the Committee held meetings after semi-annual and annual evaluations and made recommendations to the Board on bonus pools, executive remuneration, as well as reviewed the overall performance evaluation system.

Corporate Governance and Nomination Committee

The Committee's role is to create a solid pool of highly experienced and competent candidates with relevant skills and integrity to be engaged on the Board of Directors, its committees and top management, to ensure succession planning and workforce optimization, as well as implement corporate governance principles and structure in line with legislative requirements and best practice.

In 2019, the Committee held 3 meetings. The Committee reviewed and assessed the composition of the Board and the Committees and made recommendations to the Board.

members of the board of directors

ANDREW MKRTCHYAN

Chairman of the Board of Directors

Andrew Mkrtchyan was appointed Chairman of the Board of Directors in November 2013. He served as Board Member from 2007 to 2013 before being elected Chairman.

As a Founder and Executive Chairman, Mr. Mkrtchyan has been successfully managing Ameria Group for more than 20 years. He has extensive experience in investment banking and management advisory in Armenia, which has been the key to the successful growth and development of the Group. Andrew Mkrtchyan is the first businessman from Armenia to be a Founding Member of World Economic Forum New Champions Chapter. He is a Board Member to a number of private and public organizations.

Mr. Mkrtchyan graduated from Yerevan State University, Department of Economics. He received a scholarship from American Economic Association (AEA) for his scholar studies at Economics Institute, Colorado State University, as well as participated in a number of executive programs in different universities, including Kingston Business School, Harvard Business School, INSEAD and others

RUBEN VARDANYAN

Non-Executive Member of the Board of Directors

Ruben Vardanyan was appointed Board Member in November 2013. Mr. Vardanyan served as the Chairman of the Board starting from the reorganization of the Bank back in 2007 till November 2013.

Mr. Vardanyan is an impact investor and social entrepreneur, a prominent investment banker with more than 20 years of experience who contributed substantially to Russia's capital markets establishment. He is currently a founding partner and president of VARDANYAN, BROITMAN AND PARTNERS and a board member at numerous entities in Russia and abroad.

Mr. Vardanyan is also a member of the Economic Advisory Board at the International Finance Corporation (IFC). Prior to the merger with Sberbank in January 2012, he served as CEO, Chairman of the Board at Troika Dialog, one of the oldest and largest investment banks in Russia and the CIS. Mr. Vardanyan is the Chairman of the Board at SOLLERS, a leading Russian automotive company, and Board member at KAMAZ. He is a member of the Investment Committee of Avica Property Investors International, a member of the Investment Council under the Chairman of the State Duma of the Russian Federation and a member of the Strategic Council for Investments in New Industries under the Ministry of Industry and Trade of Russia.

Mr. Vardanyan is a Founding Partner and Vice-Chairman of the International Advisory Board of Moscow School of Management SKOLKOVO, as well as Chairman of the SKOLKOVO Institute for Emerging Market Studies. He is also a co-founder of Scholae Mundi Foundation CIO and UWC Dilijan College in Armenia, a member of the International Advisory Councils at Fundação Dom Cabral business school in Brazil and GuangHua School of Management in China. He is a member of the Boards of Trustees of the Russian Presidential Academy of National Economy and Public Administration and the Faculty of Economics at Lomonosov Moscow State University.

Mr. Vardanyan is a co-founder and Chairman of the Board of Charitable Foundation Initiatives for Development of Armenia (IDeA), a co-founder of 100 LIVES project and the Aurora Prize for Awakening Humanity, a member of the Central Board of Directors of the Armenian General Benevolent Union (AGBU), a cofounder and Board member at Foundation for Armenian Science and Technology (FAST).

Mr. Vardanyan received his Master of Science Degree in Economics from Moscow State University. He also completed various professional courses and special programs at INSEAD, Harvard Business School, Yale University and Stanford University.

NOUBAR AFEYAN
Non-Executive Member of the Board of Directors

Noubar Afeyan was appointed Board Member in July 2010.

Dr. Afeyan is a founder, senior managing partner and CEO of Flagship Pioneering, a private equity and venture capital firm focused on healthcare and biotechnology. He also leads the firm's VentureLabs unit that invents and launches transformative startups.

Dr. Afeyan has been a senior lecturer at MIT's Sloan School of Management where he has taught courses on technology-entrepreneurship, innovation, and leadership since 2000. He has authored numerous scientific publications and patents.

Dr. Afeyan has co-founded and helped build over 40 successful life science and technology startups during the past three decades. He was founder and CEO of PerSeptive Biosystems, a leader in the bio-instrumentation field. After PerSeptive's acquisition by Applera Corporation, he was Senior Vice President and Chief Business Officer of Applera, where he initiated and oversaw the creation of Celera Genomics. Currently Dr. Afeyan serves on a number of public and private company boards, including Codiak Biosciences, Evelo BioSciences, Kaleido BioSciences, Moderna Therapeutics, Axcella Health and Seres Therapeutics. He received a Technology Pioneer 2012 award from the World Economic Forum (WEF).

Dr. Afeyan also serves on the boards of the Armenian General Benevolent Union, IDeA Foundation and UWC Dilijan College. He is engaged in a number of philanthropic initiatives and is a co-founder of 100 LIVES project and the Aurora Prize for Awakening Humanity.

Dr. Afeyan graduated from McGill University with a BS in Chemical Engineering in 1983 and earned his Ph.D. in Biochemical Engineering from the Massachusetts Institute of Technology in 1987.

ROBERT VON REKOWSKY
Independent Member of the Board of Directors

Robert von Rekowsky was appointed Board Member in October 2012.

Mr. von Rekowsky has around 30 years of experience in global asset management. He was a vice-president at Emerging Markets Strategy and portfolio manager for Fidelity Investments. He's been managing several institutional and retail emerging market equity funds for US and Canadian investors.

Mr. von Rekowsky joined Fidelity's fixed-income division in 1989. In 1995, he moved along with the emerging markets debt group into the company's high-income division as a sovereign debt analyst. He continued in that role while working from Fidelity's London office (1996 - mid-1998), when he moved into European equity research. From 2002 to 2004, Mr. von Rekowsky was an associate fund manager for the emerging markets funds, responsible for the EMEA region. In 2004, he relocated to Boston to assume responsibility for Fidelity's global emerging market equity funds.

He received a BA in Political Science and Government from the University of New York at Albany (SUNY) and an MA in Political Science from Northeastern University. He received an MSc in Finance from Brandeis University.

PIERRE GURDJIAN

Non-Executive Board Member

Pierre Gurdjian was appointed Board Member in December 2016.

Mr. Gurdjian is the President of the Board of Directors of the Free University of Brussels, one of Belgium's largest universities.
He is also a Philanthropy Partner at the RVVZ Foundation, focusing on the Foundation's global philanthropic initiatives.
Before that, he was a Senior Partner at McKinsey & Company where he was active for 27 years. He was the Managing Partner of the Belgian-Luxembourgian office between 2005 and 2012, after which he took the international responsibility of the Human Capital Service Line in EMEA. In this capacity, he served his clients in building personal and institutional leadership capabilities. He has had extensive experience serving clients in industrial and consumer industries on matters of governance, strategy, effectiveness, organization, operations and large-scale transformations across geographies, including post-merger integrations.

He was an active senior faculty member of several high profile client leadership forums (Bower Forum, Executive Transition workshop, Change Leaders workshop). Pierre Gurdjian is a member of the World Presidents Organization (WPO), President of the Board of Directors of YouthStart Belgium (formerly known as NFTE Belgium), and Past President of the Harvard Club of Belgium. He has a passion for philosophy around which he has developed an innovative leadership development program ("Leadership and Wisdom").

He teaches a graduate course on "The CEO Perspective" at the Solvay Business School of the Free University of Brussels (ULB). He is also a member of the Board of Directors of UCB, a leading Belgian biopharmaceutical company.
He is a member of the Board of Trustees of Charitable Foundation Initiatives for Development of Armenia (IDeA) and a member of the Board of Governors and Trustees of UWC Dilijan College in Armenia.

He has a degree in Commercial Engineering from the Free University of Brussels (VUB) and an MBA from Harvard Business School.

LINDSAY M. FORBES

Non-Executive Board Member

Lindsay M. Forbes was appointed Board Member in August 2018.

Mr. Forbes has over 35 years of experience in commercial and investment banking, including more than 20 years with the European Bank for Reconstruction and Development (EBRD).
Joining EBRD in 1994, he worked as a Senior Banker/Country Director undertaking debt and equity transactions in Central and Eastern European countries. In 2000, he became director for Corporate Equity, focusing entirely on equity transactions in multiple countries, including Armenia. From 2012 till 2016 he was director for Industry, Commerce and Agribusiness in Russia, responsible for new business origination, portfolio management, client relationships and team management of EBRD's industrial activities in Russia. He has represented EBRD on the Boards and Audit Committees of numerous listed and unlisted corporates and banks in a variety of countries, including Croatia, Poland, Romania, Kazakhstan, Russia and Egypt.

Before joining EBRD, Mr. Forbes spent 13 years with the British Linen Bank, the Investment Bank subsidiary of the Bank of Scotland, specializing in commercial lending and private equity in various locations, including the USA.

He qualified as a Solicitor with Norton Rose in 1978 and worked in Shipping Finance until 1980.

He has Degree in Jurisprudence from Oxford University (1975) and an MBA from INSEAD (1981).

PHILIP LYNCH

Non-Executive Board Member

Philip Lynch was appointed Board Member in October 2018.

Mr. Lynch has over 30 years of experience in finance, including more than 20 years with Lehman Brothers. Starting his career as an analyst, he later moved to senior operating positions at Lehman Brothers – Co-head of Asia Pacific Investment Banking (1999-2002), Head of European Financing (2003-2006) and Co-head of European Equities (2007-2008).

After the sale of Lehman Brothers' European, Middle East and Asian businesses to Nomura, Mr. Lynch became the CEO of Middle East and Africa (2008-2009), later becoming the CEO Asia Pacific and Middle East (2010-2012) at Nomura.

Since 2013 Mr. Lynch has been the founding Partner of Stem Capital Partners – an independent direct investment (PE) business focusing on financial services in Southeast Asia.

Mr. Lynch earned his Bachelor Degree in History at Yale University (USA) in 1987.

management board and CEO

The executive body represented by the Management Board and the Chairman of the Management Board-CEO is responsible for the management of the day-to-day activities of the Bank other than those reserved to the sole competence of other bodies defined in the Charter and internal regulations. The Management Board consists of the CEO, Deputy CEO and 5 Members. The CEO and members of the Management Board are appointed by the Board of Directors.

ARTAK HANESYAN

Chairman of the Management Board, CEO

Artak Hanesyan was appointed General Director of Armimpexbank (currently Ameriabank) in October 2007. In April 2008, he was appointed Chairman of the Management Board – General Director of Ameriabank.

Mr. Hanesyan has extensive experience as a C-suite executive in the modern banking sector of Armenia. With more than 25 years of experience in banking, Mr. Hanesyan held several key positions at Converse Bank, serving as CEO (2006-2007), Vice-Chairman of the Management Board and Head of the Principal Financial Department (1998-2006). Early in his career, he also worked at the CBA as Head of the First Division of Supervision Department, Senior Specialist, Specialist at Supervision, Regulation and Licensing Department (1995-1998) and at Arminvestbank (1993-1994).

Mr. Hanesyan received a Master's Degree in Economics from Yerevan State University, Department of International Economic Relations.

GEVORG TARUMYAN

Member of the Management Board,
Deputy General Director, CFO

Gevorg Tarumyan was appointed member of the Management Board of Ameriabank in August 2012.

Mr. Tarumyan has around 20 years of valuable experience serving as CFO and deputy CEO both in local banks and global banks represented in the banking system of Armenia. He started his career in banking in 1994 in the Supervision Service of the CBA, where he occupied various executive positions and coordinated the activities of the Regional Group of Basel Committee on Banking Supervision of Central Asian and South Caucasus banks in Armenia. In 1999, Mr. Tarumyan moved to Armimpexbank as CFO and was appointed Deputy General Director in 2006. He worked as Deputy Chairman of the Management Board-General Director and Financial Department Director at VTB Bank Armenia (2007-2008) and CFO at HSBC Bank Armenia, where he was appointed Deputy CEO in March 2012. Mr. Tarumyan joined Ameriabank in June 2012, as Deputy CEO and CFO.

Along with his work in the banking sector, Mr. Tarumyan has lectured to the banking sector specialists on financial analysis and risk management. He has authored and co-authored a number of tutorials on banking, financial analysis and risk management.

Mr. Tarumyan graduated from Yerevan State Economic Institute and attended an executive program at London School of Economics. In 1997-1998 he attended the management, macro and micro economics course for young leaders at Joint Vienna Institute.

ARMAN BARSEGHYAN

Member of the Management Board,
Retail Banking Director

Arman Barseghyan was appointed member of the Management Board of Ameriabank in September 2012.

Mr. Barseghyan has proven career track of more than 20 years in retail banking. He started his career in banking in 1997 as a specialist at Financial Control Department in HSBC Bank Armenia CJSC (formerly Midland Armenia Bank J.S.C.). His career path at HSBC Bank Armenia assumed several key positions including Operations Manager at the Financial Control Department (2001-2004), Branch Manager (2004-2008) and Retail Banking Director (2008-2012).

In June 2012, Mr. Barseghyan joined Ameriabank as Retail Banking Director.

Mr. Barseghyan graduated from Yerevan Institute of National Economy with major in International Economics. Later he was awarded with academic degree of Candidate of Economics at the Institute of Economics under the National Academy of Sciences of the Republic of Armenia.

GAGIK SAHAKYAN

Member of the Management Board,
Corporate and Investment Banking Director

Gagik Sahakyan was appointed member of the Management Board of Ameriabank in February 2012.

Mr. Sahakyan has vast experience working as an advisor and banking executive with key industry players of Armenian economy. He stood at the roots of Ameria's development. Mr. Sahakyan joined Ameria as Senior Advisor and later as Partner and Head of Management Advisory Services (1999-2012). As part of the team that led Armimpexbank acquisition deal from its inception to closing, Mr. Sahakyan has taken up key positions at Ameriabank. His professional career with Ameriabank includes positions of Advisor (2008-2010), Corporate Banking Director (2010-2012) and Member of the Management Board-Corporate and Investment Banking Director (from 2012 up to present).

In 1995, Mr. Sahakyan graduated from Yerevan State University, with a major in Mathematics. He received MBA degree from the American University of Armenia, College of Business and Management (1995-1997). In 2004, he attended executive program at Kennedy School of Government, Harvard University, in 2018 – course of Harvard Business School.

GOHAR KHACHATRYAN

Member of the Management Board,
Chief Accountant

Gohar Khachatryan was acting member of the Management Board from March 2008 until June 2008. She was appointed member of the Management Board of Ameriabank in June 2008.
Ms. Khachatryan has over 25 years of experience holding key positions both in the regulatory body of the banking system and in private banks.

Ms. Khachatryan built career path in the CBA in the positions of Accountant (1991-1992), Economist (1992-1994), Chief Economist (1994) and Leading Specialist (1994 - 2000).

Afterwards Ms. Khachatryan joined Armimpexbank (currently Ameriabank) as Head of Balance Sheets and Reports Analyses Division, Financial Department (2000); Head of Financial Statements and Expenditures Control Department (2000-2001); Head of Administrative Accounting Division, Department of Finance (2001-2003), Chief Administrative Accountant (2003-2006); Chief Accountant/Admin Accounting Manager (2006-2008).

After the acquisition of Armimpexbank by Ameria Group (CY), Ms. Khachatryan was promoted to Acting Member of the Management Board-Chief Accountant and Member of the Management Board-Chief Accountant (2008). Ms. Khachatryan has combined her bank career with lecturing activities, and is a co-author of accounting-related publications.

Ms. Khachatryan graduated from Yerevan Institute of National Economy with a major in Economics.

ANDRANIK BARSEGHYAN

Member of the Management Board, Risk Management Director

Andranik Barseghyan was appointed member of the Management Board of Ameriabank in December 2009.

Mr. Barseghyan has a distinguished career in banking, economics and risk management. Mr. Barseghyan started his career in banking technologies in the Department of Bank Technologies Automation at Armagrobank in 1995. Moving up the career ladder from an entry level to senior and leading specialist in the Automation Department, he was promoted to Chief Economist, later Head of the Liquidity and Resources Management Unit, then Head of Bank Risks Regulation Division, and finally Head of the Automation Division (1995-2002).

In 2003, Mr. Barseghyan became Head of the Reporting & Analysis Division at Converse Bank. Later he was appointed Head of the Department of Risk Management and member of the Management Board of Converse Bank. Mr. Barseghyan joined Ameriabank's team in 2009 as Risk Management Director and member of the Management Board.

Mr. Barseghyan has authored a number of research papers and publications locally and internationally, some of which focus on bank management. He is a member of EURO working group on financial modeling (Erasmus University, Rotterdam).

Mr. Barseghyan graduated from the State Engineering University of Armenia (SEUA), Faculty of Computer Engineering and Informatics. He received a Master's Degree at SEUA, followed by Candidate of Technical Sciences degree.

ARMINE GHAZARYAN

Member of the Management Board, Chief People and Services Officer

Armine Ghazaryan was appointed member of the Management Board of Ameriabank in October 2019.

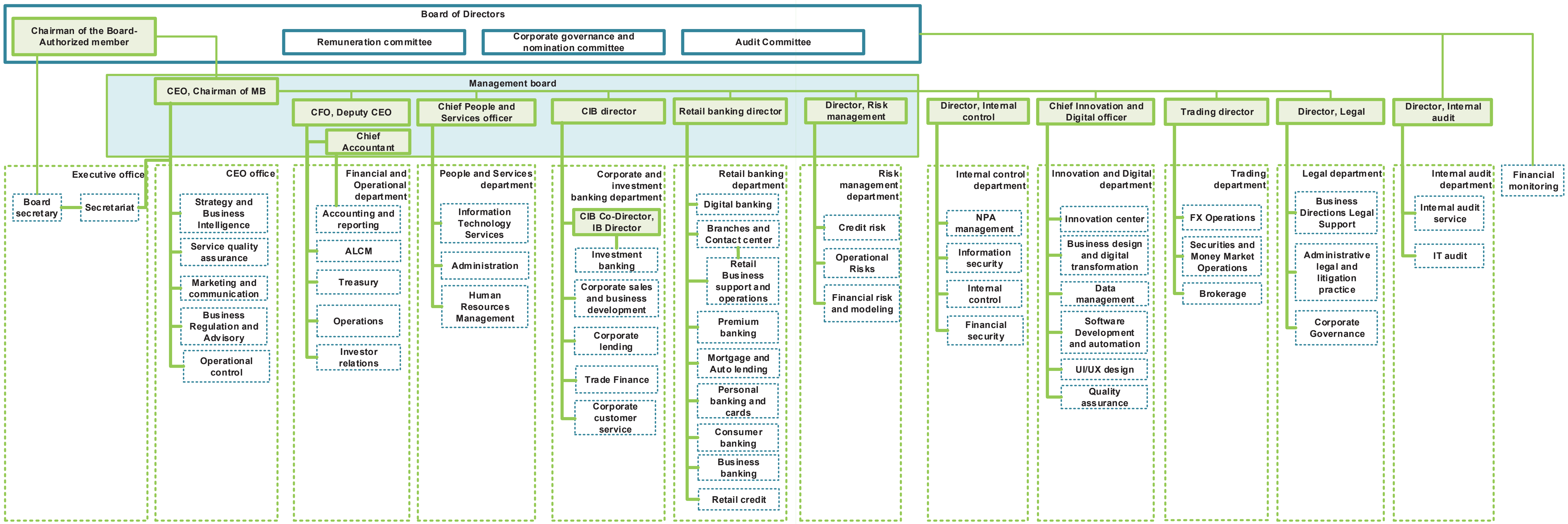
She began her professional career in 2001, as Credit Department Assistant at Converse Bank CJSC. In 2004-2008, Ms. Ghazaryan continued professional development in HR management, holding the position of the Head of Personnel Management Division at the same bank. In October 2008, she was appointed Head of Human Resources Management Unit at Ameriabank.

Given her breadth of experience in HR management and extensive leadership skills, she was appointed Chief People and Services Officer of the Bank in May 2019. Since October 2019, she has been holding the position of member of the Management Board, Chief People and Services Officer.

Mrs. Ghazaryan graduated from Yerevan State University, Faculty of Oriental Studies, with a major in Oriental Languages and Literature in 1999. She received a degree in Public Administration from the Public Administration Academy of the Republic of Armenia (2009).

Mrs. Ghazaryan has attended professional and training courses and events organized by a number of internationally acclaimed institutions (such as Stanford Graduate School of Business, Skolkovo Business School, Sberbank Corporate University, KFW Business School, Silicon Valley companies, 15 leading European banks, World Economic Forum (WEF), various conferences, etc.).

organizational chart



our people

Overview

Ameriabank is one of the top employers in Armenia offering its employees a range of opportunities aiming at development of both qualitative and professional skills, as well as providing a highly competitive benefit package. Adhering to its corporate culture, Ameriabank's key landmark is to build and retain a Dream Team gathering purposeful, daring and sophisticated people under one roof. Our team is the integral part of our success and our most valuable asset.

2019 was remarkable for us for the completion of company-wide structural transformation started already in 2018, which led us to further digitalization, supported more agile mindset and was set to enhance decision making efficiency.

Valuing workforce diversity we have a good mix of people with different background and experience who are respected, valued and treated equally regardless of gender, marital status, age and disability. Thanks to them Ameriabank, once again is the leader in the Armenian banking sector by growth pace and by key financial indicators.

Talent Acquisition

We strongly support and engage enthusiastic, motivated, driven, ambitious and innovative people who want to join our Dream Team. Being ready to invest in their professional development we widely practice mentoring approach to ensure smooth onboarding and integration both for beginners and experienced professionals. We believe that in this way we create a more dynamic team which leads to better performance.

Cooperating with the best universities and colleges of Armenia as well as diaspora, Ameriabank is continuously expanding its network of partners. Among the projects implemented in 2019 was the launch of two "Generation A" programs. The program proved to be very successful in identifying the brightest and most talented candidates, in the process of which the 52 finalists from overall 1500 applicants are part of our team today. This program is a perfect opportunity for 20-27 year-old graduates to gain theoretical and practical knowledge in finance and banking at the same time interacting with smart professionals right on the site and gaining much knowledge and experience from them thereby paving the way to start a career life with Ameriabank.

Encouraging young talents to return to Armenia after completing their education and gaining professional experience abroad we actively cooperate with various foundations to create internship and job opportunities for this target group. The economic growth is another factor to target diaspora candidates who will invest their knowledge and experience gained in international markets in Armenia bringing added value to the development of the country. In 2019, 173 talented young people took courses and did internship in Ameriabank, improving their skills and knowledge.

Talent acquisition process in Ameriabank includes internal promotions and external recruitment in parallel, giving current staff the opportunity to step up the career ladder and/or change their specialization. In 2019, about 19% of staff members were promoted both horizontally and vertically. Overall, 280 new team members joined Ameriabank in 2019 to make the total number of employees 1050.

We also give fair consideration to candidates who have disabilities while selecting them. No applicant is discriminated because of their disability. Moreover, we work towards improving our workplace as well, to create equal opportunities for all people in the team.

Talent Management

Bank supports accomplishing strategic objectives of the organization by proper translation of the information from top to down and ensuring transparency within the team. Aspiring to run a business that promotes high ethical values and respect of human rights, Ameriabank uses grievance and whistleblowing procedure, code of conduct, daily internal communication, events and engagement surveys encouraging the employees to act with responsibility and integrity not only towards our Customers and Partners, but also towards each other.

For performance assessment purposes we use a system where our employees' quantitative and qualitative features and performance is linked to and derived from specific job-related KPIs and 360-degree feedback respectively. This helps them to better identify their strengths and weaknesses and develop new skills.

Ameriabank applies the rule of transparency to all its HR Processes, including performance evaluation, employee retention, career growth and various promotions.

Learning & Development

We continuously invest in our employees' professional development expressed by the effective synergy of self-development and from guidance to financing various courses and certifications. Among the essential components of our development program are executive trainings for top and mid managers conducted by world-class practitioners, professors, including founders of leading business schools with years of expertise.

Ameriabank also cooperates with various international institutions to allow more flexibility to employees to be actively involved in distance learning programs and gain international certifications provided by such internationally-acclaimed institutions as Harvard Business School, Stanford Graduate School of Business, Chartered Management Institution, CFA Institute, ACCA, PMP and others.

In 2019 Ameriabank invested AMD 230,104,000 in staff development of over 37,890 training hours (105% increase compared to 2018). More than 930 participations were recorded for service excellence trainings, both in-house and external. Special focus was put on strengthening agility and growth mindset within the company.

The management team completed another series of executive leadership and mid-management development trainings to cultivate great leadership and management skills.

The Bank also maintains a continuously updated both electronic and paper-based library of professional literature enabling the employees to constantly develop their knowledge and improve their skills in in-house bases.

Metrics	2018	2019	Net Change
Training Participations	3709	6086	64%
Staff Number	891	1050	18%
Average number of training attendance per staff	4.2	5.8	38%
Total cumulative training hours of all participants	18450	37890	105%
Average training hour per participation	5.0	6.2	25%
Average training hour per staff	20.7	36.1	74%
Number of trainings organized	275	283	3%
Training hours per topic	3668	4453	21%

Employee Benefits

One of our core priorities is the high level of employee motivation and engagement, for which we are constantly seeking new ways to make our company the best working environment.

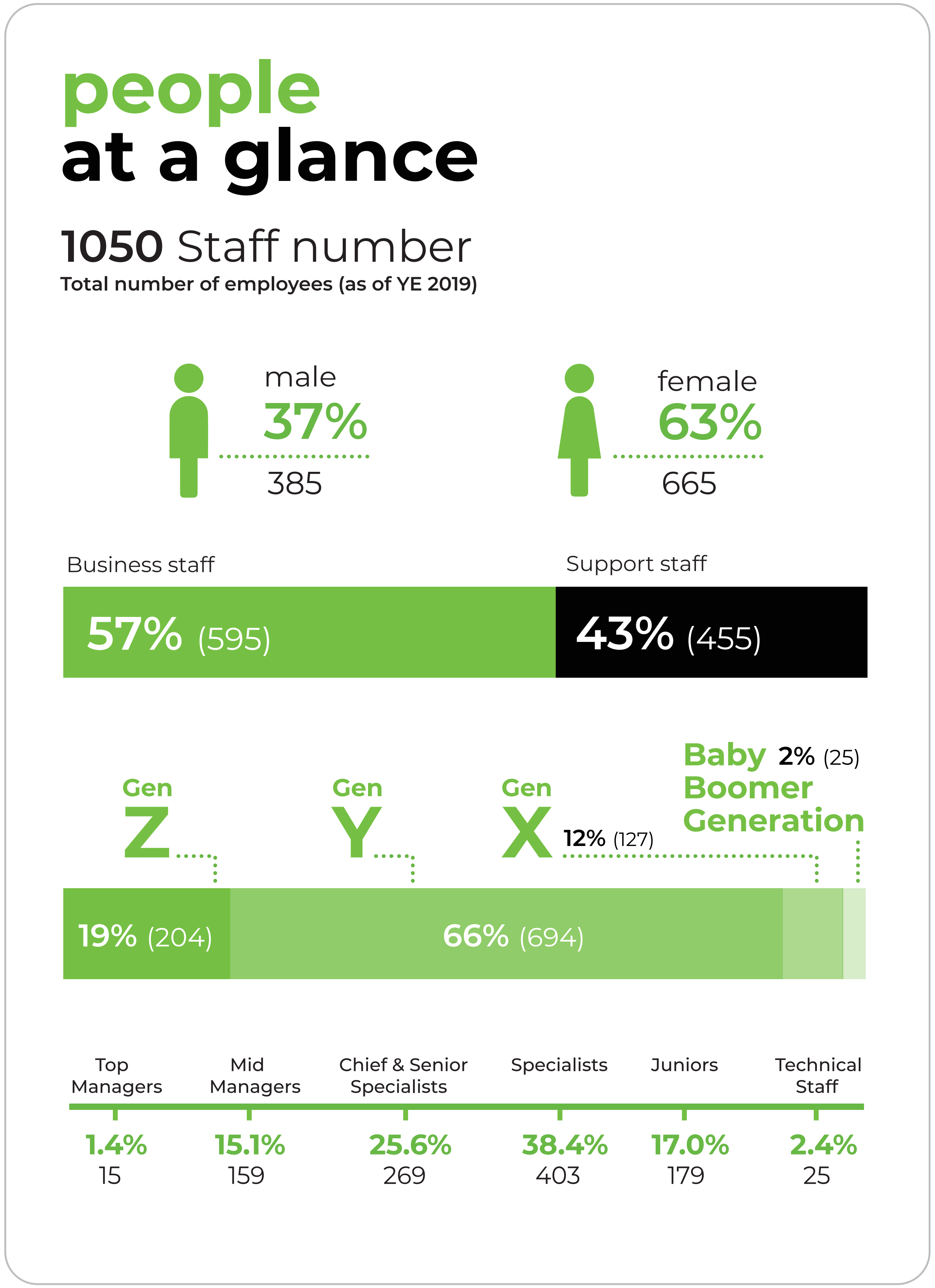
Motivating best employees is as important as nurturing young talents; the stronger the incentive, the longer and deeper the commitment and dedication to the team and organization's mission and goals. In this respect, apart from a wide range of learning and training opportunities we also value to have a robust incentive system and permanently competitive benefits package offering free tickets for opera, ballet, exhibitions, special discounts in various restaurants, shops and cultural events, health, travel and accident insurance, paid annual sick leaves, paid maternity and paternity leaves, 40-hour paid leave on personal purposes per year, financial gift for marriage and childbirth and a compensation in case of death. In addition, we offer special banking terms to our employees enabling them to use our services at minimum and, very often at no financial cost.

To accurately measure our employee satisfaction and motivation levels, Ameriabank has been participating in "Compensation and benefits survey" conducted by a leading audit company in Armenia since 2012. In addition, different internal surveys are also being regularly conducted among the staff in the Bank. Employees have opportunities and are encouraged to share their views and concerns through internal forums.

Being engaged in various social activities in the country we frequently take part in different championships, competitions and sports events held among financial institutions such as chess tournament, football, bowling and volleyball sports events, intellectual game "What? Where? When?" and others. The Bank supports employee wellbeing activities to ensure that its employees are happy and motivated at work. It includes different internal activities as well, such as team building, sports & yoga, employee CSR project, etc.

Priorities for 2020

Primary focus for 2020 will be customer service excellence concentrating our efforts on our digital strategy implementation. We will continue to invest in our employees valuing their permanent development, satisfaction and wellbeing. In order to be able to respond to the fast-changing business needs more rapidly, we will carry on with our agile transformation creating even more flexible organizational structure.



responsibility statement

"AMERIABANK" CLOSED JOINT STOCK COMPANY

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STATEMENT OF THE RESPONSIBLE PERSONS OF THE REPORTING ISSUER

Hereby we state, that to the best of our knowledge

1. The information in the 2019 Annual Report of "Ameriabank" CJSC (hereinafter "the Issuer") is accurate and complete and in all material aspects complies with the requirements of the Republic of Armenia Law on Securities Market and the Central Bank of Armenia Regulation 4/04.

2. The presented annual audited financial statements for 2019 are composed in accordance with the International Financial Reporting Standards and, in all material aspects, completely and accurately reflect the Issuer's assets and liabilities, financial position, profit and loss as of December 31 2019 as well as Issuer's financial performance and cash flows for the reporting period.

(name, surname)	(position)	(signature)
Artak Hanesyan	**Chairman of the Management Board-General Director**	
Gevorg Tarumyan	*Deputy General Director, CFO*	
Mher Kandalyan	*Deputy Chief Accountant*	
Gagik Sahakyan	*Corporate and Investment Banking Director*	
Arman Barseghyan	*Retail Banking Director*	
Armine Ghazaryan	*Chief People and Services Offices*	
Andranik Barseghyan	*Risk Management Director*	

financial statements

contents

KPMG

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Independent Auditors' Report

To the Board of Directors of Ameriabank CJSC

Opinion

We have audited the financial statements of Ameriabank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by other auditors who expressed an unmodified opinion on those statements on 27 March 2019.

Key Audit Matters

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

KPMG Armenia LLC, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Expected credit losses for loans to corporate and retail customers

Please refer to the Note 20 in the financial statements.

The key audit matter	How the matter was addressed in our audit
Loans and advances to customers represent 61% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used, as outlined below. The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas: – timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9")); – assessment of probability of default (PD) and loss given default (LGD); – expected cash flows forecast, including from realization of collateral for loans to customers classified in Stage 3. Due to the significant volume of loans to customers, and complexity and subjectivity over estimating timing and amount of ECL this area is a key audit matter.	We analysed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate our audit procedures included the following: – for loans to corporate clients we assessed and tested the design, implementation and operating effectiveness of the controls over allocation of loans into Stages. – for loans to individuals we tested the design, implementation and operating effectiveness of controls over calculation of overdue days – for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. – for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we, based on our knowledge, assessed the appropriateness of the related models, and reconciled the model input data against primary sources, on a sample bases. – for a sample of Stage 2 loans to corporate clients, where ECL are assessed individually, we assessed appropriateness of the data inputs for LGD calculation. – for a sample of Stage 3 loans to corporate customers, where ECL are assessed individually, we assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements.

	– for loans to retail customers, on a sample basis we checked the completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and allocation of loans into Stages. – for a sample of Stage 3 loans to retail customers, where ECL are assessed individually, we assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from collateral and their expected disposal terms. – we assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2019 with the actual results for 2019. – we also assessed that whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

KPMG Armenia LLC
4 May 2020

	Notes	2019 AMD'000	2018* AMD'000
Interest income calculated using effective interest rate	6	59,171,261	52,954,291
Other interest income	6	1,189,505	685,875
Interest expense	6	(29,362,152)	(26,309,095)
Net interest income		**30,998,614**	**27,331,071**
Fee and commission income	7	5,439,164	4,511,230
Fee and commission expense	8	(1,501,380)	(1,111,594)
Net fee and commission income		**3,937,784**	**3,399,636**
Net gain on financial instruments at fair value through profit or loss	9	315,158	995,577
Net foreign exchange gain	10	4,577,671	3,134,059
Net gain on investment securities measured at fair value through other comprehensive income		345,547	155,365
Other operating income	11	3,179,924	4,242,231
Other operating expenses	12	(3,405,890)	(2,475,641)
Operating income		**39,948,808**	**36,782,298**
Net impairment losses on financial instruments	13	(7,171,028)	(9,380,965)
Other impairments and provisions		(29,783)	(22,749)
Operating income after impairment		**32,747,997**	**27,378,584**
Personnel expenses		(10,101,061)	(7,936,402)
Other general administrative expenses	14	(6,677,422)	(6,118,214)
Profit before income tax		**15,969,514**	**13,323,968**
Income tax expense	15	(3,854,546)	(2,821,524)
Profit for the year		**12,114,968**	**10,502,444**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve for investment securities:			
– net change in fair value		593,045	61,959
– net amount reclassified to profit or loss		(276,438)	(124,292)
Total items that are or may be reclassified subsequently to profit or loss		*316,607*	*(62,333)*
Other comprehensive income/(loss) for the year, net of income tax		**316,607**	**(62,333)**
Total comprehensive income for the year		**12,431,575**	**10,440,111**

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

The financial statements as set out on pages 124 to 204 were approved by the Management Board on 1 May 2020 and were signed on its behalf by:

Artak Hanesyan
Chairman of Management Board, General Director

Mher Kandalyan
Deputy Chief Accountant

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

	Notes	2019 AMD'000	2018* AMD'000
ASSETS			
Cash and cash equivalents	16	247,353,690	144,353,912
Financial assets measured at fair value through profit or loss	17 (a)		
- Held by the Bank		8,255,606	6,290,841
- Pledged under sale and repurchase agreements		-	526,169
Investment securities measured at fair value through other comprehensive income	17 (b)	10,848,985	11,602,128
Investment securities measured at amortized cost	17 (c)		
- Held by the Bank		33,510,890	22,269,117
- Pledged under sale and repurchase agreements		-	16,556,346
Loans and advances to banks	18	27,014,640	4,946,612
Amounts receivable under reverse repurchase agreements	19	23,549,559	6,746,414
Loans and advances to customers	20	585,741,899	547,943,183
Property, equipment and intangible assets	21	11,162,394	10,240,337
Right of use asset	22	11,235,119	-
Deferred tax asset	15	-	185,898
Repossessed assets	20	3,028,455	2,628,659
Other assets	23	6,379,980	5,457,611
Total assets		**968,081,217**	**779,747,227**
LIABILITIES			
Derivative financial liabilities	17 (a)	35,314	20,621
Deposits and balances from banks	24	34,488,813	43,076,769
Amounts payable under repurchase agreements		-	17,011,404
Current accounts and deposits from customers	25	593,223,433	399,086,132
Debt securities issued	26	54,573,055	50,846,356
Other borrowed funds	27	126,685,607	120,913,209
Subordinated borrowings	27	36,495,281	50,414,125
Current tax liability		279,389	1,086,688
Deferred tax liability	15	918,445	-
Provision for commitments	32	116,222	140,163
Lease liability		11,373,257	-
Other liabilities	28	8,665,323	7,393,812
Total liabilities		**866,854,139**	**689,989,279**
EQUITY	29		
Share capital		37,347,200	37,300,480
Share premium		17,009,560	16,968,725
Revaluation reserve for investment securities		650,042	333,435
Retained earnings		46,220,276	35,155,308
Total equity		**101,227,078**	**89,757,948**
Total liabilities and equity		**968,081,217**	**779,747,227**

*The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

	Notes	2019 AMD'000	2018* AMD'000
Cash flows from operating activities			
Interest receipts		60,612,689	58,733,901
Interest payments		(27,533,867)	(33,083,438)
Fee and commission receipts		5,439,164	4,511,231
Fee and commission payments		(1,501,380)	(1,111,594)
Net receipts from financial assets at fair value through profit and loss		697,736	453,772
Net receipts from foreign exchange transactions		4,043,700	3,586,028
Other operating (payments)/receipts		(343,748)	1,766,590
Salaries and other payments to employees		(9,611,889)	(7,165,324)
Other general administrative expenses payments		(3,818,407)	(4,888,861)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(1,070,037)	(2,240,960)
Loans and advances to banks		(22,263,721)	5,247,616
Amounts receivable under reverse repurchase agreements		(16,602,636)	1,924,073
Loans and advances to customers		(52,411,736)	(89,537,762)
Other assets		(1,656,875)	(1,651,412)
(Decrease)/increase in operating liabilities			
Financial instruments at fair value through profit or loss		(743,702)	(579,945)
Deposits and balances from banks		(8,058,493)	4,427,815
Amounts payable under repurchase agreements		(16,999,992)	10,913,628
Current accounts and deposits from customers		195,650,670	32,999,639
Other liabilities		578,480	2,678,452
Net cash from/(used in) operating activities before income tax paid		**104,405,956**	**(13,016,551)**
Income tax paid		(3,591,966)	(2,758,200)
Cash flows from/(used in) operations		**100,813,990**	**(15,774,751)**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(2,847,579)	(4,348,326)
Acquisition of investment securities measured at fair value through other comprehensive income		(6,077,857)	(8,735,406)
Proceeds from sale and repayment of investment securities measured at fair value through other comprehensive income		7,532,357	6,909,824
Acquisition of investment securities measured at amortized cost		(11,148,512)	(12,208,815)
Proceeds from sale and repayment of investment securities measured at amortized cost		17,106,225	15,956,823
Cash flows from/(used in) investing activities		**4,564,634**	**(2,425,900)**
Cash flows from financing activities			
Payment of lease liabilities	22	(1,444,183)	-
Dividends paid	29	(1,050,000)	(1,148,000)
Proceeds from issue of share capital	29	87,555	14,426,666
Receipt of other borrowed funds and subordinated liabilities	27	39,072,808	118,532,201
Repayment of other borrowed funds and subordinated liabilities	27	(43,493,485)	(85,915,500)
Proceeds from debt securities issued	26	21,864,967	24,855,545
Repayment of debt securities issued	26	(17,659,493)	(12,849,554)
Cash flows (used in)/from financing activities		**(2,621,831)**	**57,901,358**
Net increase in cash and cash equivalents		**102,756,793**	**39,700,707**
Effect of changes in exchange rates on cash and cash equivalents		266,334	(2,919,971)
Effect of changes in impairment allowance		(23,349)	(43,192)
Cash and cash equivalents as at the beginning of the year		144,353,912	107,616,368
Cash and cash equivalents as at the end of the year	16	**247,353,690**	**144,353,912**

*The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

AMD'000	Share capital	Share premium	Revaluation reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2018	32,087,360	7,755,179	338,214	29,721,118	69,901,871
Adjustment on initial application of IFRS 9, net of tax	-	-	57,554	(3,920,254)	(3,862,700)
Restated balance as at 1 January 2018	32,087,360	7,755,179	395,768	25,800,864	66,039,171
Profit for the year	-	-	-	10,502,444	10,502,444
Other comprehensive loss					
Fair value reserve for investment securities					
- net change in fair value	-	-	61,959	-	61,959
- net amount reclassified to profit or loss	-	-	(124,292)	-	(124,292)
Total comprehensive income for the year	**-**	**-**	**(62,333)**	**10,502,444**	**10,440,111**
Transactions with owners, recorded directly in equity					
Issue of share capital	5,213,120	9,213,546	-	-	14,426,666
Dividends	-	-	-	(1,148,000)	(1,148,000)
Total transactions with owners	**5,213,120**	**9,213,546**	**-**	**(1,148,000)**	**13,278,666**
Balance as at 31 December 2018*	**37,300,480**	**16,968,725**	**333,435**	**35,155,308**	**89,757,948**
Balance as at 1 January 2019	37,300,480	16,968,725	333,435	35,155,308	89,757,948
Profit for the year	-	-	-	12,114,968	12,114,968
Other comprehensive income					
Fair value reserve for investment securities					
- net change in fair value	-	-	593,045	-	593,045
- net amount reclassified to profit or loss	-	-	(276,438)	-	(276,438)
Total comprehensive income for the year	**-**	**-**	**316,607**	**12,114,968**	**12,431,575**
Transactions with owners, recorded directly in equity					
Issue of share capital	46,720	40,835	-	-	87,555
Dividends	-	-	-	(1,050,000)	(1,050,000)
Total transactions with owners	**46,720**	**40,835**	**-**	**(1,050,000)**	**(962,445)**
Balance as at 31 December 2019	**37,347,200**	**17,009,560**	**650,042**	**46,220,276**	**101,227,078**

*The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3).

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

1 Background

(a) Organization and operations

Ameriabank CJSC (formerly Armimpexbank CJSC) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%.

On 23 December 2015 European Bank for Reconstruction and Development (EBRD) purchased in full additionally issued 20,749 shares of the Bank.

On 21 December 2016 ESPS Holding Limited purchased 13.5% of Bank shares from Ameria Group (CY).

On 14 February 2018 Asian Development Bank (ADB) purchased additionally issued all 16,291 shares of the Bank for AMD 14,426,666 thousand.

On 4 March 2019 ESPS Holding Limited purchased in full additionally issued 146 shares of the Bank for AMD 87,555 thousand.

The shareholders of the Bank as at 31 December 2019 are Ameria Group (CY) 56.53%, EBRD 17.78%, ADB 13.96% and ESPS Holding Limited 11.73%.

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

The Bank has 19 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 2 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia.

The number of the Bank's employees as at 31 December 2019 was 1,050 (2018: 891).

Related party transactions are detailed in Note 34.

(b) Armenian business environment

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

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

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the stock market indices. These developments can further increase the level of uncertainty in the Armenian business environment. The government has pledged to an AMD 300 billion support program, which on the other hand can soften the negative impact on Armenian economy and businesses (see Note 36).

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

The AMD is also the presentation currency for the purposes of these financial statements. The official CBA exchange rates at 31 December 2019 and 31 December 2018, were AMD 479.7 and AMD 483.75 to USD 1 , and AMD 537.26 and AMD 553.65 to EUR 1, respectively.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4(e)(i).

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward- looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 30(c).

Assumptions and estimations uncertainty

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

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 30(c);

3 Changes in significant accounting policies

IFRS 16

The Bank initially applied IFRS 16 Leases from 1 January 2019. The Bank has applied IFRS 16 using the modified retrospective approach and has chosen to measure the right of use asset at an amount equal to lease liability (subject to certain adjustments). Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and IFRIC 4. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

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

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

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

(b) As a lessee

As a lessee, the Bank leases many assets such as office spaces for head office and branches.

In the comparative period, as a lessee the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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

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

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

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

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

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

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

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

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

(i) Leases classified as operating leases under IAS 17

On transition, for the leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(ii) Leases classified as finance leases under IAS 17

The Bank did not have lease contracts classified as finance leases under IAS 17 as at 1 January 2019.

(c) As a lessor

The Bank enters into finance lease arrangements with customers and recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. If an arrangement contains lease and non-lease components, then the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Bank does not have sub-lease arrangements; therefore lessor accounting remains unchanged.

(d) Impact on financial statements

*(i) Impact on transition**

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. No cumulative effect of initial application of IFRS 16 on retained earnings was in place.
The impact on transition is summarized below:

'000 AMD	**1 January 2019**
Right-of-use assets	10,984,619
Other assets (prepayments given)	(739,942)
Lease liabilities	(10,244,677)

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 12.92%.

'000 AMD	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	2,763,036
Inclusion of lease payments under cancellable leases	17,241,900
Undiscounted lease liabilities at 1 January 2019	**20,004,936**
Weighted average incremental borrowing rate of the Bank as a lessee at 1 January 2019	12.92%
Lease liabilities recognised at 1 January 2019	**10,244,677**

*For the impact of IFRS 16 on profit or loss for the period, see Note 22.

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank 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.

4 Significant accounting policies

Except for the changes disclosed in Note 3 the accounting policies set out below are applied consistently to all periods presented in these financial statements. Other new standards and amendments to standards effective from 1 January 2019 did not have impact on the accounting policies of the Bank, presented below.

(a) Foreign currency transactions

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

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

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

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

(b) Cash and cash equivalents

Cash and cash equivalents include Notes and coins on hand, balances held with the CBA, including obligatory reserves denominated in AMD, unrestricted balances (nostro accounts) held with other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

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

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

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

(d) Fees and commission

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

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets

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

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

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

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

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

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

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

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

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

Ameriaba11k CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the CBA. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans (Note 4(e)(iii)).

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

iv. Impairment

See also Note 30 (c).

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

- financial assets that are debt instruments;
- net investments in finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 30 (c)).

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

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

See also Note 30(c).

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 30(c)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

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

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

Non-integral financial guarantee contracts

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

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

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

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

(f) Loans and advances to customers

Loans and advances to customers caption in the statement of financial position include:

- loans to customers, receivables from factoring and receivables from letter of credit measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- net investments in finance leases.

(g) Deposits, debt securities issued and subordinated liabilities

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

(h) Financial guarantees and loan commitments

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

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

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

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

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

(i) Repurchase and reverse repurchase agreements

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

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

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

(j) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

leasehold improvements	5-20 years
computers and communication equipment	5 to 10 years
fixtures and fittings	5 to 10 years
motor vehicles	7 years

(k) Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

Ameriaba11k CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

(l) Provisions

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

(m) Share capital

(i) Ordinary shares

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

(ii) Share premium

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

(iii) Dividends

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

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

(n) Repossessed property

Repossessed property is stated at lower of cost and net realizable value.

(o) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(p) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate and investment banking, Trading.

(q) Taxation

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

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

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

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

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

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

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

(r) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

5 Segment information

For management purposes, the Bank is organised into three operating segments based on products and services as follows:

Retail banking	Principally handling individual and small and micro legal entity customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate and investment banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and provision of investment banking services such as underwriting, financial consulting, etc.
Trading	Currency conversion transactions, management of bonds portfolio, attractions or disbursement of short-term funds through interbank loans and repo agreements for liquidity management, provision of brokerage services, etc.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes is managed on a profit before income tax basis and is allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

2019	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Net interest income	6,049,625	20,393,147	4,555,842	30,998,614
Net non-interest income	1,519,349	3,895,845	3,535,000	8,950,194
Inter-segment revenue	9,803,150	(5,747,293)	(4,055,857)	-
Operating profit	**17,372,124**	**18,541,699**	**4,034,985**	**39,948,808**
Credit loss expense	(3,309,378)	(3,861,650)	-	(7,171,028)
Other impairment	-	(29,783)	-	(29,783)
Depreciation and amortization	(2,093,029)	(599,723)	(165,842)	(2,858,594)
Personnel and other general administrative expenses	(9,095,247)	(3,905,817)	(918,825)	(13,919,889)
Profit before income tax	**2,874,470**	**10,144,726**	**2,950,318**	**15,969,514**
Income tax expense	(626,582)	(2,584,849)	(643,115)	(3,854,546)
Profit for the year	**2,247,888**	**7,559,877**	**2,307,203**	**12,114,968**

2019	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Interest earning financial assets	178,203,827	421,360,830	77,843,858	677,408,515
Interest bearing financial liabilities	336,668,100	501,886,209	6,936,319	845,490,628

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortized cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

2018	Retail banking AMD'000	Corporate banking AMD'000	Trading and investment banking AMD'000	Total AMD'000
Net interest income	1,382,860	21,223,002	4,725,209	27,331,071
Net non-interest income	1,438,143	3,435,683	4,577,401	9,451,227
Inter-segment revenue	12,266,116	(8,441,826)	(3,824,290)	-
Operating profit	**15,087,119**	**16,216,859**	**5,478,320**	**36,782,298**
Credit loss expense	(2,425,331)	(6,797,680)	(157,954)	(9,380,965)
Other impairment	-	(22,749)	-	(22,749)
Depreciation and amortization	(985,516)	(160,440)	(83,397)	(1,229,353)
Personnel and other general administrative expenses	(8,327,863)	(3,015,020)	(1,482,380)	(12,825,263)
Profit before income tax	**3,348,409**	**6,220,970**	**3,754,589**	**13,323,968**
Income tax expense	(709,069)	(1,283,923)	(828,532)	(2,821,524)
Profit for the year	**2,639,340**	**4,937,047**	**2,926,057**	**10,502,444**

2018	Retail banking AMD'000	Corporate banking AMD'000	Trading and investment banking AMD'000	Total AMD'000
Interest earning financial assets	118,651,578	445,244,596	66,142,737	630,038,911
Interest bearing financial liabilities	280,388,443	377,860,540	22,638,025	680,887,008

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortized cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the years ended 31 December 2019 and 2018 was as follows:

2019	Retail banking AMD'000	Corporate and investment banking AMD'000	Trading AMD'000	Total AMD'000
Fee and commission income	3,454,430	1,829,542	155,192	5,439,164
Income from advisory and arrangement services	-	1,001,576	-	1,001,576
Other revenue from contracts with customers	365,843	292,164	-	658,007
Total revenue from contracts with customers	**3,820,273**	**3,123,282**	**155,192**	**7,098,747**

Ameriabank CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

2018	Retail banking AMD'000	Corporate banking AMD'000	Trading and investment banking AMD'000	Total AMD'000
Fee and commission income	2,722,827	1,569,308	219,095	4,511,230
Income from advisory and arrangement services	-	721,322	1,800,617	2,521,939
Other revenue from contracts with customers	166,569	171,340	-	337,909
Total revenue from contracts with customers	**2,889,396**	**2,461,970**	**2,019,712**	**7,371,078**

6 Net interest income

	2019 AMD'000	2018 AMD'000
Interest income calculated using the effective interest method		
Financial assets measured at amortized cost		
Loans and advances to customers	53,157,387	47,053,601
Investment securities measured at amortized cost	3,015,197	3,056,988
Receivables from factoring	939,980	677,225
Amounts receivable under reverse repurchase agreements	538,526	542,952
Receivables from letters of credit	504,202	471,902
Loans and advances to banks	124,304	417,820
Other	38,959	22,237
	58,318,555	**52,242,725**
Financial assets measured at fair value through other comprehensive income		
Investment securities measures at FVOCI	852,706	711,566
Interest income calculated using the effective interest method	**59,171,261**	**52,954,291**
Other interest income		
Investment securities measured at FVTPL	624,945	396,791
Receivables from finance leases	375,741	196,270
Derivative financial assets	188,819	92,814
Other interest income	**1,189,505**	**685,875**
Total interest income	**60,360,766**	**53,640,166**
Interest expense		
Current accounts and deposits from customers	12,166,015	10,669,140
Other borrowed funds and subordinated borrowings	9,976,484	10,895,124
Debt securities issued	3,123,159	2,604,298
Deposits and balances from banks	1,708,196	1,225,204
Lease liabilities	1,294,627	-
Amounts payable under repurchase agreements	558,606	281,181
Payables under letters of credit and issued guarantees	521,002	631,857
Other	14,063	2,291
	29,362,152	**26,309,095**
Net interest income	**30,998,614**	**27,331,071**

7 Fee and commission income

	2019 AMD'000	2018 AMD'000
Plastic card servicing fees	2,602,582	2,051,820
Money transfers	933,286	942,134
Cash withdrawal, account service and distance system services	806,024	890,990
Brokerage services and underwriting	585,077	184,281
Guarantee and letter of credit issuance	267,337	261,087
Settlement operations	167,842	136,278
Other	77,016	44,640
	5,439,164	**4,511,230**

(a) Revenue from contracts with customers

The Bank's revenue from contract with customers mainly comprises fee and commission income and revenue from provision of advisory and arrangement services. Bank' recognises majority of revenue from fees and commission and from advisory and arrangement services at a point in time. Revenue from contracts with customers recognized in the statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 2018 comprised to:

	2019 AMD'000	2018 AMD'000
Fee and commission income	5,439,164	4,511,230
Income from advisory and arrangement services	1,001,576	2,521,939
Other revenue from contracts with customers	658,007	337,909
	7,098,747	**7,371,078**

(b) Contract balances

The following table provides information about receivable from contracts with customers.

	2019 AMD'000	2018 AMD'000
Receivable included in other assets	80,815	30,387

8 Fee and commission expense

	2019 AMD'000	2018 AMD'000
Plastic card maintenance	1,158,619	828,537
Money transfers	228,980	169,092
Guarantee and letter of credit issuance	41,777	55,364
Other	72,004	58,601
	1,501,380	**1,111,594**

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

	2019 AMD'000	2018 AMD'000
Net gain from investment securities at fair value through profit or loss	414,608	244,025
Net (loss)/gain from currency and interest rate derivative instruments	(99,450)	751,552
	315,158	**995,577**

10 Net foreign exchange gain

	2019 AMD'000	2018 AMD'000
Net gain on spot transactions	4,043,700	3,586,028
Net gain/(loss) from revaluation of financial assets and liabilities	533,971	(451,969)
	4,577,671	**3,134,059**

11 Other operating income

	2019 AMD'000	2018 AMD'000
Income from fines and penalties	1,121,772	1,382,383
Income from advisory and arrangement services	1,001,576	2,521,939
Gain from sale of investment securities measured at amortized cost	398,569	-
Net income from sale of repossessed assets	232,127	106,280
Other	425,880	231,629
	3,179,924	**4,242,231**

12 Other operating expenses

	2019 AMD'000	2018 AMD'000
Payment system charges	831,320	626,757
Guarantee payments to Armenian Deposit Guarantee Fund	684,933	485,453
Software maintenance	362,373	341,874
Effect of initial recognition of loans to customers at market rates	280,787	-
Agent fee	209,165	197,039
Fees for terminal usage	109,368	126,706
Collateral registration charges	106,482	53,038
Financial system mediator	78,260	67,411
Encashment	74,842	64,444
Credit register charges	68,789	60,938
Depositary services	35,386	26,848
Cashback and referrals	24,515	35,603
Monitoring services	18,696	21,192
Other	520,974	368,338
	3,405,890	**2,475,641**

13 Net impairment losses on financial instruments

The table below shows the impairment losses on financial instruments recorded in the statement of comprehensive income for the year ended 31 December 2019:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	(19,843)	-	-	(19,843)
Amounts receivable under reverse repurchase agreements	(8)	-	-	(8)
Loans and advances to banks	61,602	-	-	61,602
Loans and advances to customers	1,080,240	1,756,197	4,653,501	7,489,938
Receivables from finance leases	7,599	-	(53,803)	(46,204)
Receivables from factoring	(27,120)	-	-	(27,120)
Receivables from letter of credits	(22,854)	-	-	(22,854)
Investment securities measured at amortised cost	(373,558)	-	-	(373,558)
Investment securities measured at FVOCI	(79,423)	-	-	(79,423)
Other financial assets	(10,541)	258	222,722	212,439
Commitments	(4,000)	(5,613)	(14,328)	(23,941)
Total credit loss expense	**612,094**	**1,750,842**	**4,808,092**	**7,171,028**

The table below shows the impairment losses on financial instruments recorded in the statement of comprehensive income for the year ended 31 December 2018:

AMD'000	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	17,021	-	-	17,021
Amounts receivable under reverse repurchase agreements	7	-	-	7
Loans and advances to banks	(5,651)	-	60,652	55,001
Loans and advances to customers	4,454,462	182,071	4,135,777	8,772,310
Receivables from finance leases	2,486	-	211,682	214,168
Receivables from factoring	24,455	-	-	24,455
Receivables from letter of credits	21,618	(112,660)	-	(91,042)
Investment securities measured at amortised cost	85,437	-	-	85,437
Investment securities measured at FVOCI	72,517	-	-	72,517
Other financial assets	8,024	(2,025)	270,040	276,039
Commitments	(20,546)	(17,082)	(7,320)	(44,948)
Total credit loss expense	**4,659,830**	**50,304**	**4,670,831**	**9,380,965**

14 Other general administrative expenses

	2019 AMD'000	2018 AMD'000
Depreciation and amortization *	2,858,594	1,229,353
Advertising and marketing	899,241	698,705
Other lease expense (2018: operating lease)	472,016	2,204,391
Repairs and maintenance	413,885	319,010
Professional services	263,041	223,635
Loan recovery charges	210,898	114,508
Security	200,941	168,667
Training and education	180,677	104,121
Communications and information services	150,939	130,506
Business trips and representation	128,400	134,270
Charity and sponsorship	124,058	94,191
Electricity and utilities	95,144	103,734
Office supplies	85,938	46,405
Insurance	44,427	36,276
Taxes other than on payroll and income	23,998	24,563
Other	525,225	485,879
	6,677,422	**6,118,214**

• Included in depreciation and amortization for the year ended 31 December 2019 is AMD 1,027,215 thousand related to amortization of right of use asset under IFRS 16 – Leases standard requirements, see Note 22.

15 Income tax expense

	2019 AMD'000	2018 AMD'000
Current tax expense	2,784,667	2,923,474
Adjustments in respect of current income tax of previous year	-	127,794
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	1,069,879	(229,744)
Total income tax expense	**3,854,546**	**2,821,524**

In 2019 the applicable tax rate for current tax is 20% (2018: 20%).

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

	2019 AMD'000	%	2018 AMD'000	%
Profit before tax	15,969,514		13,323,968	
Income tax at the applicable tax rate	(3,193,903)	(20.0)	(2,664,794)	(20.0)
Non-deductible expenses	(754,970)	(4.7)	(37,641)	(0.3)
Tax rate reduction effect *	94,327	0.6	-	-
Prior period income tax correction	-	-	(127,794)	(1.0)
Net gain from revaluation of financial assets and liabilities and net loss on financial instruments at fair value through profit or loss (non-taxable part)	-	-	8,705	0.1
Total income tax expense	**(3,854,546)**	**(24.1)**	**(2,821,524)**	**(21.2)**

*In accordance with the tax decree from 25 June 2019, the new tax code will become effective from 1 January 2020 which reduces the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during the reporting period, the deferred tax balances as at 31 December 2019 were calculated using the applicable tax rate expected at the time of reversal.

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability and net deferred tax asset accordingly as at 31 December 2019 and 2018.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows:

AMD'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Financial instruments at fair value through profit or loss	(36,011)	(34,929)	-	(70,940)
Investment securities at fair value through other comprehensive income	(54,470)	(14,296)	(34,464)	(103,230)
Loans and advances to customers	(179,080)	(1,078,514)	-	(1,257,594)
Other financial instruments at amortised cost and provisions	(18,770)	(119,645)	-	(138,415)
Property and equipment	(51,740)	34,824	-	(16,916)
Right of use asset/Lease liabilities	-	89,699	-	89,699
Other assets	44,296	38,437	-	82,733
Other liabilities	594,242	7,053	-	601,295
Other borrowed funds	(112,569)	7,492	-	(105,077)
Total deferred tax asset/(liability)	**185,898**	**(1,069,879)**	**(34,464)**	**(918,445)**

AMD'000	Balance 1 January 2018	Effect of adoption of IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Financial instruments at fair value through profit or loss	(30,281)	-	(5,730)	-	(36,011)
Investment securities at fair value through other comprehensive income	(84,556)	-	14,503	15,583	(54,470)
Loans and advances to customers	(1,075,288)	792,452	103,756	-	(179,080)
Other financial instruments at amortised cost and provisions	(197,755)	173,222	5,763	-	(18,770)
Property and equipment	(68,334)	-	16,594	-	(51,740)
Other assets	25,243	-	19,053	-	44,296
Other liabilities	448,558	-	145,684	-	594,242
Other borrowed funds	(42,690)	-	(69,879)	-	(112,569)
Total deferred tax asset/ (liability)	**(1,025,103)**	**965,674**	**229,744**	**15,583**	**185,898**

16 Cash and cash equivalents

	2019 AMD'000	2018 AMD'000
Cash on hand	30,542,976	23,812,923
Nostro accounts with the Central Bank of Armenia	192,296,163	108,760,743
Nostro accounts with other banks		
- rated Aa1 to Aa3	15,619,437	-
- rated A1 to A3	3,872,463	2,055,194
- rated from Baa1 to Baa3	4,351,050	8,659,732
- rated from Ba1 to Ba3	591,763	363,521
- not rated	103,187	744,991
Total nostro accounts with other banks	**24,537,900**	**11,823,438**
Total gross cash and cash equivalents	**247,377,039**	**144,397,104**
Credit loss allowance	(23,349)	(43,192)
Total net cash and cash equivalents	**247,353,690**	**144,353,912**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality.

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2019 and 2018.

As at 31 December 2019 the Bank has placement with one bank besides the Central Bank of Armenia (2018: placement with no bank besides the Central Bank of Armenia) whose balances exceeded 10% of the Bank's equity. The gross value of this balance as at 31 December 2019 is AMD 15,619,437 thousand.

Nostro accounts with the Central Bank of Armenia

Nostro accounts with the Central Bank of Armenia are related to settlement activity (see Note 18) and are readily available for withdrawal.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for cash and cash equivalents for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(43,192)	-	-	(43,192)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	43,192	-	-	43,192
New financial assets originated or purchased	(23,349)	-	-	(23,349)
Balance at 31 December 2019	**(23,349)**	**-**	**-**	**(23,349)**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
Balance at 1 January	(26,171)	-	-	(26,171)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	26,171	-	-	26,171
New financial assets originated or purchased	(43,192)	-	-	(43,192)
Balance at 31 December 2019	**(43,192)**	**-**	**-**	**(43,192)**

17 Investment securities and derivative financial assets

(a) Financial instruments measured at fair value through profit or loss

	2019 AMD'000	**2018 AMD'000**
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	5,639,623	3,896,848
Government Eurobonds of the Republic of Armenia	496,024	495,621
Total government bonds	**6,135,647**	**4,392,469**
Corporate bonds of Armenian companies		
- rated from B1 to B3	882,314	1,027,465
- not rated	1,164,084	745,688
Total corporate bonds	**2,046,398**	**1,773,153**
Total debt and other fixed-income instruments held by the Bank	**8,182,045**	**6,165,622**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	-	526,169
Total government bonds	**-**	**526,169**
Total investment securities measured at fair value through profit or loss	**8,182,045**	**6,691,791**
Derivative financial assets		
Interest rate swaps	-	84,237
Currency swaps	73,561	40,982
Total derivative financial assets	**73,561**	**125,219**
Total financial assets measured at fair value through profit or loss	**8,255,606**	**6,817,010**
Derivative financial liabilities		
Currency swaps	35,314	20,621
Total derivative financial assets	**35,314**	**20,621**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through profit or loss.

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

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	7,037,868	4,645,203
Government Eurobonds of the Republic of Armenia	-	3,019,309
Government Eurobonds of other countries	-	1,273,589
Total government bonds	**7,037,868**	**8,938,101**
Corporate bonds of Armenian companies		
- rated from Ba1 to Ba3	204,154	-
- rated from B1 to B3	90,458	1,766,415
- not rated	1,815,190	758,467
Corporate bonds of foreign companies		
- rated from B1 to B3	1,631,420	-
Total corporate bonds	**3,741,222**	**2,524,882**
Total debt and other fixed-income instruments	**10,779,090**	**11,462,983**
Equity investments		
Corporate shares	69,895	139,145
Total investment securities measured at fair value through other comprehensive income	**10,848,985**	**11,602,128**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at fair value through other comprehensive income.

Investment securities measured at fair value through other comprehensive income are fully in Stage 1 as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at fair value through other comprehensive income for the years ended 31 December 2019 and 2018. The loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities measured at fair value through other comprehensive income is their fair value.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	(144,460)	-	-	(144,460)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	70,802	-	-	70,802
Assets repaid	1,854	-	-	1,854
Assets sold	101,135	-	-	101,135
New assets originated or purchased	(94,368)	-	-	(94,368)
Balance at 31 December	**(65,037)**	**-**	**-**	**(65,037)**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at fair value through other comprehensive income				
Balance at 1 January	(71,943)	-	-	(71,943)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(28,375)	-	-	(28,375)
Assets repaid	2,396	-	-	2,396
Assets sold	38,289	-	-	38,289
New assets originated or purchased	(84,827)	-	-	(84,827)
Balance at 31 December	**(144,460)**	**-**	**-**	**(144,460)**

(i) Non-quoted equity investment securities designated at fair value through other comprehensive income

Included in financial assets at fair value through other comprehensive income are non-quoted equity securities as follows:

Name	Country of incorporation	Main activity	% controlled 2019	% controlled 2018	2019 AMD'000	2018 AMD'000
Artsakh bank CJSC	Republic of Armenia	Banking	-	0.3%	-	69,250
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
SWIFT	Belgium	Money transfer	0.00%	0.00%	33,466	33,466
					69,895	**139,145**

As at 31 December 2019 investments primarily include mandatory shares in exchanges and clearing houses. The Bank's management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2019 and 2018.

(c) Investment securities measured at amortized cost

	2019 AMD'000	2018 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government bonds of the Republic of Armenia	30,880,481	8,247,384
Government Eurobonds of the Republic of Armenia	2,542,987	13,480,810
Total government bonds	**33,423,468**	**21,728,194**
Corporate bonds of Armenian companies		
- rated from B1 to B3	152,571	484,608
- not rated	-	302,996
Total corporate bonds	**152,571**	**787,604**
Total debt and other fixed-income instruments held by the Bank	**33,576,039**	**22,515,798**
Credit loss allowance	(65,149)	(246,681)
Total net investment securities measured at amortized cost held by the Bank	**33,510,890**	**22,269,117**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government Eurobonds of the Republic of Armenia	-	16,748,372
Total government bonds	**-**	**16,748,372**
Total gross investment securities measured at amortized cost pledged under sale and repurchase agreements	**-**	**16,748,372**
Credit loss allowance	-	(192,026)
Total net investment securities measured at amortized cost pledged under sale and repurchase agreements	**-**	**16,556,346**
Total net debt securities at amortized cost	**33,510,890**	**38,825,463**

The Bank uses credit ratings per Moody's rating agency in disclosing credit quality of investment securities measured at amortized cost.

In August 2019 Moody's rating agency upgraded the Government of Armenia's local and foreign currency long-term issuer and foreign currency senior unsecured debt ratings to Ba3 from B1. The outlook has been changed to stable from positive. Rating upgrade resulted in decrease of risk of default of government securities of the Republic of Armenia as at 31 December 2019.

Investment securities measured at amortised cost are fully in Stage 1 as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities measured at amortized cost for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(438,707)	-	-	(438,707)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	310,003	-	-	310,003
Assets repaid	146,524	-	-	146,524
Assets sold	203,662	-	-	203,662
New assets originated or purchased	(286,631)	-	-	(286,631)
Balance at 31 December	**(65,149)**	**-**	**-**	**(65,149)**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at 1 January	(353,270)	-	-	(353,270)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(115,355)	-	-	(115,355)
Assets repaid	109,625	-	-	109,625
Assets sold	26,628	-	-	26,628
New assets originated or purchased	(106,335)	-	-	(106,335)
Balance at 31 December	**(438,707)**	**-**	**-**	**(438,707)**

18 Loans and advances to banks

	2019 AMD'000	2018 AMD'000
Due from the Central Bank of Armenia		
Credit card settlement deposit with the Central Bank of Armenia	2,093,500	1,691,000
Deposit with the Central Bank of Armenia, obligatory reserves	23,303,790	-
Loans and deposits with other banks		
Armenian banks	1,684,372	1,838,147
OECD banks	-	1,483,537
Total loans and deposits with other banks	**1,684,372**	**3,321,684**
Total gross loans and advances to banks	**27,081,662**	**5,012,684**
Credit loss allowance	(67,022)	(66,072)
Total net loans and advances to banks	**27,014,640**	**4,946,612**

(a) Balances with the Central Bank of Armenia

The credit card settlement deposit with the Central Bank of Armenia is a non-interest bearing deposit calculated in accordance with regulations issued by the Central Bank of Armenia and withdrawability of which is restricted.

Banks are required to maintain cash deposit (obligatory reserve) with the Central Bank of Armenia for attracted funds. For funds attracted in AMD the obligatory reserve is 2% and is maintained fully in AMD. For funds attracted in foreign currencies, the reserve is 18% of the attracted funds, of which 12% is maintained in AMD and 6% in the respective currency of funds attracted. The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. Obligatory reserves maintained in AMD are classified as cash and cash equivalents (see Note 16) as these funds are readily available for withdrawal.

For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. These reserves are not considered cash and cash equivalents and are included in loans and advances to banks. The requirement for obligatory daily minimum reserve came into force in 2019. As of 31 December 2019, included in deposits with the Central Bank of Armenia is the amount of obligatory reserve of AMD 23,303,790 thousand for the amounts attracted in foreign currency (2018: nil).

(b) Concentration of loans and advances to banks

As at 31 December 2019 the Bank has no counterparty except for the Central Bank of Armenia (2018: no bank), whose balances exceed 10% of equity.

No loans and advances to banks are past due or impaired and are fully in Stage 1 as at 31 December 2019. No loans and advances to banks are past due or impaired and are fully in Stage 1 as at 31 December 2018 except for impaired loan to one bank in the amount of AMD 60,652 thousand classified to Stage 3. All the loans and advance to banks are measured at amortized cost as at 31 December 2019 and 2018.

The following tables show reconciliations from the opening to the closing balances of the loss

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortized cost				
Balance at 1 January	5,420	-	60,652	66,072
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(5,420)	-	-	(5,420)
Amounts written off	-	-	(58,975)	(58,975)
Foreign currency adjustments	-	-	(1,677)	(1,677)
New assets originated or purchased	67,022	-	-	67,022
Balance at 31 December	**67,022**	**-**	**-**	**67,022**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortized cost				
Balance at 1 January	11,071	-	-	11,071
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid	(11,071)	-	-	(11,071)
Reclassification from cash and cash equivalents	-	-	60,652	60,652
New assets originated or purchased	5,420	-	-	5,420
Balance at 31 December	**5,420**	**-**	**60,652**	**66,072**

19 Amounts receivable under reverse repurchase agreements

	2019 AMD'000	2018 AMD'000
Amounts receivable from small and medium Armenian financial institutions, not rated	12,934,713	3,977,218
Amounts receivable from medium size Armenian banks, not rated	10,614,848	2,769,206
Total gross amounts receivable under reverse repurchase agreements	**23,549,561**	**6,746,424**
Credit loss allowance	(2)	(10)
Total net amounts receivable under reverse repurchase agreements	**23,549,559**	**6,746,414**

As at 31 December 2019 and 2018 the Bank has no banks and other financial institutions, whose balances exceeded 10% of equity.

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks and financial institutions. All of them are categorized under Stage 1 and are measured at amortised cost as at 31 December 2019 and 2018.

(a) Collateral accepted as security for assets

As at 31 December 2019 amounts receivable under reverse repurchase agreements were collateralized by government securities with fair value of AMD 25,415,586 thousand (2018: 7,148,759 thousand).

20 Loans and advances to customers

	Notes	2019 AMD'000	2018 AMD'000
Loans to legal entities	20 (a)	426,653,712	440,285,372
Loans to individuals	20 (a)	151,235,570	102,282,025
Receivables from factoring	20 (b)	10,707,784	10,720,377
Receivables from letter of credit	20 (c)	5,060,739	8,305,930
Total gross loans and advances to customers at amortised cost		**593,657,805**	**561,593,704**
Receivables from finance lease	20 (d)	5,906,852	2,301,830
Credit loss allowance		(13,822,758)	(15,952,351)
Total net loans and advances to customers		**585,741,899**	**547,943,183**

(a) Loans to legal entities and individuals

	2019 AMD'000	2018 AMD'000
Loans to legal entities		
Loans to large companies	322,130,999	346,631,927
Loans to small and medium size companies	104,522,713	93,653,445
Total loans to legal entities	**426,653,712**	**440,285,372**
Loans to individuals		
Mortgage loans	78,403,125	44,827,381
Other consumer loans to individuals	72,832,445	57,454,644
Total loans to individuals	**151,235,570**	**102,282,025**
Total gross loans to legal entities and individuals	**577,889,282**	**542,567,397**
Credit loss allowance	(13,554,046)	(15,603,207)
Total net loans to legal entities and individuals	**564,335,236**	**526,964,190**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to legal entities for the years ended 31 December 2019 and 2018.

		2019		
AMD'000		**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	406,904,273	18,940,841	14,440,258	440,285,372
New assets originated or purchased	149,704,032	-	-	149,704,032
Assets repaid	(148,454,597)	(5,792,401)	(2,272,602)	(156,519,600)
Transfer to Stage 1	479,943	(479,943)	-	-
Transfer to Stage 2	(13,426,278)	13,426,278	-	-
Transfer to Stage 3	(334,326)	(6,933,868)	7,268,194	-
Recoveries	-	-	355,367	355,367
Amounts written off	(1,466,802)	-	(5,704,657)	(7,171,459)
Balance at 31 December	**393,406,245**	**19,160,907**	**14,086,560**	**426,653,712**

		2018		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	379,798,966	22,426,969	14,489,190	416,715,125
New assets originated or purchased	188,072,142	-	-	188,072,142
Assets repaid	(142,830,985)	(10,431,544)	(3,616,256)	(156,878,785)
Transfer to Stage 1	2,364	(2,364)	-	-
Transfer to Stage 2	(15,396,444)	15,396,444	-	-
Transfer to Stage 3	(2,741,770)	(8,448,664)	11,190,434	-
Recoveries	-	-	323,055	323,055
Amounts written off	-	-	(7,946,165)	(7,946,165)
Balance at 31 December	**406,904,273**	**18,940,841**	**14,440,258**	**440,285,372**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to legal entities for the years ended 31 December 2019 and 2018.

		2019		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to legal entities				
Balance at 1 January	3,832,635	2,749,302	6,516,837	13,098,774
New assets originated or purchased	419,171	-	-	419,171
Assets repaid	(1,039,182)	(838,870)	(1,501,091)	(3,379,143)
Transfer to Stage 1	1,377	(1,377)	-	-
Transfer to Stage 2	(1,103,102)	1,103,102	-	-
Transfer to Stage 3	(126,067)	(1,513,111)	1,639,178	-
Unwinding of discount	-	-	(40,619)	(40,619)
Changes to models and inputs used for ECL calculations and impact of transfer between the stages	651,340	2,500,665	3,941,487	7,093,492
Recoveries	-	-	355,367	355,367
Amounts written off	(1,466,802)	-	(5,704,657)	(7,171,459)
Balance at 31 December	**1,169,370**	**3,999,711**	**5,206,502**	**10,375,583**

		2018		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Balance at 1 January	2,938,873	4,113,375	7,186,602	14,238,850
New assets originated or purchased	3,899,001	-	-	3,899,001
Assets repaid	(645,996)	(955,677)	(1,136,512)	(2,738,185)
Transfer to Stage 1	516	(516)	-	-
Transfer to Stage 2	(969,110)	969,110	-	-
Transfer to Stage 3	(810,516)	(2,514,209)	3,324,725	-
Unwinding of discount	-	-	(131,078)	(131,078)
Changes to models and inputs used for ECL calculations and impact of transfer between the stages	(580,133)	1,137,219	4,896,210	5,453,296
Recoveries	-	-	323,055	323,055
Amounts written off	-	-	(7,946,165)	(7,946,165)
Balance at 31 December	**3,832,635**	**2,749,302**	**6,516,837**	**13,098,774**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of loans to individuals for the years ended 31 December 2019 and 2018.

		2019		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Balance at 1 January	97,861,470	477,659	3,942,896	102,282,025
New assets originated or purchased	115,984,020	-	-	115,984,020
Assets repaid	(63,438,697)	(452,970)	(456,420)	(64,348,087)
Transfer to Stage 1	16,116	(16,116)	-	-
Transfer to Stage 2	(813,891)	813,891	-	-
Transfer to Stage 3	(2,009,295)	(5,720)	2,015,015	-
Recoveries	-	-	671,202	671,202
Amounts written off	-	-	(3,353,590)	(3,353,590)
Balance at 31 December	**147,599,723**	**816,744**	**2,819,103**	**151,235,570**

		2018		
AMD'000	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Balance at 1 January	58,546,213	271,405	3,072,191	61,889,809
New assets originated or purchased	60,128,910	-	-	60,128,910
Assets repaid	(18,076,429)	(37,418)	(1,172,672)	(19,286,519)
Transfer to Stage 1	11,871	(11,871)	-	-
Transfer to Stage 2	(477,659)	477,659	-	-
Transfer to Stage 3	(2,271,436)	(222,116)	2,493,552	-
Recoveries	-	-	347,174	347,174
Amounts written off	-	-	(797,349)	(797,349)
Balance at 31 December	**97,861,470**	**477,659**	**3,942,896**	**102,282,025**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for loans to individuals for the years ended 31 December 2019 and 2018.

		2019		
AMD'000	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Balance at 1 January	1,038,623	127,091	1,338,719	2,504,433
New assets originated or purchased	1,565,037	-	-	1,565,037
Assets repaid	(387,728)	(7,083)	(289,367)	(684,178)
Transfer to Stage 1	11,225	(5,526)	(5,699)	-
Transfer to Stage 2	(114,647)	114,647	-	-
Transfer to Stage 3	(576,341)	(113,563)	689,904	-
Impact on period end ECL of exposures transferred between stages during the period	(10,115)	101,485	778,768	870,138
Unwinding of discount	-	-	(73,513)	(73,513)
Changes to models and inputs used for ECL calculations	(118,283)	-	1,797,217	1,678,934
Recoveries	-	-	671,202	671,202
Amounts written off	-	-	(3,353,590)	(3,353,590)
Balance at 31 December	**1,407,771**	**217,051**	**1,553,641**	**3,178,463**

		2018		
AMD'000	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Balance at 1 January	204,014	44,149	769,452	1,017,615
New assets originated or purchased	1,827,045	-	-	1,827,045
Assets repaid	(44,243)	(731)	(350,139)	(395,113)
Transfer to Stage 1	539	(539)	-	-
Transfer to Stage 2	(119,926)	119,926	-	-
Transfer to Stage 3	(827,594)	(36,974)	864,568	-
Impact on period end ECL of exposures transferred between stages during the period	(188)	1,260	189,400	190,472
Unwinding of discount	-	-	(220,575)	(220,575)
Changes to models and inputs used for ECL calculations	(1,024)	-	536,188	535,164
Recoveries	-	-	347,174	347,174
Amounts written off	-	-	(797,349)	(797,349)
Balance at 31 December	**1,038,623**	**127,091**	**1,338,719**	**2,504,433**

(i) Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2019:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large corporate customers				
- not overdue	294,555,716	16,707,172	2,918,679	314,181,567
- overdue less than 30 days	-	1,085,331	-	1,085,331
- overdue more than 90 days	-	-	6,864,101	6,864,101
Total gross loans to large corporate customers	**294,555,716**	**17,792,503**	**9,782,780**	**322,130,999**
Credit loss allowance	(829,702)	(3,977,372)	(3,675,775)	(8,482,849)
Total net loans to large corporate customers	**293,726,014**	**13,815,131**	**6,107,005**	**313,648,150**
Loans to small and medium size companies				
- not overdue	98,606,100	1,338,607	427,982	100,372,689
- overdue less than 30 days	244,429	-	73,462	317,891
- overdue more than 30 days and less than 90 days	-	29,797	188,438	218,235
- overdue more than 90 days	-	-	3,613,898	3,613,898
Total gross loans to small and medium size companies	**98,850,529**	**1,368,404**	**4,303,780**	**104,522,713**
Credit loss allowance	(339,668)	(22,339)	(1,530,727)	(1,892,734)
Total net small and medium size companies	**98,510,861**	**1,346,065**	**2,773,053**	**102,629,979**
Total gross loans to corporate customers	**393,406,245**	**19,160,907**	**14,086,560**	**426,653,712**
Total net loans to corporate customers	**392,236,875**	**15,161,196**	**8,880,058**	**416,278,129**
Mortgage loans				
- not overdue	77,690,211	6,830	69,967	77,767,008
- overdue less than 30 days	79,102	7,331	-	86,433
- overdue more than 30 days and less than 90 days	-	103,527	28,239	131,766
- overdue more than 90 days	-	-	417,918	417,918
Total gross mortgage loans	**77,769,313**	**117,688**	**516,124**	**78,403,125**
Credit loss allowance	(28,558)	(4,846)	(196,218)	(229,622)
Total net mortgage loans	**77,740,755**	**112,842**	**319,906**	**78,173,503**
Other consumer loans to retail customers*				
- not overdue	69,358,576	222,073	360,333	69,940,982
- overdue less than 30 days	471,834	55,780	263,337	790,951
- overdue more than 30 days and less than 90 days	-	421,203	207,859	629,062
- overdue more than 90 days	-	-	1,471,450	1,471,450
Total gross other consumer loans to retail customers	**69,830,410**	**699,056**	**2,302,979**	**72,832,445**
Credit loss allowance	(1,379,213)	(212,205)	(1,357,423)	(2,948,841)
Total net other consumer loans to retail customers	**68,451,197**	**486,851**	**945,556**	**69,883,604**
Total gross loans to retail customers	**147,599,723**	**816,744**	**2,819,103**	**151,235,570**
Total net loans to retail customers	**146,191,952**	**599,693**	**1,265,462**	**148,057,107**
Total gross loans to customers	**541,005,968**	**19,977,651**	**16,905,663**	**577,889,282**
Total net loans to customers	**538,428,827**	**15,760,889**	**10,145,520**	**564,335,236**

*Other consumer loans to retail customers mainly include credit cards and overdrafts to retail customers, online consumer loans and loans to retail customers for credit purchases.

The following table provides information on the credit quality loans to legal entities and individuals as at 31 December 2018:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Loans to large corporate customers				
- not overdue	322,257,991	15,295,351	5,703,381	343,256,723
- overdue less than 30 days	-	-	1,814,251	1,814,251
- overdue more than 90 days	-	-	1,560,953	1,560,953
Total gross loans to large corporate customers	**322,257,991**		**9,078,585**	**346,631,927**
Credit loss allowance	(3,226,121)	(2,220,152)	(4,524,892)	(9,971,165)
Total net loans to large corporate customers	**319,031,870**	**13,075,199**	**4,553,693**	**336,660,762**
Loans to small and medium size companies				
- not overdue	84,638,728	3,641,269	573,278	88,853,275
- overdue less than 30 days	7,554	-	-	7,554
- overdue more than 30 days and less than 90 days	-	4,221	586,159	590,380
- overdue more than 90 days	-	-	4,202,236	4,202,236
Total gross loans to small and medium size companies	**84,646,282**	**3,645,490**	**5,361,673**	**93,653,445**
Credit loss allowance	(606,514)	(529,150)	(1,991,945)	(3,127,609)
Total net small and medium size companies	**84,039,768**	**3,116,340**	**3,369,728**	**90,525,836**
Total gross loans to corporate customers	**406,904,273**	**18,940,841**	**14,440,258**	**440,285,372**
Total net loans to corporate customers	**403,071,638**	**16,191,539**	**7,923,421**	**427,186,598**
Mortgage loans				
- not overdue	44,292,393	-	22,865	44,315,258
- overdue less than 30 days	55,668	2,825	-	58,493
- overdue more than 90 days	-	-	453,630	453,630
Total gross mortgage loans	**44,348,061**	**2,825**	**476,495**	**44,827,381**
Credit loss allowance	(120,745)	(219)	(170,623)	(291,587)
Total net mortgage loans	**44,227,316**	**2,606**	**305,872**	**44,535,794**
Other consumer loans to retail customers				
- not overdue	53,155,284	82,158	304,257	53,541,699
- overdue less than 30 days	358,125	24,788	107,934	490,847
- overdue more than 30 days and less than 90 days	-	367,888	29,543	397,431
- overdue more than 90 days	-	-	3,024,667	3,024,667
Total gross other consumer loans to retail customers	**53,513,409**	**474,834**	**3,466,401**	**57,454,644**
Credit loss allowance	(917,878)	(126,872)	(1,168,096)	(2,212,846)
Total net other consumer loans to retail customers	**52,595,531**	**347,962**	**2,298,305**	**55,241,798**
Total gross loans to retail customers	**97,861,470**	**477,659**	**3,942,896**	**102,282,025**
Total net loans to retail customers	**96,822,847**	**350,568**	**2,604,177**	**99,777,592**
Total gross loans to customers	**504,765,743**	**19,418,500**	**18,383,154**	**542,567,397**
Total net loans to customers	**499,894,485**	**16,542,107**	**10,527,598**	**526,964,190**

(ii) Analysis of collateral and other credit enhancements

Loans to legal entities

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment, inventory and cash collateral.
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

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

Loans to individuals

Mortgage loans are secured by the underlying housing real estate.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Auto loans are secured by the underlying cars. As of 31 December 2019 consumer loans are secured by real estate, movable property, salary, cash and individual guarantees.

The following tables provide information on the collateral pledged for the loans to customers classified at Stage 3 as of 31 December 2019 and 2018.

31 December 2019	**Gross carrying amount**	**Estimated market value of collateral**					**Net exposure**	**Associated ECL**
		Real estate	**Vehicles**	**Other**	**Surplus**	**Total collateral**		
Loans to legal entities	14,086,560	9,884,809	472,493	1,053,315	(503,854)	10,906,763	3,179,797	5,206,502
Mortgage loans	516,124	471,901	-	-	(108,953)	362,948	153,176	196,218
Other consumer loans	2,302,979	917,339	158,963	33,600	(409,049)	700,853	1,602,126	1,357,423
Total	**16,905,663**	**11,274,049**	**631,456**	**1,086,915**	**(1,021,856)**	**11,970,564**	**4,935,099**	**6,760,143**

31 December 2018	**Gross carrying amount**	**Estimated market value of collateral**					**Net exposure**	**Associated ECL**
		Real estate	**Vehicles**	**Other**	**Surplus**	**Total collateral**		
Loans to legal entities	14,440,258	6,323,371	434,900	3,311,887	(570,944)	9,499,214	4,941,044	6,516,836
Mortgage loans	476,495	457,883	-	-	(80,883)	377,000	99,495	170,623
Other consumer loans	3,467,106	2,533,102	8,900	13,700	(689,305)	1,866,397	1,600,709	1,168,543
Total	**18,383,859**	**9,314,356**	**443,800**	**3,325,587**	**(1,341,132)**	**11,742,611**	**6,641,248**	**7,856,002**

As at 31 December 2019, the balance of cash-covered loans for which no impairment for allowance was created because of the collateral, amounted to AMD 1,977,340 thousand (2018: 11,001,416 thousand).

Repossessed collateral

During the year ended 31 December 2019, the Bank obtained certain assets by taking possession of collateral for loans to customers with a carrying amount of AMD 1,685,144 thousand (2018: AMD 1,898,495 thousand). Part of the repossessed collateral in the amount of AMD 1,255,565 thousand was sold during the year ended 31 December 2019 (2018: AMD 600,405 thousand). As at 31 December 2019 and 2018, the repossessed collateral comprises:

	2019 AMD'000	2018 AMD'000
Real estate	3,117,737	2,680,912
Other	89,467	96,711
Write down to net realizable value	(178,749)	(148,964)
Total repossessed collateral	**3,028,455**	**2,628,659**

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

(iii) Industry and geographical analysis of the loans to legal entities and individuals

Loans to customers were issued to finance in the following economic sectors:

	2019 AMD'000	2018 AMD'000
Wholesale trade	92,693,412	97,912,612
Mining/metallurgy	60,432,117	61,847,784
Construction	39,223,197	23,371,992
Hotel service	34,366,797	37,495,210
Retail trade	33,312,917	28,884,100
Food and beverage	32,508,253	23,692,826
Energy	30,213,023	21,980,801
Transportation	27,187,452	28,449,596
Agriculture, forestry and timber	19,177,522	18,570,577
Real estate	16,645,697	12,375,233
Manufacturing	16,023,886	7,483,143
Communication services	8,294,421	20,615,886
Finance and investment	6,144,886	43,073,908
Other	10,430,132	14,531,704
Loans to individuals	151,235,570	102,282,025
	577,889,282	**542,567,397**
Credit loss allowance	(13,554,046)	(15,603,207)
	564,335,236	**526,964,190**

The geographical concentration of Bank's loans to legal entities (net loans) is set out below:

	2019 AMD'000	2018 AMD'000
Armenia	372,080,229	351,974,113
OECD and EU	24,817,189	35,463,833
Other foreign countries	19,380,711	39,748,652
	416,278,129	**427,186,598**

(iv) Significant credit exposures

As at 31 December 2019 the Bank has eight borrowers or groups of connected borrowers (2018: eleven), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans (net of cash collateral received) as at 31 December 2019 is AMD 100,346,776 thousand (2018: AMD 124,491,863 thousand).

(v) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(b) Receivables from factoring

	2019 AMD'000	2018 AMD'000
Receivables from factoring	10,707,784	10,720,377
Credit loss allowance	(7,012)	(34,132)
	10,700,772	**10,686,245**

As at 31 December 2019 the Bank has no customers whose balances exceed 10% of the Bank's equity (2018: one customer). The gross value of the exposure to this customer as at 31 December 2018 is AMD 9,642,384 thousand.

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from factoring for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	10,720,377	-	-	10,720,377
New assets originated or purchased	10,672,728	-	-	10,672,728
Assets repaid	(10,685,321)	-	-	(10,685,321)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**10,707,784**	**-**	**-**	**10,707,784**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	6,752,241	-	-	6,752,241
New assets originated or purchased	10,720,378	-	-	10,720,378
Assets repaid	(6,752,242)	-	-	(6,752,242)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**10,720,377**	**-**	**-**	**10,720,377**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from factoring for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	34,132	-	-	34,132
New assets originated or purchased	6,998	-	-	6,998
Assets repaid	(34,118)	-	-	(34,118)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**7,012**	**-**	**-**	**7,012**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from factoring				
Balance at 1 January	9,677	-	-	9,677
New assets originated or purchased	34,128	-	-	34,128
Assets repaid	(9,673)	-	-	(9,673)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**34,132**	**-**	**-**	**34,132**

Receivables from factoring are secured by real estate, equipment and vehicles.

(c) Receivables from letters of credit

	2019 AMD'000	**2018 AMD'000**
Receivables from letters of credit from legal entities	5,060,739	8,305,930
Credit loss allowance	(14,537)	(37,391)
	5,046,202	**8,268,539**

As at 31 December 2019 the Bank has no customers (2018: none), whose balances exceed 10% of the Bank's equity.

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from letters of credit for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	8,305,930	-	-	8,305,930
New assets originated or purchased	2,752,132	-	-	2,752,132
Assets repaid	(5,997,323)	-	-	(5,997,323)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**5,060,739**	**-**	**-**	**5,060,739**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	3,508,851	-	620,897	4,129,748
New assets originated or purchased	7,492,016	-	-	7,492,016
Assets repaid	(2,694,937)	-	(620,897)	(3,315,834)
Transfer to Stage 1	-	-	-	
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**8,305,930**	**-**	**-**	**8,305,930**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from letters of credit for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	37,391	-	-	37,391
New assets originated or purchased	7,806	-	-	7,806
Assets repaid	(30,660)	-	-	(30,660)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance at 31 December	**14,537**	**-**	**-**	**14,537**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from letters of credit				
Balance at 1 January	15,773	-	112,660	128,433
New assets originated or purchased	33,057	-	-	33,057
Assets repaid	(8,716)	-	(112,660)	(121,376)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(2,723)	-	-	(2,723)
Balance at 31 December	**37,391**	**-**	**-**	**37,391**

(d) Receivables from finance leases

	2019 AMD'000	2018 AMD'000
Gross investment in finance leases receivable		
Less than one year	1,620,206	609,931
Between one and five years	1,417,781	1,412,864
More than five years	4,345,955	871,025
	7,383,942	**2,893,820**
Unearned finance income	(1,477,090)	(591,990)
Gross investment in finance lease receivables	**5,906,852**	**2,301,830**
Impairment allowance	(247,162)	(277,625)
Net investment in finance leases	**5,659,690**	**2,024,205**
The net investment in finance leases comprises		
Less than one year	1,241,865	534,622
Between one and five years	1,086,710	1,002,820
More than five years	3,331,115	486,763
	5,659,690	**2,024,205**

The following tables show reconciliations from the opening to the closing balances of the gross carrying values of receivables from finance leases for the years ended 31 December 2019 and 2018.

		2019		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	1,863,354	-	438,476	2,301,830
New assets originated or purchased	4,140,682	-	-	4,140,682
Assets repaid	(394,914)	-	(151,428)	(546,342)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(31,343)	-	31,343	-
Recoveries	-	-	10,682	10,682
Balance at 31 December	**5,577,779**	**-**	**329,073**	**5,906,852**

		2018		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	1,065,210	86,601	607,659	1,759,470
New assets originated or purchased	1,403,082	-	-	1,403,082
Assets repaid	(313,933)	-	(276,131)	(590,064)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(291,005)	(86,601)	377,606	-
Recoveries	-	-	6,559	6,559
Amounts written off	-	-	(277,217)	(277,217)
Balance at 31 December	**1,863,354**	**-**	**438,476**	**2,301,830**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for receivables from finance leases for the years ended 31 December 2019 and 2018.

		2019		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	12,064	-	265,561	277,625
New assets originated or purchased	11,601	-	-	11,601
Assets repaid	(4,002)	-	(10,682)	(14,684)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(3,917)	-	3,917	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	(43,121)	(43,121)
Unwinding of discount	-	-	5,059	5,059
Recoveries	-	-	10,682	10,682
Balance at 31 December	**15,746**	**-**	**231,416**	**247,162**

		2018		
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Receivables from finance lease				
Balance at 1 January	9,646	15,887	308,582	334,115
New assets originated or purchased	7,999	-	-	7,999
Assets repaid	(1,835)	-	(6,559)	(8,394)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(68)	(15,887)	15,955	-
Impact on period end ECL of exposures transferred between stages during the period	(3,678)	-	-	(3,678)
Unwinding of discount	-	-	218,241	218,241
Recoveries	-	-	6,559	6,559
Amounts written off	-	-	(277,217)	(277,217)
Balance at 31 December	**12,064**	**-**	**265,561**	**277,625**

(i) Quality analysis of finance leases

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2019:

	Stage 1	**Stage 2 AMD'000**	**Stage 3**	**Total AMD'000**
Receivables from finance leases				
- not overdue	5,577,779	-	-	5,577,779
- overdue less than 30 days	-	-	31,344	31,344
- overdue more than 90 days	-	-	297,729	297,729
Total gross receivables from finance leases	**5,577,779**	**-**	**329,073**	**5,906,852**
Credit loss allowance	(15,746)	-	(231,416)	(247,162)
Total net receivables from finance leases	**5,562,033**	**-**	**97,657**	**5,659,690**

The following table provides information on the credit quality of receivables from finance leases as at 31 December 2018:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total AMD'000
Receivables from finance leases				
- not overdue	1,863,354	-	-	1,863,354
- overdue more than 90 days	-	-	438,476	438,476
Total gross finance lease receivables	**1,863,354**	**-**	**438,476**	**2,301,830**
Credit loss allowance	(12,064)	-	(265,561)	(277,625)
Total net finance lease receivables	**1,851,290**	**-**	**172,915**	**2,024,205**

(ii) Concentration of receivables from finance leases

As at 31 December 2019 the Bank has no customers whose balances exceed 10% of the Bank's equity (2018: nil).

(iii) Analysis of collateral

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as of 31 December 2019:

	Gross carrying amount	Estimated market value of collateral					Net exposure	Associated ECL
		Real estate	Vehicles	Other	Surplus	Total collateral		
31 December 2019								
Finance lease	329,072	-	126,500	-	-	126,500		231,416
Total	**329,072**	**-**	**126,500**	**-**	**-**	**126,500**	**202,572**	**231,416**

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at Stage 3 as of 31 December 2018:

	Gross carrying amount	Estimated market value of collateral					Net exposure	Associated ECL
		Real estate	Vehicles	Other	Surplus	Total collateral		
31 December 2018								
Finance lease	438,476	10,600	224,400	-	-	235,000	203,476	265,561
Total	**438,476**	**10,600**	**224,400**	**-**	**-**	**235,000**	**203,476**	**265,561**

21 Property, equipment and intangible assets

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2019	4,531,055	6,267,277	2,321,987	298,130	2,570,230	15,988,679
Additions	279,476	1,448,953	232,688	30,271	856,192	2,847,580
Disposals/write-offs	(51,169)	(72,702)	(48,649)	(24,671)	(274,722)	(471,913)
Balance at 31 December 2019	**4,759,362**	**7,643,528**	**2,506,026**	**303,730**	**3,151,700**	**18,364,346**
Depreciation and amortization						
Balance at 1 January 2019	1,278,411	2,847,926	458,661	98,710	1,064,634	5,748,342
Depreciation and amortization for the year	318,194	807,793	187,465	38,110	479,817	1,831,379
Disposals/write-offs	(51,169)	(39,117)	(40,641)	(22,391)	(224,451)	(377,769)
Balance at 31 December 2019	**1,545,436**	**3,616,602**	**605,485**	**114,429**	**1,320,000**	**7,201,952**
Carrying amount						
At 31 December 2019	**3,213,926**	**4,026,926**	**1,900,541**	**189,301**	**1,831,700**	**11,162,394**

AMD'000	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2018	3,382,399	4,507,730	1,538,154	205,511	2,478,033	12,111,827
Additions	1,261,184	1,785,997	835,103	92,619	373,423	4,348,326
Disposals/write-offs	(112,528)	(26,450)	(51,270)	-	(281,226)	(471,474)
Balance at 31 December 2018	**4,531,055**	**6,267,277**	**2,321,987**	**298,130**	**2,570,230**	**15,988,679**
Depreciation and amortization						
Balance at 1 January 2018	1,134,931	2,351,831	397,295	74,444	1,026,410	4,984,911
Depreciation and amortization for the year	256,008	519,857	109,772	24,266	319,450	1,229,353
Disposals/write-offs	(112,528)	(23,762)	(48,406)	-	(281,226)	(465,922)
Balance at 31 December 2018	**1,278,411**	**2,847,926**	**458,661**	**98,710**	**1,064,634**	**5,748,342**
Carrying amount						
At 31 December 2018	**3,252,644**	**3,419,351**	**1,863,326**	**199,420**	**1,505,596**	**10,240,337**

22 Leases

The Bank leases assets such as head office, branch offices and other spaces. The lease of head office, branch office and other spaces typically run for a period of 10 to 20 years.

Information about leases for which the Bank is a lessee is presented below:

(a) Right of use asset

	2019 AMD'000
Balance at 1 January	10,984,619
Additions to right of use assets	74,839
Depreciation charge for the period	(1,027,215)
Lease contract modifications and derecognitions	1,202,876
Balance at 31 December	**11,235,119**

(b) Lease liability

	2019 AMD'000
Less than one year	1,826,982
One to two years	1,806,574
Two to five years	4,841,814
More than five years	17,548,888
Total undiscounted lease payable	**26,024,258**
Unearned finance cost	(14,651,001)
Lease liability	**11,373,257**

(c) Amounts recognized in profit or loss

	2019 AMD'000
Depreciation of right of use asset	1,027,215
Interest on lease liabilities	1,294,627

(d) Amounts recognized in statement of cash flows

	2019 AMD'000
Total cash outflow for leases	
Payment of lease liabilities	1,444,183

23 Other assets

	2019 AMD'000	2018 AMD'000
Receivables from unsettled transactions	2,043,477	2,119,304
Restricted accounts with clearing houses	569,931	447,384
Brokerage accounts	373,512	244,954
Credit loss allowance	(42,495)	(18,498)
Total other financial assets at amortised cost	**2,944,425**	**2,793,144**
Prepayments to suppliers	2,299,207	1,880,690
Standard bullions of precious metals	863,805	473,701
Inventories	188,858	145,357
Other	83,685	164,719
Total other non-financial assets	**3,435,555**	**2,664,467**
Total other assets	**6,379,980**	**5,457,611**

The following tables show reconciliations from the opening to the closing balances of the loss allowance for other financial assets for the years ended 31 December 2019 and 31 December 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortized cost				
Balance at 1 January	14,884	209	3,405	18,498
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(37,133)	37,133	-	-
Transfer to Stage 3	-	(37,359)	37,359	-
Net remeasurement of loss allowance	26,592	484	185,327	212,403
Write offs	-	-	(188,406)	(188,406)
Balance at 31 December	**4,343**	**467**	**37,685**	**42,495**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets at amortized cost				
Balance at 1 January	6,860	2,234	43,205	52,299
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(209)	209	-	-
Transfer to Stage 3	(282)	(1,869)	2,151	-
Net remeasurement of loss allowance	8,515	(365)	267,889	276,039
Write offs	-	-	(309,840)	(309,840)
Balance at 31 December	**14,884**	**209**	**3,405**	**18,498**

24 Deposits and balances from banks

	2019 AMD'000	2018 AMD'000
Loans from the Central Bank of Armenia	13,092,867	7,078,390
Loans and term deposits from commercial banks		
- With initial maturity period of less than 12 months	10,674,325	23,530,588
- With initial maturity period of more than 12 months	4,568,199	3,421,295
Liabilities for letters of credit	5,512,922	8,625,734
Vostro accounts	640,500	420,762
	34,488,813	**43,076,769**

According to the agreement the Central Bank of Armenia provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2019 the Bank has no bank except for the Central Bank of Armenia (2018: one bank), whose balances exceed 10% of equity. The gross value of the balance as at 31 December 2019 is nil (2018: AMD 20,643,011 thousand).

25 Current accounts and deposits from customers

	2019 AMD'000	2018 AMD'000
Current accounts and demand deposits		
- Individuals	77,232,696	61,904,034
- Legal entities	260,795,880	145,889,262
Term deposits		
- Individuals	171,586,444	133,060,914
- Legal entities	83,608,413	58,231,922
	593,223,433	**399,086,132**

As at 31 December 2019, the Bank maintained customer current accounts and deposit balances of AMD 1,977,340 thousand (2018: AMD 11,001,416 thousand) that serve as collateral for loans and credit related commitments granted by the Bank.

As at 31 December 2019, the Bank has three customers (31 December 2018: four customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2019 is AMD 144,761,622 thousand (2018: AMD 44,068,684 thousand).

26 Debt securities issued

	2019 AMD'000	2018 AMD'000
Domestic bonds issued	50,000,346	46,233,668
Promissory notes	4,572,709	4,612,688
	54,573,055	**50,846,356**

As at December 2019 the Bank has issued and placed debt securities denominated in AMD and USD with nominal amount of AMD 8bn and USD 86.7m respectively (2018: AMD, USD and EUR denominated debt securities with nominal amount of AMD 5bn, USD 81m and EUR 3m respectively). As at December 2019 carrying value of the bonds is AMD 8,125,944 thousand and AMD 41,874,402 thousand accordingly (2018: AMD 5,090,669 thousand, AMD 39,469,585 thousand and AMD 1,673,414 thousand accordingly).

Bonds issued by the Bank are listed in Armenia Securities Exchange stock exchange.

In 2016 Bank placed USD denominated promissory Notes with four Luxembourg-based funds via its investment manager ResponsAbility Investments AG in amount of USD 20,000,000 with maturity in 2021. As at 31 December 2019 carrying value of the promissory Notes is AMD 4,572,709 thousand (2018: AMD 4,612,688 thousand).

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

	2019 AMD'000	2018 AMD'000
Balance at 1 January	50,846,356	40,932,595
Changes from financing cash flows		
Sale of debt securities issued	21,864,967	24,855,545
Repayment of debt securities issued	(17,659,493)	(12,849,554)
Total changes from financing cash flows	**4,205,474**	**12,005,991**
The effect of changes in foreign exchange rates	**(564,912)**	**(96,733)**
Other changes		
Interest expense	3,123,159	2,604,298
Interest paid	(3,037,022)	(4,599,795)
Balance at 31 December	**54,573,055**	**50,846,356**

27 Other borrowed funds and subordinated borrowings

	2019 AMD'000	2018 AMD'000
Borrowings from international financial institutions	126,654,327	120,852,547
Borrowings from Armenian financial institutions	31,280	60,662
	126,685,607	**120,913,209**
Subordinated borrowings from international financial institutions	36,495,281	44,489,851
Subordinated borrowings from ultimate controlling party	-	5,924,274
	36,495,281	**50,414,125**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2019, the Bank has loans from five financial institutions (31 December 2018: seven), whose balances exceed 10% of equity. These balances as at 31 December 2019 are AMD 114,833,909 thousand (31 December 2018: AMD 127,166,023 thousand).

(b) Subordinated borrowing

As at 31 December 2019 subordinated borrowing represents:

– Borrowing received from an unrelated party international financial institution (AMD 25,027,671 thousand) maturing on 11 January 2022.
– Borrowing received from other 2 financial institutions in amount of AMD 4,307,276 thousand maturing on 15 January 2026 and in amount of AMD 7,160,334 thousand maturing on 15 January 2027

Borrowing received balance as at 31 December 2018 from ultimate controlling party of AMD 5,924,274 thousand contractually maturing on 11 January 2021 has been repaid in 2019.

The Bank considers borrowings received as subordinated borrowings, if in case of bankruptcy, the repayment of the borrowing will be made after repayment in full of all other liabilities of the Bank.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as at 31 December 2019 and 2018.

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

'000 AMD	Other borrowed funds	Subordinated borrowings
Balance at 1 January 2019	120,913,209	50,414,125
Changes from financing cash flows		
Receipt	36,670,697	2,402,111
Repayments	(28,146,725)	(15,346,760)
Total changes from financing cash flows	**8,523,972**	**(12,944,649)**
The effect of changes in foreign exchange rates	**(2,887,489)**	**(564,649)**
Other changes		
Interest expense	6,198,375	3,778,109
Interest paid	(6,062,460)	(4,187,655)
Balance at 31 December 2019	**126,685,607**	**36,495,281**

'000 AMD	Other borrowed funds	Subordinated borrowings
Balance at 1 January 2018	98,128,094	40,919,768
Changes from financing cash flows		
Receipt	109,241,838	9,290,363
Repayments	(85,915,500)	-
Total changes from financing cash flows	**23,326,338**	**9,290,363**
The effect of changes in foreign exchange rates	**(552,218)**	**22,123**
Other changes		
Interest expense	4,910,452	5,984,672
Interest paid	(4,899,457)	(5,802,801)
Balance at 31 December 2018	**120,913,209**	**50,414,125**

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Notes to, and forming part of, the financial statements for the year ended 31 December 2019

28 Other liabilities

	2019 AMD'000	2018 AMD'000
Payables to staff	3,433,379	2,944,207
Payables in transit	1,262,818	887,189
Trade payables	995,216	621,549
Financial liabilities related to factoring contracts	954,480	948,514
Payables to deposit guarantee fund	176,713	126,004
Other payables	1,438,284	1,562,388
Total other financial liabilities	**8,260,890**	**7,089,851**
Other taxes payable	305,946	301,576
Replenishment of regulatory capital not yet approved by CBA	95,484	-
Deferred income	3,003	2,385
Total other non-financial liabilities	**404,433**	**303,961**
Total other liabilities	**8,665,323**	**7,393,812**

29 Share capital and treasury shares

(a) Issued capital and share premium

As at 31 December 2019 the authorized, issued and outstanding share capital comprises 116,710 ordinary shares (2018: 116,564). All shares have a nominal value of AMD 320 thousand and are fully paid.

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

In 2019 the Bank issued additional 146 shares at par value of AMD 320,000 (2018: 16,291 shares at par value AMD 320,000) and placement price of AMD 599,687 (2018: AMD 885,560). In 2019 all of the shares issued were fully purchased by ESPS Holding Limited.

(b) Nature and purpose of reserves

Revaluation reserve for investment securities

The revaluation reserve for investment securities comprises the cumulative net change in the fair value of investment securities measured at FVOCI, until the assets are derecognized or impaired.

(c) Dividends

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

Dividends declared and paid by the Bank in 2019 amounted to AMD 1,050,000 thousand (2018: AMD 1,148,000 thousand).

30 Risk management

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

(a) Risk management policies and procedures

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

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

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

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

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

(b) Market risk

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

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Ameriabank CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

(i) Interest rate risk

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

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2019 and 31 December 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate, %			2018 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest earning assets						
Investment securities measured at fair value through profit or loss	9.5%	6.7%	4.8%	9.5%	6.4%	4.9%
Investment securities measured at fair value through other comprehensive income	10.2%	7.5%	-	10.9%	5.0%	5.0%
Investment securities measured at amortized cost	8.6%	6.2%	-	9.0%	5.7%	-
Loans and advances to banks	-	5.3%	-	7.3%	-	1.0%
Amounts receivable under reverse repurchase agreements	6.1%	3.4%	0.5%	7.0%	3.0%	1.0%
Loans and advances to customers	12.7%	8.9%	6.2%	13.6%	8.6%	7.1%
Receivables from finance leases	13.9%	7.9%	6.5%	13.7%	7.3%	8.4%
Receivables from factoring	14.2%	8.8%	6.1%	14.8%	8.6%	5.2%
Receivables from letter of credit	-	8.7%	5.3%	-	6.3%	6.7%
Interest bearing liabilities						
Deposits and balances from banks	6.5%	2.2%	1.7%	6.7%	3.3%	0.6%
Amounts payable under repurchase agreements	-	-	-	6.1%	-	-
Term deposits from customers	9.0%	4.1%	1.8%	9.0%	4.1%	3.0%
Debt securities issued	9.7%	5.2%	-	9.7%	5.4%	3.3%
Subordinated borrowings	-	10.2%	6.3%	-	9.4%	6.4%
Other borrowed funds	8.4%	5.0%	2.8%	7.9%	6.1%	3.0%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities, except for interest bearing cash and cash equivalents and current accounts and demand deposits from customers, and existing as at 31 December 2019 and 2018, is as follows:

	2019 AMD'000	2018 AMD'000
100 bp parallel rise	(1,049,753)	(1,162,410)
100 bp parallel fall	1,049,753	1,162,410

An analysis of the sensitivity of equity as a result of changes in the fair value of financial instruments at fair value though other comprehensive income, based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2019	2018
	Equity AMD'000	Equity AMD'000
100 bp parallel rise	(315,398)	(529,312)
100 bp parallel fall	315,398	529,312

Currency risk

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

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

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

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	31,370,523	136,945,002	5,668,474	173,983,999
Investment securities at fair value through profit or loss	1,788,708	45,873	-	1,834,581
Investment securities at fair value through other comprehensive income	3,353,097	-	-	3,353,097
Investment securities at amortized cost	2,542,987	-	-	2,542,987
Loans and advances to banks	20,101,586	4,824,324	-	24,925,910
Amounts receivable under reverse repurchase agreements	1,346,506	7,524,129	-	8,870,635
Loans and advances to customers	328,225,481	80,824,999	1,740,067	410,790,547
Receivables from letters of credit	1,574,039	3,472,163	-	5,046,202
Receivables from finance leases	1,994,946	948,658	-	2,943,604
Receivables from factoring	6,902,267	3,015,623	2,985	9,920,875
Other assets	1,761,925	29,107	57,915	1,848,947
Total assets	**400,962,065**	**237,629,878**	**7,469,441**	**646,061,384**
LIABILITIES				
Deposits and balances from banks	13,556,167	4,869,901	1,018,093	19,444,161
Current accounts and deposits from customers	361,523,559	63,486,589	7,214,487	432,224,635
Debt securities issued	46,447,112	-	-	46,447,112
Subordinated borrowings	25,027,671	11,467,610	-	36,495,281
Other borrowed funds	74,938,072	36,480,965	-	111,419,037
Other liabilities	1,292,686	450,630	18,164	1,761,480
Total liabilities	**522,785,267**	**116,755,695**	**8,250,744**	**647,791,706**
Net position	**(121,823,202)**	**120,874,183**	**(781,303)**	**(1,730,322)**
Effect of derivatives	118,470,708	(122,495,280)	(239,651)	(4,264,223)
Net position	**(3,352,494)**	**(1,621,097)**	**(1,020,954)**	**(5,994,545)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018.

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	12,701,409	46,349,316	5,225,918	64,276,643
Investment securities at fair value through profit or loss	1,750,450	80,331	-	1,830,781
Investment securities at fair value through other comprehensive income	5,031,472	1,355,683	-	6,387,155
Investment securities at amortized cost	13,480,810	-	-	13,480,810
Loans and advances to banks	1,328,545	1,273,907	104,764	2,707,216
Amounts receivable under reverse repurchase agreements	914,220	2,769,206	-	3,683,426
Loans and advances to customers	380,471,956	49,326,693	1,887,584	431,686,233
Receivables from letters of credit	6,393,795	1,874,744	-	8,268,539
Receivables from finance leases	1,805,094	155,594	-	1,960,688
Receivables from factoring	6,954,432	3,098,930	1,656	10,055,018
Other assets	2,073,597	302,581	825,200	3,201,378
Total assets	**432,905,780**	**106,586,985**	**8,045,122**	**547,537,887**
LIABILITIES				
Deposits and balances from banks	14,904,074	17,877,791	352,463	33,134,328
Current accounts and deposits from customers	239,398,240	42,178,044	13,640,743	295,217,027
Debt securities issued	44,082,273	1,673,414	-	45,755,687
Subordinated borrowings	41,113,611	9,300,514	-	50,414,125
Other borrowed funds	71,682,222	37,904,405	-	109,586,627
Other liabilities	1,523,212	555,423	23,638	2,102,273
Total liabilities	**412,703,632**	**109,489,591**	**14,016,844**	**536,210,067**
Net position	**20,202,148**	**(2,902,606)**	**(5,971,722)**	**11,327,820**
Effect of derivatives	(9,717,582)	3,321,900	6,028,089	(367,593)
Net position	**10,484,566**	**419,294**	**56,367**	**10,960,227**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2019 and 2018, would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is on net of tax basis, and is based on foreign currency exchange rate variances that the Bank considers to be reasonably possible at the end of the reporting period. The income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 AMD'000	2018 AMD'000
10% appreciation of USD against AMD	(335,249)	1,048,457
10% appreciation of EUR against AMD	(162,110)	41,929

A strengthening of the AMD against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (legal entities and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions.

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

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

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

For the analysis of collateral held against loans and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 20.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

Impairment assessment

From 1 January 2018, the Bank 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.

Ameriaba11k CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

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

The 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 Bank 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 Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Definition of default

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay, based on management's judgment. When such events occur, the Bank 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.

PD estimation process

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Loans and advances to customers

Bucketing

The Bank does not have internal credit rating system implemented for corporate customers, which can be used in PD estimation. The following portfolios are segregated by the Bank.

corporate loans;
consumer loans;
mortgages loans.

PDs for loans and advances to customers are based on historic information are calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring between overdue categories from the total number at the beginning of the period. In calculation of PDs the Bank considers forward looking macroeconomic parameters that had material impact on the 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, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

For Stage 3 and POCI financial assets exposure at default is equal to the balance amount of the loans.

EAD is derived from the historical behaviour of amortized costs of defaulted loans before the date when the default has occurred.

Loss given default

For Stage 1 loans to customers, as well as for individually not significant Stage 2 and Stage 3 exposures, the Bank calculated LGD on portfolio level. The Bank uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date and discounted to the date of default using effective interest rate of each loan. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.). For individually significant Stage 2 and Stage 3 exposures the Bank calculates LDG individually considering expected cash, including cash flows from realization of collateral.

Significant increase in credit risk

The Bank 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. The main criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant risk in credit risk of the assets, when payments related to that assets are past due for more than 30 days.

The Bank's management also considers the following factors to determine whether there is an increase in credit risk:

- overdue days of the borrower in other financial institutions in Armenia.
- significant difficulties in the financial conditions of the borrower.
- renegotiation of the loan terms resulting from deterioration of the borrower's financial position.
- deterioration of macroeconomic indicators and their possible effect on the borrower's financial performance.

Ameriaba11k CJSC
Notes to, and forming part of, the financial statements for the year ended 31 December 2019

Forward-looking information and multiple economic scenarios

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

- consumer price index;
- USD/AMD exchange rate;
- RUR/AMD exchange rate;
- volumes of export;
- volumes of import.

The Bank obtains the forward-looking information from third party source (Economic Intelligence Unit). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions

	ECL scenario	Assigned probabilities, %	2020	2021
Key drivers				
CPI index				
	Upside	20%	101.805	100.605
	Base case	60%	105.000	103.800
	Downside	20%	108.195	106.995
USD/AMD exchange rate				
	Upside	20%	436.3428	443.6428
	Base case	60%	483.3000	490.6000
	Downside	20%	530.2572	537.5572
RUR/AMD exchange rate				
	Upside	20%	9.5033	9.7233
	Base case	60%	7.0400	7.2600
	Downside	20%	4.5767	4.7967
Export, AMD million				
	Upside	20%	3,161.75	3,356.75
	Base case	60%	2,807.00	3,002.00
	Downside	20%	2,452.25	2,647.25
Import, AMD million				
	Upside	20%	6,165.15	6,567.15
	Base case	60%	5,686.00	6,008.00
	Downside	20%	5,206.86	5,608.86

Along with baseline forecasts (with 60% probability of occurrence) listed in the table above, additionally, the Bank uses shocked macroeconomic variables to calculate the ECL rates under the optimistic (with 20% probability of occurrence) and pessimistic (20% probability of occurrence) scenarios. These rates are weighted together with the baseline scenario rates to form final ECL rates.

Offsetting financial assets and financial liabilities

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

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

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

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

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

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position — Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	23,549,559	-	23,549,559	(23,549,559)	-
Total financial assets	**23,549,559**	**-**	**23,549,559**	**(23,549,559)**	**-**
Amounts payable under repurchase agreements	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position — Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	6,746,414	-	6,746,414	(6,746,414)	-
Total financial assets	**6,746,414**	**-**	**6,746,414**	**(6,746,414)**	**-**
Amounts payable under repurchase agreements	(17,011,404)	-	(17,011,404)	(17,011,404)	-
Total financial liabilities	**(17,011,404)**	**-**	**(17,011,404)**	**(17,011,404)**	**-**

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Repayments which are subject to notice are treated as if notice were to be given immediately, except current accounts and on demand deposits from customers which are stated at expected maturities. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount (inflow)/ outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	7,423,237	382,500	5,422,238	2,996,415	17,722,515	3,279,917	37,226,822	34,488,813
Current accounts and deposits from customers	356,185,087	34,927,937	72,038,201	107,275,162	31,440,265	70,768	601,937,420	593,223,433
Debt securities issued	4,906,704	654,511	3,054,746	6,087,421	40,713,121	-	55,416,503	54,573,055
Subordinated borrowings	1,143,339	-	357,153	1,579,947	30,511,336	12,653,304	46,245,079	36,495,281
Other borrowed funds	2,003,027	3,557,813	6,747,436	13,957,126	109,942,627	4,681,113	140,889,142	126,685,607
Total financial liabilities	**371,661,394**	**39,522,761**	**87,619,774**	**131,896,071**	**230,329,864**	**20,685,102**	**881,714,966**	**845,466,189**
Credit related commitments	**36,452,296**	**-**	**-**	**-**	**-**	**-**	**36,452,296**	**36,452,296**

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount (inflow)/ outflow	Carrying amount
Financial liabilities								
Deposits and balances from banks	12,893,988	7,048,159	7,088,445	6,888,068	10,129,111	2,022,806	46,070,577	43,076,769
Amounts payable under repurchase agreements	17,011,404	-	-	-	-	-	17,011,404	17,011,404
Current accounts and deposits from customers	132,004,427	52,833,203	57,320,798	98,873,247	65,516,061	83,553	406,631,289	399,086,132
Debt securities issued	358,847	3,210,199	7,862,077	7,600,720	37,289,828	-	56,321,671	50,846,356
Subordinated borrowings	1,549,562	1,154,356	1,094,713	2,156,604	49,767,027	9,250,207	64,972,469	50,414,125
Other borrowed funds	3,989,012	5,824,499	13,739,728	9,706,765	103,060,455	14,813	136,335,272	120,913,209
Other financial liabilities	461,232	3,880,637	3,051,943	-	-	-	7,393,812	7,393,812
Net settled derivative liabilities	20,621	-	-	-	-	-	20,621	20,621
Total financial liabilities	**168,289,093**	**73,951,053**	**90,157,704**	**125,225,404**	**265,762,482**	**11,371,379**	**734,757,115**	**688,762,428**
Credit related commitments	**25,280,062**	**-**	**-**	**-**	**-**	**-**	**25,280,062**	**25,280,062**

Included in due to customers in the table above and in the table below are term deposits of individuals. In accordance with the legislation of the Republic of Armenia, the Bank is obliged to repay term deposits of individuals upon demand of a depositor, forfeiting the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	247,353,690	-	-	-	-	-	-	247,353,690
Financial instruments at fair value through profit or loss	73,561	79,022	1,038,564	4,535,502	2,528,957	-	-	8,255,606
Investment securities at fair value through other comprehensive income	-	90,547	808,703	5,970,379	3,909,460	69,896	-	10,848,985
Debt securities at amortized cost	-	123,001	11,113,364	17,540,179	4,734,346	-	-	33,510,890
Loans and advances to banks	-	-	1,675,211	-	-	25,339,429	-	27,014,640
Amounts receivable under reverse repurchase agreements	20,528,933	3,020,626	-	-	-	-	-	23,549,559
Loans and advances to customers	15,704,060	37,817,854	95,597,882	261,472,206	142,038,626	-	11,704,607	564,335,235
Receivables from letters of credit	57,104	166,237	941,852	3,881,009	-	-	-	5,046,202
Receivables from finance leases	19,361	222,207	989,947	3,591,396	736,957	-	99,822	5,659,690
Receivables from factoring	3,768,376	2,546,638	4,385,758	-	-	-	-	10,700,772
Property, equipment and intangible assets	-	-	-	-	-	11,162,394	-	11,162,394
Right of use asset	-	-	-	-	-	11,235,119	-	11,235,119
Repossessed assets	-	-	-	-	-	3,028,455	-	3,028,455
Other assets	2,080,176	189,450	2,672,652	-	-	1,437,702	-	6,379,980
Total assets	**289,585,261**	**44,255,582**	**119,223,933**	**296,990,671**	**153,948,346**	**52,272,995**	**11,804,429**	**968,081,217**
LIABILITIES								
Derivative financial liabilities	35,314	-	-	-	-	-	-	35,314
Deposits and balances from banks	7,413,097	363,086	16,029,223	7,670,584	3,012,823	-	-	34,488,813
Current accounts and deposits from customers	309,442,880	49,002,050	190,132,871	44,586,889	58,743	-	-	593,223,433
Debt securities issued	4,894,341	315,412	11,754,830	37,608,472	-	-	-	54,573,055
Subordinated borrowings	1,042,671	-	23,934	23,985,000	11,443,676	-	-	36,495,281
Other borrowed funds	2,000,252	3,078,393	16,554,283	100,816,265	4,236,414	-	-	126,685,607
Deferred tax liability	-	-	279,389	-	-	-	-	279,389
Current tax liability	-	-	-	918,445	-	-	-	918,445
Lease liabilty	37,939	77,307	354,050	1,923,342	8,980,619	-	-	11,373,257
Provision for commitments	116,222	-	-	-	-	-	-	116,222
Other liabilities	3,717,426	516,300	4,431,597	-	-	-	-	8,665,323
Total liabilities	**328,700,142**	**53,352,548**	**239,560,177**	**217,508,997**	**27,732,275**	**-**	**-**	**866,854,139**
Net position	**(39,114,881)**	**(9,096,966)**	**(120,336,244)**	**79,481,674**	**126,216,071**	**52,272,995**	**11,804,429**	**101,227,078**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2018:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	144,353,912	-	-	-	-	-	-	144,353,912
Financial instruments at fair value through profit or loss	323,197	139,695	328,036	3,058,640	2,967,442	-	-	6,817,010
Investment securities at fair value through other comprehensive income	88,864	155,750	282,669	5,541,529	5,394,171	139,145	-	11,602,128
Debt securities at amortized cost	353,263	592,527	5,620,577	29,066,323	3,192,773	-	-	38,825,463
Loans and advances to banks	3,255,612	-	-	-	-	1,691,000	-	4,946,612
Amounts receivable under reverse repurchase agreements	6,746,414	-	-	-	-	-	-	6,746,414
Loans and advances to customers	26,971,795	23,059,924	121,233,308	242,571,649	106,226,222	-	6,901,292	526,964,190
Receivables from letters of credit	43,322	187,342	5,647,337	2,390,538	-	-	-	8,268,539
Receivables from finance leases	41,031	71,111	310,302	992,485	436,361	-	172,915	2,024,205
Receivables from factoring	430,846	2,833,607	7,421,796	-	-	-	-	10,686,249
Property, equipment and intangible assets	-	-	-	-	-	10,240,337	-	10,240,337
Deferred tax asset	-	-	-	185,898	-	-	-	185,898
Other assets	2,375,790	2,777,413	2,008,052	–	-	925,015	-	8,086,270
Total assets	**184,984,046**	**29,817,369**	**142,852,077**	**283,807,062**	**118,216,966**	**12,995,497**	**7,074,207**	**779,747,227**
LIABILITIES								
Derivative financial liabilities	20,621	-	-	-	-	-	-	20,621
Amounts payable under repurchase agreements	17,011,404	-	-	-	-	-	-	17,011,404
Deposits and balances from banks	12,798,545	6,887,130	13,430,651	8,556,905	1,403,538	-	-	43,076,769
Current accounts and deposits from customers	131,252,194	51,539,948	152,505,404	63,718,571	70,015	-	-	399,086,132
Debt securities issued	111,329	2,696,535	13,759,546	34,278,946	-	-	-	50,846,356
Subordinated borrowings	1,190,128	435,488	16,411	39,521,888	9,250,210	-	-	50,414,125
Other borrowed funds	3,465,015	8,061,402	16,176,215	93,195,761	14,816	-	-	120,913,209
Current tax liability	-	-	1,086,688	-	-	-	-	1,086,688
Provision for commitments	140,163	-	-	-	-	-	-	140,163
Other liabilities	461,232	3,880,637	3,051,943	-	-	-	-	7,393,812
Total liabilities	**166,450,631**	**73,501,140**	**200,026,858**	**239,272,071**	**10,738,579**	**-**	**-**	**689,989,279**
Net position	**18,533,415**	**(43,683,771)**	**(57,174,781)**	**44,534,991**	**107,478,390**	**12,995,497**	**7,074,207**	**89,757,948**

The maturity anaylsis in the table above reflects the historical behavior and actual repayment patern of current accounts from customers.

As at 31 December 2019 the Bank had a long-term borrowing agreement signed with an international financial organizations in the amount of AMD 14,391,000 thousand (USD 30,000,000), the amount of which was not withdrawn as at reporting date.

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

	2019 AMD'000 Unaudited	2018 AMD'000 Unaudited
At 31 December	100.7%	89%
Average for December	94.5%	79%

31 Capital management

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

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank. Under the current capital requirements set by the Central Bank of Armenia, banks have to maintain a minimum total capital of AMD 30,000,000 thousand (2018: AMD 30,000,000 thousand). The Bank is in compliance with minimum total capital requirements as at 31 December 2019 and 2018.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2019 and 2018, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2019 and 2018.

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December:

	2019 AMD'000 Unaudited	2018 AMD'000 Unaudited
Tier 1 capital	93,090,744	87,918,917
Tier 2 capital	22,059,312	27,240,435
Total capital	**115,150,056**	**115,159,352**
Total risk weighted assets	**781,286,761**	**637,670,106**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.74%**	**18.06%**

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

32 Credit related commitments

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

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

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

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

	2019 AMD'000	2018 AMD'000
Contracted amount		
Credit card commitments	16,219,615	13,602,109
Non-financial guarantees	9,745,780	2,362,080
Financial guarantees and letters of credit	5,649,694	5,542,370
Undrawn overdraft facilities	4,837,207	3,773,503
	36,452,296	**25,280,062**
Impairment allowance	(116,222)	(140,163)

In addition to the above credit related commitments, the Bank has undrawn loans and credit lines the withdrawal of which is subject to additional approval by the Bank. The Bank considers such balances as uncommited. The total amount of such uncommited balances as at 31 December 2019 comprised AMD 16,588,493 thousand (2018: AMD 18,237,090 thousand).

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

The following tables show reconciliations from the opening to the closing balances of the loss allowance for commitments for the years ended 31 December 2019 and 2018.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	120,080	5,755	14,328	140,163
New exposures originated	112,346	-	-	112,346
Exposures expired	(22,837)	(5,231)	(326)	(28,394)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(4,892)	4,892	-	-
Transfer to Stage 3	-	(1,414)	1,414	-
Net remeasurement of loss allowance	(93,509)	(382)	(14,002)	(107,893)
Balance at 31 December	**111,188**	**3,620**	**1,414**	**116,222**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments				
Balance at 1 January	160,709	17,082	84,493	262,284
New exposures originated	80,514	-	-	80,514
Exposures expired	(66,889)	(17,082)	(7,320)	(91,291)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(20,083)	20,083	-	-
Transfer to Stage 3	-	(14,328)	14,328	-
Net remeasurement of loss allowance	(34,171)	-	-	(34,171)
Write off	-	-	(77,173)	(77,173)
Balance at 31 December	**120,080**	**5,755**	**14,328**	**140,163**

33 Contingencies

(a) Litigation

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

(b) Taxation contingencies

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

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

34 Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 56.53% of the share capital as at 31 December 2019.

The ultimate controlling party and final beneficiary owner of the Bank is Mr. Ruben Vardanyan.

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

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

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2019 AMD'000	2018 AMD'000
Short-term employee benefits	**2,801,262**	**2,157,647**

These amounts include cash benefits in respect of members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2019 and 2018 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2019 AMD'000	Average effective interest rate, %	2018 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans and advances to customers	1,006,530	8.04%	1,273,721	7.79%
Other assets	2,188	-	1,832	-
Current accounts and deposits from customers	987,153	6.31%	460,725	5.74%
Subordinated borrowings*	-	-	5,924,274	6.00%
Other liabilities	1,185,957	-	1,478,022	-

* Subordinated borrowings were received from ultimate controlling party of the Bank (see Note 27).

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

	2019 AMD'000	2018 AMD'000
Profit or loss		
Interest income	87,384	96,310
Interest expense	(31,792)	(361,765)

(c) Transactions with other related parties

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

	Parent company		Shareholder with significant influence		Subsidiaries of the immediate parent company		Other entities under common control and other related parties		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position									
Assets									
Loans and advances to customers	-	-	-	-	-	-	1,371,580	8.89%	1,371,580
Other asset	-	-	9,243	-	4,375	-	119	–	13,737
Liabilities									
Current accounts and deposits from customers									
- Current accounts and demand deposits	378,387	-	197,134	-	133,145	-	1,007,886	-	1,716,552
- Term deposits	-	-	-	-	976,068	4.81%	381,946	5.70%	1,358,015
Other borrowed funds	-	-	13,585,997	5.89%	-	-	-	-	13,585,997
Other liabilities	-	-	10,443	-	359.13	-	123	-	10,566
Items not recognised in the statement of financial position									
Guarantees received	-	-	8,870,606	1.10%	-	-	-	-	8,870,606
Profit (loss)									
Interest income	-	-	-	-	-	-	131,328	-	131,328
Interest expense	-	-	(1,330,627)	–	(35,373)	–	(5,414)	-	(1,371,414)
Other income	572,268	-	2,984				25,909		601,161
Operating lease expenses	-	-	–	-	(1,313,124)	–	–	–	(1,313,124)

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows:

	Parent company		Shareholder with significant influence		Subsidiaries of the immediate parent company		Other entities under common control and other related parties		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position									
Assets									
Loans and advances to customers	-	-	-	-	-	-	4,061,715	6.66%	4,061,715
Other asset	-	-	62,619	0.00%	879,324	0.00%	-	-	941,943
Liabilities									
Current accounts and deposits from customers									
- Current accounts and demand deposits	20,562	0.00%	62,690	0.00%	1,085,613	0.00%	1,376,258	0.00%	2,545,123
- Term deposits	-	-	-	-	659,326	4.00%	77,155	6.47%	736,481
Other borrowed funds	-	-	21,215,696	6.04%	-	-	-	-	21,215,696
Other liabilities	-	-	13,209	0.00%	-	-	-	-	13,209
Items not recognised in the statement of financial position									
Guarantees received	-	-	13,323,384	1.05%	-	-	-	-	13,323,384
Profit (loss)									
Interest income	-	-	-	-	-	-	575,789	-	575,789
Interest expense	-	-	(1,384,459)	-	(21,291)	-	(337,771)	-	(1,743,521)
Operating lease expenses	-	-	-	-	(1,627,177)	-	-	-	(1,627,177)

35 Financial assets and liabilities: fair values and accounting classifications

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

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

As at 31 December 2019 and 2018 the estimated fair values of all financial instruments except for loans and advances to customers and investment securities at amortised cost approximate their carrying values. The fair value of loans and advances to customers is categorized in Level 3 fair value hierarchy and fair value of investment securities measured at amortized cost is categorized in Level 2 in fair value hierarchy.

The table below sets out the carrying amounts and fair values of loans and advances to customers and investment securities at amortized cost as at 31 December 2019 and 2018:

	Carrying amount AMD'000	Fair value AMD'000	Unrealized gain/(loss) AMD'000
Loans and advances to customers	585,741,899	583,700,810	(2,041,089)
Investment securities at amortized cost	33,510,890	34,902,288	1,391,398
Total	**619,252,789**	**618,603,098**	**(649,691)**

	Carrying amount AMD'000	Fair value AMD'000	Unrealized gain/(loss) AMD'000
Loans and advances to customers	547,943,183	538,682,849	(9,260,334)
Investment securities at amortized cost	38,825,463	40,193,704	1,368,241
Total	**586,768,646**	**578,876,553**	**(7,892,093)**

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

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Debt and other fixed-income instruments	-	8,182,045	-	8,182,045
- Derivative assets	-	73,561	-	73,561
- Derivative liabilities	-	(35,314)	-	(35,314)
Financial assets at fair value through other comprehensive income				
- Investment securities	1,631,420	9,217,567	-	10,848,987
	1,631,420	**17,437,859**	**-**	**19,069,279**

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Debt and other fixed-income instruments	-	6,691,791	-	6,691,791
- Derivative assets	-	125,219	-	125,219
- Derivative liabilities	-	(20,621)	-	(20,621)
Financial assets at fair value through other comprehensive income				
- Investment securities	-	11,602,128	-	11,602,128
	-	**18,398,517**	**-**	**18,398,517**

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of loans and advances to customers: discount rates of 8%-9.8% for loans denominated in foreign currency and 10.8%-13.8% for loans denominated in Armenian drams, are used for discounting future cash flows from loans and advances to customers.

36 Events after reporting period

(i) On 21 February 2020, ESPS Holding Limited purchased in full additionally issued 124 shares of the Bank with nominal value of AMD 320,000 per share for AMD 770,031 per share. As a result of the transaction, the shareholding structure of the Bank changed as follows: America Group (CY) (56.47%), EBRD (17.76%), ADB (13.94%) and ESPS Holding Limited (11.83%).

On 6 December 2019 the General Meeting of Shareholders of the Bank, approved two transactions:

- acquisition of 8,788 ordinary shares, owned by Ameria Group (CY) Limited and comprising to 7.52% of share capital, by Noubar Afeyan,
- transfer of the stated shares by Noubar Afeyan to Afeyan Foundation for Armenia Inc.

The transactions were finalized on 11 March 2020. As a result of the transaction the shareholding structure of the Bank changed as follows: Ameria Group (CY) (48.95%), EBRD (17.76%), ADB (13.94%), ESPS Holding Limited (11.83%) and Afeyan Foundation for Armenia Inc. (7.52%).

(ii) Subsequent to 31 December 2019 outbreak of COVID 19 resulted in significant global market turmoil. Together with other factors, this has resulted in a sharp decrease in the stock market indices, oil and other commodity prices. As of the date of approval of these financial statements, the Bank continued to operate without interruptions. Part of the employees have switched to remote working. Operations of several branches have been suspended due to closure of trade centres, where the branches were located.

As a result of COVID 19 outbreak, the Bank expects that expected credit losses on loans and advances to customers will increase in 2020, particularly for corporate customers operating in hotel service, retail trade, food and beverage and real estate industries.

The Bank has provided a credit vacation to its retail borrowers for a period of two months starting from 13 March 2020. The retail borrowers can defer the payments of principal and interest for their loans falling in the period of vacation, without further adverse effect in their credit history. The deferred payments will be equally reallocated to June - December 2020. As of the date of this report approximately 30% of eligible borrowers have used this opportunity.

The Bank has considered the impact of the outbreak on its liquidity and capital adequacy positions under different stress scenarios and the Management believes that the outbreak will not have pervasive impact on the Bank's position.

In addition, the regulator (Central Bank of Armenia) has expressed its support to the financial sector of the Republic of Armenia in terms of relaxation of normatives and support in liquidity, if required and the Government of Armenia is implementing programs to support economy to overcome consequences of COVID 19.

However, the Bank acknowledges that extended lock down periods may have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. The Bank continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur. The Bank estimates the probability of extension of lockdown beyond 14 May 2020 as remote, as the Prime Minister of the Republic of Armenia has announced that the country will end the state of emergency by the stated date.

appendix

Abbreviations

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AEA	American Economic Association
AGBU	Armenian General Benevolent Union
ALCM	Asset, Liability & Capital Management
ALCO	Assets and Liabilities Management Committee
ALM	Asset & Liability Management
AMD	Armenian dram
AMEX	American Stock Exchange
AMLC	Anti-Money Laundering Center
AMX	Armenian Securities Exchange
API	Application Program Interface
ARCA	Archipelago Exchange
ASX	Australian Stock Exchange
ATM	Automated Teller Machine
BC	Business Center
BCA	Baseline Credit Assessment
BMs	Branch Managers
bn	billion
BoD	Board of Directors
BS	Bachelor of Science
BSTDB	Black Sea Trade and Development Bank
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CBA	Central Bank of Armenia
CBOT	Chicago Board of Trade
CEEMEA	Central Eastern Europe Middle East & Africa
CEI	Client Experience Index
CEO	Chief Executive Officer
CF	Corporate Finance
CFA	Chartered Financial Analyst
CFO	Chief Financial Officer
CIB	Corporate and Investment Banking
CIO	Charitable Incorporated Organisation
CJSC	Closed Joint-Stock Company
CNY	Chinese Yuan
CPI	Consumer Price Index
CRA	Counterparty Risk Assessment
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DEG	German Investment Corporation
E&S	Environmental & Social
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EMEA	Europe, Middle East and Africa
ESG	Environmental, Social and Governance
FAST	Foundation for Armenian Science and Technology
FI	Financial Institution
FMO	The Netherlands Development Finance Company
FWB	Frankfurt Stock Exchange
FX	Foreign Exchange
FY	Financial Year
GCPF	Global Climate Partnership Fund
GDP	Gross Domestic Product
GMS	General Meeting of Shareholders
GTFP	Global Trade Finance Program
IB	Investment Banking
ICAAP	Internal Capital Adequacy Assessment Process
IDeA	Charitable Foundation Initiatives for Development of Armenia
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
INSEAD	European Institute of Business Administration
IPO	Initial Public Offer
IR	Interest Rate
IRR	Internal Rate of Return
ISO/IEC 27001	International Organization for Standardization/International Electrotechnical Commisiion
IT	Information Technology
KPI	Key Performance Indicator
KRIs	Key Risk Indicators
L/C	Letter of Credit
LCC	Large Credit Committee
LCR	Liquidity Coverage Ratio
LE	Large Enterprise
LIBOR	London Interbank Offered Rate
LLC	Limited Liability Company
LSE	London Stock Exchange
LSE AIM	Alternative Investment Market, sub-market of London Stock Exchange
M&A	Mergers & Acquisitions
MA	Master's Degree
MB	Management Board
MIT	Massachusetts Institute of Technology
ML	Machine Learning
mn	Million
MSc	Master of Science
NASDAQ OMX	National Association of Securities Dealer Automated Quotation system
NLP	Natural Language Processing
NPA	Non Performing Asset
NPL	Non Performing Loan
NPS	Net Promoter Score
NSFR	Net Stable Funding Ratio
NYSE	New York Stock Exchange
OeEB	Development Bank of Austria
OFID	Fund for International Development
OPEC	Organization of The Petroleum Exporting Countries
OpLoss	Operating Loss
PE	Private Equity
Ph.D	Doctor of Philosophy
PMP	Project Management Professional
POS	Point of Sale
pp	Percentage Points
Q4	the 4th quarter of the year
RA	Republic of Armenia
RM	Risk Management
RMD	Risk Management Department
ROA	Return on Assets
ROAE	Return on Average Equity
ROE	Return on Equity
RVVZ	Ruben Vardanyan & Veronika Zonabend Family Foundation
RWA	Risk-Weighted Assets
S&P	Standard & Poor's
SACP	Stand-Alone Credit Profile
SBF	French Stock Market Index
SCC	Small Credit Committee
SEHK	Stock Exchange of Hong Kong
SEUA	State Engineering University of Armenia
SME	Small or Medium-Sized Enterprise
SUNY	University of New York at Albany
SWOT	Strengths, Weaknesses, Opportunities, and Threats
SWX	Swiss Exchange
TFP	Trade Facilitation Program
TSE JPN	Tokyo Stock Exchange, Japan
UCB	Belgian Biopharmaceutical Company
ULB	Free University of Brussels / Université Libre de Bruxelles
US	United States
USA	United States of America
USD	United States dollar
UST	United States Treasury
UWC	United World Colleges
VISA	American Card Payment Organization
vPOS	Virtual Point of Sale
VSE	Vienna Stock Exchange
VUB	Free University of Brussels / Vrije Universiteit Brussel
WEF	World Economic Forum
WPO	World Presidents Organization
YE	Year End
YoY	Year Over Year
ZCMC	Zangezur Copper Molybdenum Combine