Financial Statements and Independent Auditor's Report

“ARMSWISSBANK” CLOSED JOINT STOCK COMPANY

31 December 2018

Contents

Grant Thornton

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք.Երևան 0012
Վաղարշյան 8/1
Հ. + 374 10 260 964
Ֆ.+ 374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia
T + 374 10 260 964
F + 374 10 260 961

To the shareholder of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

- *First time adoption of IFRS 9*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 36.1 for an analysis of credit risk.

The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments". The key changes arising from adoption of IFRS 9 are that the Bank's impairment losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Bank's financial assets and liabilities, which are detailed in Note 4.4 to the financial statements.

As described in the notes to the financial statements, the financial assets have been classified and the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to classify the financial assets as well as to determine the impairment reserve.

Key areas of judgment included: the assessment of the business model within which the assets are held, the assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;

- We read the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;
- We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by the Bank's consultant; and
- We checked the appropriateness of the opening balance adjustments.

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

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of date and interfaces to the expected credit loss model;
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;
- For a sample of exposures, we checked the appropriateness of the Bank's staging;
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions;
- For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;
- We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis;
- We checked the completeness of loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the Models;
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the

expected credit loss model);

- We checked the appropriateness of the opening balance adjustments.

We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Gagik Gyulbudaghyan	Armen Hovhannisyan
Managing Partner	Engagement Partner

12 April 2019

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2018	2017
Interest and similar income	7	18,252,054	14,347,812
Interest and similar expense	7	(10,873,540)	(7,754,391)
Net interest income		7,378,514	6,593,421
Fee and commission income	8	235,298	208,122
Fee and commission expense	8	(122,542)	(110,054)
Net fee and commission income		112,756	98,068
Net trading income	9	312,143	434,952
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		1,695,643	N/A
Gains less losses on investments available for sale		N/A	264,619
Other income	10	113,702	124,860
Impairment losses	11	(1,505,539)	(1,051,372)
Staff costs	12	(1,103,324)	(927,965)
Depreciation of property and equipment	20	(131,652)	(126,520)
Amortization of intangible assets	21	(21,925)	(17,271)
Other expenses	13	(521,591)	(752,288)
Profit before income tax		6,328,727	4,640,504
Income tax expense	14	(1,274,939)	(972,374)
Profit for the year		5,053,788	3,668,130
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net change in fair value during the year		3,977,785	N/A
Changes in allowance for expected credit losses		43,962	N/A
Reclassification to the profit or loss		(1,695,643)	N/A
Income tax related to the above		(456,429)	N/A
Net gains on financial investments at fair value through other comprehensive income		1,869,675	N/A

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2018	2017
Movement in fair value reserve (available-for-sale)			
Net unrealized gains from changes in fair value from available-for-sale financial assets		N/A	5,969,759
Net gains realized to the profit or loss on disposal of available-for-sale instruments		N/A	(208,445)
Income tax related to the above		N/A	(1,152,263)
Net gains on available-for-sale financial assets		N/A	4,609,051
Other comprehensive income for the year, net of tax		1,869,675	4,609,051
Total comprehensive income for the year		6,923,463	8,277,181

The statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 77.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	15	18,215,567	13,088,527
Derivative financial assets	16	-	645
Amounts due from financial institutions	17	3,677,170	1,289,016
Loans and advances to customers	18	73,630,277	61,863,425
Investment securities			
- Investments available for sale	19	N/A	82,598,302
- Investment securities at fair value through other comprehensive income	19	42,040,559	N/A
- Investment securities at amortised cost	19	56,495,115	N/A
- Securities pledged under repurchase agreements	19	32,945,467	-
Property and equipment	20	1,986,277	2,001,799
Intangible assets	21	71,477	88,952
Repossessed assets	22	866,251	692,835
Other assets	23	476,637	355,158
Total assets		230,404,797	161,978,659
Liabilities and equity			
Liabilities			
Amounts due to CBA	24	20,665,778	2,681,088
Derivative financial liabilities	16	-	392
Amounts due to financial institutions	25	29,126,454	23,094,375
Amounts due to customers	26	93,895,419	65,106,750
Debt securities issued	27	27,173,064	17,600,637
Subordinated debt	28	13,398,279	13,402,138
Current income tax liabilities		436,400	326,500
Deferred income tax liabilities	14	2,395,810	2,274,759
Other liabilities	29	470,855	523,617
Total liabilities		187,562,059	125,010,256

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2018	31 December 2017
Equity			
Share capital	30	8,752,800	8,752,800
Share premium		1,347,241	1,347,241
Statutory general reserve		16,000,000	3,000,000
Other reserves		10,506,744	9,185,669
Retained earnings		6,235,953	14,682,693
Total equity		42,842,738	36,968,403
Total liabilities and equity		230,404,797	161,978,659

The financial statements were approved on 12 April 2019 by:

Gevorg Machanyan
Chief Executive Officer

Sedrak Baghdasaryan
Chief Accountant

ARMSWISSBANK
02574955

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 77.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property	Retained earnings	Total
Balance as of 31 December 2017	8,752,800	1,347,241	3,000,000	8,075,559	1,110,110	14,682,693	36,968,403
Impact of adopting IFRS 9 (**note 6**)	-	-	-	(548,600)	-	(500,528)	(1,049,128)
Restated balance at 1 January 2018	8,752,800	1,347,241	3,000,000	7,526,959	1,110,110	14,182,165	35,919,275
Profit for the year	-	-	-	-	-	5,053,788	5,053,788
Other comprehensive income:							
Net change in fair value of debt instrument at FVOCI	-	-	-	3,977,785	-	-	3,977,785
Net amount reclassified to the profit or loss on sale of debt instruments at FVOCI	-	-	-	(1,695,643)	-	-	(1,695,643)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	43,962	-	-	43,962
Income tax relating to components of other comprehensive income	-	-	-	(456,429)	-	-	(456,429)
Total comprehensive income for the year	-	-	-	1,869,675	-	5,053,788	6,923,463
Distribution to reserve	-	-	13,000,000	-	-	(13,000,000)	-
Total transactions with owners	-	-	13,000,000	-	-	(13,000,000)	-
Balance as of 31 December 2018	8,752,800	1,347,241	16,000,000	9,396,634	1,110,110	6,235,953	42,842,738
Balance as of 1 January 2017	8,752,800	1,347,241	2,500,000	3,466,508	1,110,110	11,514,563	28,691,222
Profit for the year	-	-	-	-	-	3,668,130	3,668,130
Other comprehensive income:							
Net unrealized gains from changes in fair value	-	-	-	5,969,759	-	-	5,969,759
Net gains realized to the profit or loss on disposal of available-for-sale instruments	-	-	-	(208,445)	-	-	(208,445)
Income tax relating to components of other comprehensive income	-	-	-	(1,152,263)	-	-	(1,152,263)
Total comprehensive income for the year	-	-	-	4,609,051	-	3,668,130	8,277,181
Distribution to reserve	-	-	500,000	-	-	(500,000)	-
Total transactions with owners	-	-	500,000	-	-	(500,000)	-
Balance as of 31 December 2017	8,752,800	1,347,241	3,000,000	8,075,559	1,110,110	14,682,693	36,968,403

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 77.

Statement of cash flows

In thousand Armenian drams

	2018	2017
Cash flows from operating activities		
Profit before tax	6,328,727	4,640,504
Adjustments for		
Impairment charge of financial assets	1,505,539	1,051,372
Amortization and depreciation allowances	153,577	143,791
Interest receivable	(1,132,094)	(389,593)
Interest payable	258,768	242,650
Foreign currency translation net loss	32,860	327,718
Net (gain)/loss from changes in fair value of derivatives	253	(124,395)
Cash flows from operating activities before changes in operating assets and liabilities	7,147,630	5,892,047
(Increase)/decrease in operating assets		
Amounts due from financial institutions	(2,435,092)	(471,636)
Loans and advances to customers	(15,517,472)	(15,043,506)
Other assets	(151,646)	47,003
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	17,999,992	(13,999,997)
Amounts due to financial institutions	7,522,088	6,634,158
Amounts due to customers	29,228,426	12,648,183
Other liabilities	(63,950)	277,457
Net cash flow from/(used in) operating activities before income tax	43,729,976	(4,016,291)
Income tax paid	(1,238,135)	(1,088,570)
Net cash from/(used in) operating activities	42,491,841	(5,104,861)
Cash flows from investing activities		
Purchase of investment securities	(45,411,219)	(15,642,566)
Purchase of property and equipment	(131,870)	(53,961)
Purchase of intangible assets	(7,700)	(45,743)
Proceeds from sale of PPE and Intangibles	18,990	-
Net cash used in investing activities	(45,531,799)	(15,742,270)

Statement of cash flows (continued)

In thousand Armenian drams

	2018	2017
Cash flow from financing activities		
Loans received/(redeemed) from the CBA	(43,070)	624,933
Loans received/(redeemed) from other financial institutions	(1,151,261)	1,454,683
Net increase of debt securities issued	9,777,704	12,198,550
Subordinate debt redeemed	(337)	(193)
Net cash from financing activities	8,583,036	14,277,973
Net increase/(decrease) in cash and cash equivalents	5,543,078	(6,569,158)
Cash and cash equivalents at the beginning of the year	13,088,527	19,010,509
ECL on cash	(1,424)	-
Exchange differences on cash and cash equivalents	(414,614)	647,176
Cash and cash equivalents at the end of the year (Note 15)	18,215,567	13,088,527
Supplementary information:		
Interest received	17,119,960	13,958,219
Interest paid	(11,132,308)	(7,997,041)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 77.

Notes to the financial statements

1. Principal activities

ARMSWISSBANK CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia in Yerevan. The Bank is regulated by the legislation of RA and conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan.

The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

2. Armenian business environment

Armenia continues to undergo political and economic changes. The stability and development of the Armenian economy largely depends on these changes, as well as developments in the Eurasian Economic Union with which the integration of the Armenian economy continues.

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

3. Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income (before 1 January 2018 available for sale assets). Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in **Note 6.**

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in **Note 4.4.2.** The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in **Note 6**.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Under IFRS 9, no impairment loss is recognised on equity investments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment assessment are disclosed in Note **36.1.2**. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in **Note 6**.

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in **Note 6**, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note **36.1.2**.

Other new standards and amendments described below and applied for the first time in 2018, did not have a material impact on the annual financial statements of the Bank.

- *"Revenue from contracts with customers" (IFRS 15) and "Revenue from contracts with customer", Clarifications (Amendment to IFRS 15)*
- *"Share based payments" classification and measurement of share-based payment transactions (Amendment to IFRS 2)*
- *Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IFRS 1 and IAS 28*
- *Amendments to IAS 40 Investment Property: Transfers of Investment Property*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

IFRS 16 Leases

IFRS 16 will replace IAS 17 "Leases" and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Bank have decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Bank:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Bank has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset
- believes that the most significant impact will be that the Bank will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 December 2018 the future minimum lease payments amounted to 8,800 AMD. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense
- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position
- is implementing a new IT system that will facilitate to record lease contracts.

The Bank is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Bank need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Bank are currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the Bank does not expect any changes for leases where they are acting as a lessor.

Other standards

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019),
- Amendment to IFRS 9 "Financial instruments"-Prepayment features with negative compensation (effective from 1 January 2019),
- Amendment to IAS 19 "Employee benefits" – Plan amendment, curtailment or settlement (effective from 1 January 2019),
- Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).

4. Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net 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 4.4.6.**

Fee and commission income

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

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

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

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income (as available for sale before 01 January 2018) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions (applicable for the financial statements as of 31 December 2017). Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI (available-for-sale equity instruments before 1 January 2018) are included in the fair value reserve in equity.

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

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

	31 December 2018	31 December 2017
AMD/1 US Dollar	483.75	484.10
AMD/1 EUR	553.65	580.10

4.3 Taxation

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

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets – Policy applicable from 1 January 2018

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the 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.

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

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

Reclassifications

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 are never reclassified.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also Note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which The 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 OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by The 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.

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

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.

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

Policy applicable from 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Policy applicable before 1 January 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

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.

4.4.5 Offsetting

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

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

4.4.6 Impairment

Policy applicable from 1 January 2018

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

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan at a below-market interest rate
- financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

The 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. This is further explained in Note **36.1.2**.

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

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

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

The PD, the EAD and the LGD are further explained in Note **36.1.2**.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note **4.4.4**) and ECL are measured as follows.

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the 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 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.

Presentation of allowances for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
    - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
    - where a financial instrument includes both a drawn and an undrawn component, and The 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;
    - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the 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. However, 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.

Policy applicable before 1 January 2018

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in The Bank and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in The Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Impairment allowances of financial assets have been identified in the financial statements on the basis of existing economic conditions. Bank is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

4.7 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that The Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

4.8 Loans and advances

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

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

4.9 Investment securities

Policy applicable from 1 January 2018

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

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

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

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

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Available-for-sale financial assets

Assets available for sale represent debt and equity assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank’s right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

Fair value through profit or loss

The Bank designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as lessee

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

4.13 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.14 Property and equipment

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

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

	Useful life (years)	Rate (%)
Building	30	3.3
Computer and communication means	6	16.67
Vehicles	7	14.29
Other fixed assets	8	12.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

Building is revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property included in the revaluation reserve for property in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.15 Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.16 Repossessed assets

The Bank’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank’s policy.

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

4.17 Borrowings

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

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.18 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 and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in Note **4.18.**

4.20 Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for investments securities at FVOCI

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

4.21 Fiduciary activities

The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Commissions received from fiduciary activities are shown in fee and commission income.

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

The Bank assesse of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (see Note **4.4.2**).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 33).

Useful Life of property and equipment

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

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (see Note 32).

Impairment of financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (see Note **36.1.2**), as well as the key assumptions used in estimating recoverable cash flows (see Note **4.4.6**).

Tax legislation

Armenian tax legislation is subject to varying interpretations. See Note 31.

6 Transition disclosure

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

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

In thousand Armenian drams	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	13,088,527	13,086,676
Amounts due from financial institutions	Loans and receivables	Amortised cost	1,289,016	1,234,301
Loans and advances to customers including lease receivables	Loans and receivables	Amortised cost	61,863,425	61,412,065
Investment securities – debt	Available for sale	FVOCI	82,523,367	67,736,822
Investment securities - equity	Available for sale	FVOCI	74,935	74,935
Investment securities – debt	Held to maturity	Amortised cost	-	13,999,366
Other financial assets	Loans and receivables	Amortised cost	188,856	180,827
Total financial assets			159,028,126	157,724,992
Financial liabilities				
Amounts due to CBA	Amortised cost	Amortised cost	2,681,088	2,681,088
Amounts due to financial institutions	Amortised cost	Amortised cost	23,094,375	23,094,375
Amounts due to customers	Amortised cost	Amortised cost	65,106,750	65,106,750
Debt securities issued	Amortised cost	Amortised cost	17,600,637	17,600,637
Subordinated debt	Amortised cost	Amortised cost	13,402,138	13,402,138
Other financial liabilities	Amortised cost	Amortised cost	408,544	408,544
Total financial liabilities			122,293,532	122,293,532

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remea-surement /ECL/	Remea-surement /Other/	IFRS 9 carrying amount 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents					
Opening balance	13,088,527				
Remeasurement		-	(1,851)	-	
Closing balance					13,086,676
Amounts due from financial institutions					
Opening balance	1,289,016				
Remeasurement		-	(54,715)	-	
Closing balance					1,234,301
Loans and advances to customers including lease receivables					
Opening balance	61,863,425				
Remeasurement		-	(451,360)	-	
Closing balance					61,412,065
Investment securities					
Opening balance	-				
Remeasurement		14,786,545	(12,611)	(774,568)	
Closing balance					13,999,366
Other assets - other financial assets					
Opening balance	188,856				
Remeasurement		-	(8,029)	-	
Closing balance					180,827
Other liabilities- provisions					
Opening balance	-				
Remeasurement		-	(8,276)	-	
Closing balance					(8,276)
Total amortised cost	76,429,824	14,786,545	(536,842)	(774,568)	89,904,959
Available-for-sale					
Investment securities					
Opening balance	82,598,302				
To FVOCI – Equity		(74,935)	-	-	
To amortised cost		(14,786,545)	-	-	
To FVOCI – Debt		(67,736,822)	-	-	
Closing balance		(82,598,302)	-	-	-

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remea-surement /ECL/	Remea-surement /Other/	IFRS 9 carrying amount 1 January 2018
FVOCI-debt					
Investment securities					
Opening balance	-				
From available-for-sale		67,736,822	(71,054)	-	
Closing balance					67,665,768
FVOCI-equity					
Investment securities					
Opening balance	-				
From available-for-sale		74,935	-	-	
Closing balance					74,935
Total FVOCI	82,598,302	(14,786,545)	(71,054)	-	67,740,703
FVTPL					
Financial derivatives	645	-	-	-	645
Total FVTPL	645	-	-	-	645
Financial liabilities					
Amortised cost					
Amounts due to CBA	2,681,088	-	-	-	2,681,088
Amounts due to financial institutions	23,094,375	-	-	-	23,094,375
Amounts due to customers	65,106,750	-	-	-	65,106,750
Debt securities issued	17,600,637	-	-	-	17,600,637
Subordinated debt	13,402,138	-	-	-	13,402,138
Other liabilities- other financial liabilities	408,544	-	-	-	408,544
Total amortised cost	122,293,532	-	-	-	122,293,532
FVTPL					
Derivative financial liabilities	392	-	-	-	392
Total FVTPL	392	-	-	-	392

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

In thousand Armenian drams	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	8,075,559
Reclassification of debt securities from available-for-sale to amortised cost	(774,568)
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	71,054
Deferred tax in relation to the above	154,914
Opening balance under IFRS 9 (1 January 2018)	7,526,959
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	14,682,693
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(607,896)
Deferred tax in relation to the above	107,368
Opening balance under IFRS 9 (1 January 2018)	14,182,165
Total change in equity due to adopting IFRS 9	(1,049,128)

The following table reconciles:

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

In thousand Armenian drams	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	-	1,851	1,851
Amounts due from financial institutions	-	54,715	54,715
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	1,574,827	451,360	2,026,187
Held to maturity per IAS 39/Debt instruments at amortised cost under IFRS 9:	-	12,611	12,611
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	71,054	71,054
Other assets	-	8,029	8,029
	1,574,827	599,620	2,174,447
Loan commitments and financial guarantee contracts issued	-	8,276	8,276
	-	8,276	8,276
Total impairment allowance	1,574,827	607,896	2,182,723

7 Interest and similar income and expense

In thousand Armenian drams	2018	2017
Loans and advances to customers	6,509,974	5,893,624
Investment securities at FVOCI (2017 available-for-sale)	11,144,883	7,945,251
Investment securities at amortised cost (2017 held-to-maturity)	81,551	-
Income from factoring	248,747	265,385
Amounts due from financial institutions	146,819	26,764
Reverse repurchase transactions	114,178	107,164
Interest accrued on individually impaired financial assets	-	94,707
Other interest income	5,902	14,917
Total interest and similar income	18,252,054	14,347,812
Amounts due to customers	7,152,452	4,976,838
Repurchase transactions	626,778	609,971
Amounts due to financial institutions	1,543,241	1,319,106
Debt securities issued	1,551,069	848,476
Total interest and similar expense	10,873,540	7,754,391

8 Fee and commission income and expense

In thousand Armenian drams	2018	2017
Cash operations	27,540	33,309
Wire transfer fees	96,125	69,765
Guarantees and letters of credit	42,543	29,697
Brokerage operations	61,574	72,840
Plastic cards operations	4,647	-
Other fees and commissions	2,869	2,511
Total fee and commission income	235,298	208,122
Wire transfer fees	30,322	30,249
Received guarantees	1,204	2,733
Brokerage operations	59,105	58,753
Expenses on intermediary services	30,936	17,847
Other expenses	975	472
Total fee and commission expense	122,542	110,054

9 Net trading income

In thousand Armenian drams	2018	2017
Net gain from derivatives	7,151	202,513
Net gain from transactions in foreign currencies	304,992	232,439
Total net trading income	312,143	434,952

10 Other income

In thousand Armenian drams	2018	2017
Net gains from operations with precious metals	11,900	39,515
Income from sale of repossessed assets	558	3,038
Fines and penalties received	-	9,870
Income from dividends	4,996	5,100
Income from financial intermediation	22,603	58,471
Insurance compensation	25,606	4,341
Income from transactions with securities	43,691	20
Other income	4,348	4,505
Total other income	113,702	124,860

11 Impairment loss/(reversal)

2018 In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2018	Total 2017
Cash and cash equivalents	15	(427)	-	-	(427)	-
Amounts due from financial institutions	17	11,250	-	-	11,250	-
Loans and advances to customers	18	(153,312)	626,703	930,237	1,403,628	1,051,372
Investment securities measured at FVOCI	19	43,962	-	-	43,962	-
Investment securities measured at amortised cost	19	47,616	-	-	47,616	-
Other assets	23	2,037	-	-	2,037	-
Financial guarantees	31	(2,527)	-	-	(2,527)	-
Total impairment loss/ (reversal)		(51,401)	626,703	930,237	1,505,539	1,051,372

12 Personnel expenses

In thousand Armenian drams	2018	2017
Compensations of employees, related taxes included	1,096,098	926,518
Staff training costs	5,199	1,447
Other	2,027	-
Total staff costs	1,103,324	927,965

13 Other expenses

In thousand Armenian drams	2018	2017
Net loss from foreign currency translation of non-trading assets	32,860	327,718
Net losses from operations with precious metals	4,016	-
Communications	101,890	95,434
Fixed and intangible assets maintenance and repair	51,252	72,036
Representative expenses	33,275	26,936
Consulting and other services	16,847	11,197
Taxes, other than income tax, duties	33,516	6,290
Payments to Deposit Guarantee Fund	37,047	28,329
Operating lease expenses	25,280	17,280
Administrative expenses	22,430	24,803
Insurance expenses	24,745	21,229
Business trip expenses	19,836	15,516
Security	7,680	7,694
Fees to financial system mediator	16,198	13,026
Office supplies	16,103	9,036
Loan extension and repayment fees	16,341	12,149
Loss from disposal of property and equipment	11,826	-
ACRA expenses	6,418	5,542
ArCa expenses	30,583	7,407
Advertising costs	11,035	4,026
Cash collection expenses	2,413	1,440
Other expenses	-	45,200
Total other expense	521,591	752,288

14 Income tax expense

In thousand Armenian drams	2018	2017
Current tax expense	1,348,035	1,000,000
Deferred tax	(73,096)	(27,626)
Total income tax expense	1,274,939	972,374

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2017: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2018	Effective rate (%)	2017	Effective rate (%)
Profit before tax	6,328,727		4,640,504	
Income tax at the rate of 20%	1,265,745	20	928,101	20
Non-deductible expenses	2,410	-	23,793	1
Foreign exchange losses	6,784	-	20,480	-
Income tax expense	1,274,939	20	972,374	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2017 Net deferred tax	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in equity	2018 Net deferred tax	2018 Deferred tax asset	2018 Deferred tax liability
Cash and cash equivalents	(1,604)	370	(3,514)	-	(4,748)	-	(4,748)
Amounts due from financial institutions	(4,751)	10,943	1,307	-	7,499	7,499	-
Loans and advances to customers	-	90,272	56,536	-	146,808	146,808	-
Investment securities at FV through OCI (AFS)	(2,018,886)	154,914	-	(456,429)	(2,320,401)	-	(2,320,401)
Investment securities at amortised cost (HTM)	-	2,522	9,523	-	12,045	12,045	-
Property and equipment	(277,527)	-	31,600	-	(245,927)	-	(245,927)
Other assets	(2,669)	1,606	12,527	-	11,464	11,464	-
Other provisions	(15,602)	1,655	(14,666)	-	(28,613)	-	(28,613)
Other liabilities	46,280	-	(20,217)	-	26,063	26,063	-
Deferred tax	(2,274,759)	262,282	73,096	(456,429)	(2,395,810)	203,879	(2,599,689)

In thousand Armenian drams	2016	Recognized in profit or loss	Recognized in other comprehensive income	2017
Other liabilities	15,336	30,944	-	46,280
Total deferred tax assets	15,336	30,944	-	46,280
Cash and cash equivalents	(5,841)	4,237	-	(1,604)
Amounts due from financial institutions	(807)	(3,944)	-	(4,751)
Investment securities available for sale	(866,623)	-	(1,152,263)	(2,018,886)
Property and equipment	(277,527)	-	-	(277,527)
Other assets	(4,753)	2,084	-	(2,669)
Other provisions	(9,907)	(5,695)	-	(15,602)
Total deferred tax liability	(1,165,458)	(3,318)	(1,152,263)	(2,321,039)
Net deferred tax liability	(1,150,122)	27,626	(1,152,263)	(2,274,759)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2018	31 December 2017
Cash on hand	2,100,657	1,156,019
Correspondent account with the CBA	13,299,569	9,409,572
Correspondent accounts with banks	1,714,746	800,074
Deposits for less than 90 days	1,102,019	1,722,862
	18,216,991	13,088,527
Less loss allowance	(1,424)	-
Total cash and cash equivalents	18,215,567	13,088,527

As of 31 December 2018 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 2% (2017: 2%) of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 11,363,997 thousand (2017: 18%, AMD 8,646,812 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2018 the amounts of correspondent accounts with financial institutions in amounts of AMD 1,484,676 thousand (87%) (2017: AMD 1,767,876 thousand (70%)) were due from one commercial banks (2017: 4 commercial banks), which represent significant concentration.

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

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Cash and cash equivalents		
ECL allowance as at 1 January 2018	1,851	-
Net remeasurement of loss allowance	(427)	-
Balance at 31 December	1,424	-

Non-cash transactions performed by the Bank during 2018 are represented by:

- repayment of AMD 348,103 thousand loan by obtaining ownership on repossessed collateral (2017: AMD 81,168 thousand).

16 Derivative financial instruments

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

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

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

In thousand Armenian drams	31 December 2018			31 December 2017		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Swaps – foreign currency	-	-	-	436,304	645	392
Total derivative financial instruments	-	-	-	436,304	645	392

17 Amounts due from financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Loans to financial institutions	2,415,153	409,954
Deposited funds in the CBA	360,000	2,500
Deposited funds in banks	129,413	242,486
Deposited funds in other financial institutions	831,433	632,081
Other amounts	7,136	1,995
	3,743,135	1,289,016
Less loss allowance	(65,965)	-
Total amounts due from financial institutions	3,677,170	1,289,016

Deposited funds with the CBA include a guaranteed deposit for settlements via ArCa payment system.

Deposited funds with the financial institutions in the amount of AMD 634,165 thousand (2017: 392,050 thousand) represent financial instruments in the Central Depository of Armenia for the fulfillment of the obligations assumed by the market maker contract.

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

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Amount due from other financial institutions		
ECL allowance as at 1 January 2018	54,715	-
Net remeasurement of loss allowance	11,250	-
Balance at 31 December	65,965	-

18 Loans and advances to customers

In thousand Armenian drams	31 December 2018			31 December 2017		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	7,953,092	(169,047)	7,784,045	6,348,274	(131,442)	6,216,832
Consumer lending	1,979,090	(116,415)	1,862,675	2,445,132	(223,610)	2,221,522
Credit cards	151,265	(3,993)	147,272	-	-	-
Reverse sale-and-repurchase agreements	327,162	(808)	326,354	385,919	-	385,919
Commercial lending						
Trading	9,648,492	(186,392)	9,462,100	5,428,432	(192,314)	5,236,118
Manufacturing	26,824,151	(479,122)	26,345,029	25,940,370	(543,393)	25,396,977
Agriculture	9,001,989	(264,589)	8,737,400	6,910,826	(138,217)	6,772,609
Construction	7,355,211	(312,516)	7,042,695	3,962,343	(79,246)	3,883,097
Other	12,010,408	(87,701)	11,922,707	12,016,956	(266,605)	11,750,351
Total	75,250,860	(1,620,583)	73,630,277	63,438,252	(1,574,827)	61,863,425

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

During the year ended 31 December 2018 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2018 the carrying amount of such assets was AMD 348,103 thousand (2017: AMD 81,168 thousand). The Bank is intended to sell these assets in a short period.

As of 31 December 2018 the weighted average effective interest rate on loans and advances to customers is 11.99% for loans in AMD (2017: 13.0%) and 9.52% for loans in USD, EUR and other freely convertible currencies (2017: 10.5%).

As of 31 December 2018, the Bank had a concentration of loans represented by AMD 32,292,427 thousand due from the ten largest third party entities and parties related with them (42.9% of gross loan portfolio) (2017: AMD 32,637,209 thousand or 51.4%). An allowance of AMD 695,411 thousand (2017: AMD 756,811 thousand) was made against these loans.

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

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January 2018	104,219	42,983	5,621	152,823
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	870	(870)	-	-
Transfer to Lifetime ECL not credit-impaired	(4,899)	4,899	-	-
Transfer to Lifetime ECL credit-impaired	-	(2,842)	2,842	-
Net remeasurement of loss allowance	(12,314)	133,332	134,469	255,487
Recoveries	-	-	32,261	32,261
Amounts written off during the year	-	-	(150,308)	(150,308)
Balance at 31 December	87,876	177,502	24,885	290,263

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January 2018	841,077	90,989	941,298	1,873,364
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	18,196	(18,196)	-	-
Transfer to Lifetime ECL not credit-impaired	(1,469)	1,469	-	-
Transfer to Lifetime ECL credit-impaired	(1,541)	-	1,541	-
Net remeasurement of loss allowance	(140,998)	493,371	795,768	1,148,141
Recoveries	-	-	833,544	833,544
Amounts written off during the year	-	-	(2,524,729)	(2,524,729)
Balance at 31 December	715,265	567,633	47,422	1,330,320

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in Note **36.1.2.**

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to 31 December 2017 is, as follows:

In thousand Armenian drams			2017
	Mortgage and consumer lending	**Commercial lending**	**Total**
At 1 January 2017	133,684	1,164,733	1,298,417
Charge for the year	237,373	813,999	1,051,372
Amounts written off	(39,230)	(815,983)	(855,213)
Recoveries	23,225	57,026	80,251
At 31 December 2017	355,052	1,219,775	1,574,827
Individual impairment	192,756	1,213,469	1,406,225
Collective impairment	162,296	6,306	168,602
	355,052	1,219,775	1,574,827
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	780,306	254,128	1,034,434

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. Fair value of assets pledged and carrying value of loans under reverse repurchase agreements. As of 31 December 2018 are presented as follows:

In thousand Armenian drams	31 December 2018		31 December 2017	
	Fair value of collateral	**Gross carrying value of loans**	**Fair value of collateral**	**Gross carrying value of loans**
RA Government securities	346,054	327,162	382,621	385,919
Total assets pledged and loans under reverse repurchase agreements	346,054	327,162	382,621	385,919

At 31 December 2018 and 2017 the estimated fair value of loans and advances to customers approximates it carrying value. See Note 33.

Maturity analysis of loans and advances to customers are disclosed in Note 35.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 36. The information on related party balances is disclosed in Note 32.

19 Investment securities

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at amortised cost		
Held-to-maturity investment securities	N/A	-
Investment securities measured at amortised cost	56,549,319	N/A
	56,549,319	-
Less loss allowance	(54,204)	-
Total investment securities at amortised cost (2017 Held-to-maturity)	56,495,115	-
Investment securities measured at amortised cost (2017 Held-to-maturity) pledged under repurchase agreements	6,227,338	-
Less loss allowance	(6,023)	-
Total investment securities at amortised cost (2017 Held-to-maturity) pledged under repurchase agreements	6,221,315	-

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

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	12,611	-
Net remeasurement of loss allowance	47,616	-
Balance at 31 December	60,227	-

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at FVOCI		
Investment securities measured at FVOCI – debt instruments	41,969,806	N/A
Investment securities designated as at FVOCI – equity investments	70,753	N/A
Available-for-sale investment securities	N/A	82,598,302
Total investment securities measured at FVOCI (2017 Available-for-sale)	42,040,559	82,598,302
Debt investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	26,724,152	-
Total investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	26,724,152	-

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

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	71,054	-
Net remeasurement of loss allowance	43,962	-
Balance at 31 December	115,016	-

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI (2017: available-for-sale) is their fair value.

All debt securities have fixed coupons.

Investment securities measured at FVOCI (2017: available-for-sale) by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
RA Government bonds	7.24-16.9%	2019-2036	7.5-16.9%	2019-2036
RA Government bonds in foreign currency	5.73-6.63%	2025	4.6-6.6%	2020-2026
RA corporate bonds	11.74%	2019-2029	6.3-11.7%	2018-2029

Investment securities measured at amortised cost (2017 Held-to-maturity) upon profitability and maturity terms:

In thousand Armenian drams	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
RA Government bonds	10.63-10.69%	2047	-	-

The pledged securities are those financial assets pledged under repurchase agreements with other banks and other financial organizations with the right to sell or re-pledge by the counterparty. The total amount of financial assets that have been pledged as collateral for liabilities, including amounts reflected above, at 31 December 2018 was AMD 32,951,490 thousand (2017: nil). See Notes 24, 25, 26.

20 Property and equipment

In thousand Armenian drams	Buildings	Computer and communicat ion means	Vehicles	Office equipment	Capital investments in leased assets	Total
COST						
At 31 December 2017	2,014,681	181,193	75,949	130,310	24,989	2,427,122
Additions	2,041	42,738	4,320	4,518	344	53,961
Disposals	-	(1,461)	-	(1,344)	-	(2,805)
At 31 December 2017	2,016,722	222,470	80,269	133,484	25,333	2,478,278
Additions	-	56,224	43,846	11,738	20,062	131,870
Disposals	-	(34,415)	-	(1,275)	-	(35,690)
At 31 December 2018	2,016,722	244,279	124,115	143,947	45,395	2,574,458
Accumulated depreciation						
At January 1, 2017	58,511	139,768	54,234	92,753	7,490	352,756
Charge for the year	84,459	20,972	7,313	11,241	2,535	126,520
Disposals	-	(1,460)	-	(1,337)	-	(2,797)
At 31 December 2017	142,970	159,280	61,547	102,657	10,025	476,479
Charge for the year	84,280	24,172	8,457	11,569	3,174	131,652
Disposals	-	(18,675)	-	(1,275)	-	(19,950)
At 31 December 2018	227,250	164,777	70,004	112,951	13,199	588,181

In thousand Armenian drams	Buildings	Computer and communication means	Vehicles	Office equipment	Capital investments in leased assets	Total
Carrying value						
At 31 December 2017	1,873,752	63,190	18,722	30,827	15,308	2,001,799
At 31 December 2018	1,789,472	79,502	54,111	30,996	32,196	1,986,277

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser at 08 February 2016 using a combination of the market, income and cost methods resulting in a revaluation of AMD 1,387,637 thousand. Management have based their estimate of the fair value of the buildings on the results of the independent appraisal.

For the fair value hierarchy of property and equipment see Note 33.3.

The management believes that at 31 December 2018 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of buildings that would have been recognised under the historic cost, the revalued amounts will be presented as follows:

In thousand Armenian drams	31 December 2018	31 December 2017
Historic cost	748,647	748,647
Accumulated amortization	(185,197)	(160,246)
Revalued amount	563,450	588,401

Fully depreciated items

As of 31 December 2018 fixed assets included fully depreciated assets in amount of AMD 205,632 thousand (2017: AMD169,460 thousand).

Restrictions on title of fixed assets

As of 31 December 2018 the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2018 the Bank had no contractual commitments in respect of capital construction (2017: nil).

21 Intangible assets

In thousand Armenian drams	Computer software	Licenses	Total
Cost			
At 1 January 2017	92,501	38,785	131,286
Additions	14,451	32,301	46,752
Disposals	(1,944)	(3,693)	(5,637)
At 31 December 2017	105,008	67,393	172,401
Additions	3,029	4,671	7,700
Disposals	(10,950)	(4,326)	(15,276)
At 31 December 2018	97,087	67,738	164,825

In thousand Armenian drams	Computer software	Licenses	Total
Accumulated amortisation			
At 1 January 2017	68,501	3,283	71,784
Amortisation charge	9,665	7,606	17,271
Disposals	(1,944)	(3,662)	(5,606)
At 31 December 2017	76,222	7,227	83,449
Amortisation charge	13,277	8,648	21,925
Disposals	(9,277)	(2,749)	(12,026)
At 31 December 2018	80,222	13,126	93,348
Carrying amount			
At 31 December 2017	28,786	60,166	88,952
At 31 December 2018	16,865	54,612	71,477

Contractual commitments

As at 31 December 2018 the Bank did not have any contractual commitments (2017: either).

As of 31 December 2018, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

22 Repossessed assets

Details of non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as at December 31 are shown below:

In thousand Armenian drams	31 December 2018	31 December 2017
Property	483,664	415,454
Other assets	382,587	277,381
Total repossessed assets	866,251	692,835

23 Other assets

In thousand Armenian drams	31 December 2018	31 December 2017
Debtors and other receivables	195,894	41,736
Other financial assets	149,789	147,120
	345,683	188,856
Less loss allowance	(11,503)	-
Total other financial assets	334,180	188,856
Prepayments	872	6,973
Gold in vault	104,910	125,696
Other prepaid taxes	25,120	27,546
Materials	8,744	3,212
Other assets	2,811	2,875
Total non-financial assets	142,457	166,302
Total other assets	476,637	355,158

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

In thousand Armenian drams	2018	2017
	ECL	Total
Other financial assets		
ECL allowance as at 1 January 2018	8,029	-
Net remeasurement of loss allowance	2,037	-
Net recovery	1,437	-
Balance at 31 December	11,503	-

24 Amounts due to the CBA

In thousand Armenian drams	31 December 2018	31 December 2017
Loans under repurchase agreements	18,012,340	-
Other loans	2,653,438	2,681,088
	20,665,778	2,681,088

Other loans include loans in the amount of AMD 2,653,438 thousand received within the scope of loan projects “Lending to Armenia SMEs” and “Development of the renewable energies” of the German-Armenian fund (2017: AMD 2,681,088 thousand).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

25 Amounts due to financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Loans from international financial institutions	4,732,024	5,888,000
Loans from financial institutions	2,343,951	8,623,308
Deposits from financial institutions	7,806,654	7,306,773
Current accounts of other financial institutions	1,769,827	1,253,109
Letter of credit	864,877	-
Correspondent accounts of other banks	20,990	21,478
Loans under repurchase agreements	11,584,335	-
Other liabilities	3,796	1,707
Total amounts due to financial institutions	29,126,454	23,094,375

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development.

All loans and deposits have fixed interest rates.

As of 31 December 2018 the weighted average effective interest rate on amounts due to financial institutions is 7.77% for borrowings in AMD (2017: 6.79%) and 5.64% for borrowings in USD (2017: nil).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: either).

26 Amounts due to customers

In thousand Armenian drams	31 December 2018	31 December 2017
Government of the RA		
Other liabilities	20,000	20,000
	20,000	20,000
Corporate customers		
Current/Settlement accounts	13,276,703	15,622,402
Time deposits	61,938,099	35,280,212
	75,214,802	50,902,614
Retail customers		
Current/Demand accounts	2,761,024	3,489,277
Time deposits	15,608,917	10,694,859
Loans under repurchase agreements	290,676	-
	18,660,617	14,184,136
Total amounts due to customers	93,895,419	65,106,750

All customer deposits carry fixed interest rates.

RA government amounts represent loans received within the scope of “Accrediting economic stability” program.

As of 31 December 2018 included in amounts due to customers are deposits amounting to AMD 7,783,815 thousand (2017: AMD 8,747,236 thousand) held as security against letters of credit issued, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

At 31 December 2018 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 32) amounts to AMD 52,734,613 thousand (2017: AMD 35,767,099 thousand) or 56.2% of total customer accounts (2017: 55.0%).

As of 31 December 2018 the weighted average effective interest rates on amounts due to customers was 9.38% for amounts attracted in AMD (2017: 10.19%) and 4.22 % for amounts attracted in USD and EUR (2017: 4.87%).

27 Debt securities issued

In thousand Armenian drams	31 December 2018	31 December 2017
Non-current bonds	27,173,064	17,600,637
Total debt securities issued	27,173,064	17,600,637

The Bank has not repurchased any of its own debt during the year (2017: Nil).

As of 31 December 2018, the Bank had issued interest-bearing bonds with following terms:

Type of bonds	Currency	Face value	%	Maturity of bonds
AMSWISB22ER5	USD	1,728,439	8.00	16.04.2019
AMSWISB23ER3	USD	2,452,613	8.50	27.04.2020
AMSWISB26ER6	AMD	2,217,400	12.75	15.06.2021
AMSWISB27ER4	AMD	3,313,500	11.50	24.05.2023
AMSWISB25ER8	EUR	3,235,666	5.00	15.06.2023
AMSWISB24ER1	USD	4,616,765	6.75	15.06.2024
AMSWISB29ER0	USD	4,837,500	6.00	22.11.2024
AMSWISB28ER2	USD	3,213,455	6.50	24.05.2025
		25,615,388		

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

28 Subordinated debt

In thousand Armenian drams	31 December 2018	31 December 2017
Subordinated debt provided by legal entities	13,398,279	13,402,138
Total subordinated debt	13,398,279	13,402,138

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

The balance of subordinated debt obtained from legal entities as at 31 December 2018 is as follows:

31 December 2018				
Year of provision	Currency	%	Maturity, year	Amount, thousand Armenian drams
2015	US dollar	3	9	2,419,943
2016	US dollar	8	7	2,429,353
2016	Armenian dram	14	7	8,064,438
2016	US dollar	3	7	484,545
Total subordinated liabilities				13,398,279

29 Other liabilities

In thousand Armenian drams	31 December 2018	31 December 2017
Accounts payables	191,174	181,538
Due to personnel	125,147	227,006
Total other financial liabilities	316,321	408,544
Tax payable, other than income tax	146,885	107,253
Provisions*	5,749	-
Other	1,900	7,820
Total other non-financial liabilities	154,534	115,073
Total other liabilities	470,855	523,617

*Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on loan commitments and financial guarantees see Note 33.

30 Equity

As of 31 December 2018 the Bank's registered and paid-in share capital was AMD 8,752,800 thousand. In accordance with the Bank's statues, the share capital consists of 14,588 ordinary shares, all of which have a par value of AMD 600 thousand each.

The respective shareholdings as of 31 December 2018 and 2017 may be specified as follows:

In thousand Armenian drams	31 December 2018		31 December 2017	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
"HVS Holding" S.a.r.l.	8,752,800	100	7,002,000	79.9972580
BELEGGINGSMAATSCHAPPIJ JONGO B.V.	-	-	1,750,800	20.0027420
	8,752,800	100	8,752,800	100

As of 31 December 2018, the Bank did not possess any of its own shares.

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

31 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2018	31 December 2017
Undrawn loan commitments	3,166,360	4,083,691
Guarantees	1,938,212	1,136,259
Unused part of factoring limit	2,407,441	1,573,002
Total commitments and contingent liabilities	7,512,013	6,792,952

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

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Financial guarantees		
ECL allowance as at 1 January 2018	8,276	-
Net remeasurement of loss allowance	(2,527)	-
Net write-off / recovery	-	-
Balance at 31 December	5,749	-

An analyses of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (Note 18).

Operating lease commitments – Bank as a lessee

In the normal course of business, the Bank enters into commercial lease agreements for premises.

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

In thousand Armenian drams	31 December 2018	31 December 2017
Not later than 1 year	8,800	4,320
Total operating lease commitments	8,800	4,320

Information on the Bank's capital commitments is disclosed in Notes 20 and 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However, as at 31 December 2018 the Bank's building and transportation are insured. The Bank possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility.

32 Transactions with related parties

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

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

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

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

In thousand Armenian drams	2018		2017	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Cash and cash equivalents				
At 1 January	-	-	164,999	-
Increase	-	-	1,750,709	-
Decrease	-	-	(1,915,708)	-
At 31 December	-	-	-	-

In thousand Armenian drams		2018		2017
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Loans and advances to customers				
Loans outstanding at 1 January gross	6,016,200	444,012	1,189,739	467,797
Loans issued during the year	5,717,637	380,716	6,335,423	262,475
Loan repayments during the year	(4,548,900)	(369,357)	(1,508,962)	(286,260)
Loans outstanding at 31 December gross	7,184,937	455,371	6,016,200	444,012
Less: allowance for loan impairment	(71,849)	(4,554)	(120,324)	(8,880)
Loans outstanding at 31 December	7,113,088	450,817	5,895,876	435,132
Amounts due to financial institutions				
At 1 January	12,500	-	5,218	-
Increase	-	-	6,738,368	-
Decrease	(12,500)	-	(6,731,086)	-
At 31 December	-	-	12,500	-
Amounts due to customers				
Deposits at 1 January	30,621,315	175,461	26,949,849	287,877
Deposits received during the year	118,183,764	5,145,605	98,880,532	2,682,686
Deposits repaid during the year	(96,580,646)	(5,186,831)	(95,209,066)	(2,795,102)
Deposits at 31 December	52,224,433	134,235	30,621,315	175,461
Debt securities issued				
At January 1	10,576,164	207,452	3,578,252	-
Increase	3,985,731	363,814	7,700,392	212,513
Decrease	(2,581,646)	(49,945)	(702,480)	(5,061)
At December 31	11,980,249	521,321	10,576,164	207,452
Subordinated debt				
At January 1	13,325,100	-	13,323,340	-
Increase	1,728,434	-	1,738,299	-
Decrease	(1,732,284)	-	(1,736,539)	-
At December 31	13,321,250	-	13,325,100	-
Guarantees issued	-	-	-	10,510
Statement of profit or loss and other comprehensive income				
Interest income on loans and advances to customers	538,798	41,918	324,587	36,674
Income from guarantees	-	-	-	256
Interest expense on deposits	(5,113,832)	(12,337)	(2,582,806)	(8,997)
Interest expense on debt securities issued	(847,878)	(26,334)	(534,851)	(7,466)
Subordinated debt	(1,400,975)	-	1,406,875	-
Impairment (charge)/reversal for credit losses	48,475	4,326	96,529	(476)

The loans issued to directors and other key management personnel during the year are repayable over 2019-2033 years and have weighted average interest rate of 10.43% (2017: 10.61%).

At 31 December 2018 53% of amounts (2017: 47%) due to customers represent deposits attracted from the shareholder (from the ultimate controlling party of the Bank Vardan Sirmakes) and related parties, annual interest expenses paid with regard to this deposit form 71.5% of total interest expenses from deposits (2017: 52%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2018	2017
Salaries and bonuses	485,682	305,963
Total key management compensation	485,682	305,963

33 Fair value measurement

The Bank's Board determines the policies and procedures for both recurring fair value measurement, such as unquoted securities measured at fair value through OCI, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External appraisals are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external appraisals is decided upon annually by the Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Bank's external appraisals, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

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

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

33.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	18,215,567	-	18,215,567	18,215,567
Amounts due from financial institutions	-	3,677,170	-	3,677,170	3,677,170
Loans and advances to customers	-	73,630,277	-	73,630,277	73,630,277
Investments securities measured at amortised cost (including securities pledged under repurchase agreements)	-	67,007,972	-	67,007,972	56,495,115
Other financial assets	-	334,180	-	334,180	334,180

In thousand Armenian drams					31 December 2018
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial liabilities					
Amounts due to the CBA	-	20,665,778	-	20,665,778	20,665,778
Amounts due to financial institutions	-	29,126,454	-	29,126,454	29,126,454
Amounts due to customers	-	93,895,419	-	93,895,419	93,895,419
Debt securities issued	-	27,173,064	-	27,173,064	27,173,064
Subordinated debt	-	13,398,279	-	13,398,279	13,398,279
Other financial liabilities	-	316,321	-	316,321	316,321

In thousand Armenian drams					31 December 2017
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	13,088,527	-	13,088,527	13,088,527
Amounts due from financial institutions	-	1,289,016	-	1,289,016	1,289,016
Loans and advances to customers	-	61,863,425	-	61,863,425	61,863,425
Other financial assets	-	188,856	-	188,856	188,856
Financial liabilities					
Amounts due to the CBA		2,681,088		2,681,088	2,681,088
Amounts due to financial institutions	-	23,094,375	-	23,094,375	23,094,375
Amounts due to customers	-	65,106,750	-	65,106,750	65,106,750
Issued debt securities	-	17,600,637	-	17,600,637	17,600,637
Subordinated debt	-	13,402,138	-	13,402,138	13,402,138
Other financial liabilities	-	408,544	-	408,544	408,544

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 22% per annum (2017: 4.5% to 22% per annum). The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraisers.

Investment securities measured at amortised cost (2017 held to maturity)

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2018
	Level 1	Level 2	Level 3	Total
Financial assets				
Listed shares and bonds	6,436,711	1,233,597	-	7,670,308
Unlisted bonds	-	34,338,533	-	34,338,533
Unlisted equity investments	-	31,718	-	31,718
Total	6,436,711	35,603,848	-	42,040,559

In thousand Armenian drams				31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets				
Unlisted securities and bonds	-	82,523,367	-	82,523,367
Derivative financial assets	-	645	-	645
Total	-	82,524,012	-	82,524,012
Financial liabilities				
Financial liabilities held for trading	-	392	-	392
Total	-	392	-	392
Net fair value	-	82,523,620	-	82,523,620

There have been no transfers between levels 1 and 2 in the reporting period.

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

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Armenia.

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquoted equity investments.

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable. In 2017 unquoted equity instruments were measured at cost and were therefore excluded from this disclosure.

Derivatives

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

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

33.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2018
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Buildings	-	*2,016,722*	-	*2,016,722*
Total	-	2,016,722	-	2,016,722

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property appraisals. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative *approach* that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The building was revalued on *08 February 2016*.

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams						31 December 2018
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reversal and repurchase agreements (Note 18)	327,162	-	327,162	-	-	-
FINANCIAL LIABILITIES						
Loans under repurchase agreements (Note 24, 25, 26)	29,887,351	-	29,887,351	(32,951,490)	-	(3,064,139)

In thousand Armenian drams

	31 December 2017					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reversal and repurchase agreements (Note 18)	385,919	-	385,919	(385,919)	-	-

35 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams

	31 December 2018						
	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
Assets							
Cash and cash equivalents	18,215,567	-	*18,215,567*	-	-	-	18,215,567
Amounts due from financial institutions	3,315,820	223,184	*3,539,004*	138,166	-	*138,166*	3,677,170
Loans and advances to customers	5,413,904	17,355,387	*22,769,291*	40,907,930	9,953,056	*50,860,986*	73,630,277
Investment securities							
- Investment securities at fair value through other comprehensive income	17,893	3,654,465	*3,672,358*	5,303,915	33,064,286	*38,368,201*	42,040,559
- Investments securities at amortised cost	-	2,066,911	*2,066,911*	-	54,428,204	*54,428,204*	56,495,115
- Securities pledged under repurchase agreements	-	811,957	*811,957*	-	32,133,510	*32,133,510*	32,945,467
Other financial assets	334,180	-	*334,180*	-	-	-	334,180
	27,297,364	24,111,904	*51,409,268*	46,350,011	129,579,056	*175,929,067*	227,338,335
Liabilities							
Amounts due to the CBA	18,243,250	228,053	*18,471,303*	1,523,074	671,401	*2,194,475*	20,665,778
Amounts due to financial institutions	12,661,004	12,934,197	*25,595,201*	2,960,885	570,368	*3,531,253*	29,126,454
Amounts due to customers	17,319,873	18,955,946	*36,275,819*	47,583,847	10,035,753	*57,619,600*	93,895,419
Debt securities issued	-	1,475,742	*1,475,742*	13,053,156	12,644,166	*25,697,322*	27,173,064
Subordinated debt	-	-	-	10,978,336	2,419,943	*13,398,279*	13,398,279
Other financial liabilities	316,321	-	*316,321*	-	-	-	316,321
	48,540,448	33,593,938	*82,134,386*	76,099,298	26,341,631	*102,440,929*	184,575,315
Net position	(21,243,084)	(9,482,034)	*(30,725,118)*	(29,749,287)	103,237,425	*73,488,138*	42,763,020
Accumulated gap	(21,243,084)	(30,725,118)		(60,474,405)	42,763,020		

In thousand Armenian drams							31 December 2017
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	13,088,527	-	13,088,527	-	-	-	13,088,527
Derivative financial assets	609	36	645	-	-	-	645
Amounts due from financial institutions	881,882	282,028	1,163,910	125,106	-	125,106	1,289,016
Loans and advances to customers	4,197,032	13,181,729	17,378,761	34,018,541	10,466,123	44,484,664	61,863,425
- Investments available for sale	9,621	670,350	679,971	5,872,138	76,046,193	81,918,331	82,598,302
Other financial assets	475	144,000	144,475	44,381	-	44,381	188,856
	18,178,146	14,278,143	32,456,289	40,060,166	86,512,316	126,572,482	159,028,771
Liabilities							
Amounts due to the CBA	203,988	270,337	474,325	1,443,644	763,119	2,206,763	2,681,088
Derivative financial liabilities	392	-	392	-	-	-	392
Amounts due to financial institutions	6,408,569	11,837,249	18,245,818	4,280,843	567,714	4,848,557	23,094,375
Amounts due to customers	20,698,334	20,877,009	41,575,343	20,625,375	2,906,032	23,531,407	65,106,750
Debt securities issued	-	983,519	983,519	5,946,390	10,670,728	16,617,118	17,600,637
Subordinated debt	-	-	-	-	13,402,138	13,402,138	13,402,138
Other financial liabilities	16,541	392,003	408,544	-	-	-	408,544
	27,327,824	34,360,117	61,687,941	32,296252	28,309,731	60,605,983	122,293,924
Net position	(9,149,678)	(20,081,974)	(29,231,652)	7,763,914	58,202,585	65,966,499	36,734,847
Accumulated gap	(9,149,678)	(29,231,652)		(21,467,738)	36,734,847		

36 Risk management

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

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

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

Risk management structure

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

Board of the Bank

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

Management

The Management has the responsibility to monitor the overall risk process.

Credit Committee

The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

Risk Management Department

The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank’s risk limits.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank’s activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

Risk measurement and reporting systems

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

36.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank’s business;

management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of the Bank.

36.1.1 Credit quality analysis

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

In thousand Armenian drams	31 December 2018				31 December 2017
Internal rating grade	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Cash and cash equivalents					
Standard	18,216,991	-	-	18,216,991	13,088,527
Gross carrying amount	18,216,991	-	-	18,216,991	13,088,527
Loss allowance	(1,424)	-	-	(1,424)	-
Net carrying amount	18,215,567	-	-	18,215,567	13,088,527
Amounts due from financial institutions					
Standard	3,743,135	-	-	3,743,135	1,289,016
Gross carrying amount	3,743,135	-	-	3,743,135	1,289,016
Loss allowance	(65,965)	-	-	(65,965)	-
Net carrying amount	3,677,170	-	-	3,677,170	1,289,016
Loans and advances to mortgage and consumer customers					
High	8,677,079	-	-	8,677,079	8,211,486
Standard	-	1,624,833	-	1,624,833	4,951
Substandard	-	31,218	-	31,218	14,143
Non-performing	-	-	77,479	77,479	948,745
Gross carrying amount	8,677,079	1,656,051	77,479	10,410,609	9,179,325
Loss allowance	(87,876)	(177,502)	(24,885)	(290,263)	(355,052)
Net carrying amount	8,589,203	1,478,549	52,594	10,120,346	8,824,273
Loans and advances to commercial customers					
High grade	61,604,404	-	-	61,604,404	51,459,364
Standard	38,962	3,086,564	-	3,125,526	-
Substandard	-	4,962	-	4,962	504,067
Non-performing	-	-	105,359	105,359	2,295,496
Gross carrying amount	61,643,366	3,091,526	105,359	64,840,251	54,258,927
Loss allowance	(715,265)	(567,633)	(47,422)	(1,330,320)	(1,219,775)
Net carrying amount	60,928,101	2,523,893	57,937	63,509,931	53,039,152

In thousand Armenian drams				31 December 2018	31 December 2017
Internal rating grade	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Debt investment securities at amortised cost (including securities pledged under repo agreements) (2017: held-to-maturity)					
Standard	62,776,657	-	-	62,776,657	-
Gross carrying amount	62,776,657	-	-	62,776,657	-
Loss allowance	(60,227)	-	-	(60,227)	-
Net carrying amount	62,716,430	-	-	62,716,430	-
Debt investment securities at FVOCI (including securities pledged under repo agreements) (2017: held-to-maturity) (2017: available-for-sale)					
Standard	68,693,958	-	-	68,693,958	82,523,367
	68,693,958	-	-	68,693,958	82,523,367
Loss allowance	(115,016)	-	-	(115,016)	-
Carrying amount-fair value	68,693,958	-	-	68,693,958	82,523,367
Other financial assets					
Standard	345,683	-	-	345,683	188,856
Gross carrying amount	345,683	-	-	345,683	188,856
Loss allowance	(11,503)	-	-	(11,503)	-
Net carrying amount	334,180	-	-	334,180	188,856
Loan commitments and financial guarantee					
High	-	-	-	-	-
Standard	7,512,013	-	-	7,512,013	6,792,952
Substandard	-	-	-	-	-
Non-performing	-	-	-	-	-
	7,512,013	-	-	7,512,013	-
Loss allowance*	(5,749)	-	-	(5,749)	-

*The ECL allowance disclosed in loan commitments and financial guarantees of the above table applies only to the guarantees provided. The ECL allowance on loans includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

36.1.2 Impairment assessment

Policy applicable from 1 January 2018

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

Significant increase in credit risk

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

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

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

Criteria for loans and advances to customers

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

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

Criteria for amounts due from financial institutions

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

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

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

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

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

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

Credit risk grades

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

Collective or individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

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

Those assets for which ECL does not calculated individually the Bank groups into segment on the basis of shared credit risk characteristics as described below.

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

- Other relevant characteristics.

Definition of default and cure

The 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.

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. 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. Such events include:

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

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

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in Note 4.4.4.

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth

Impairment assessment policy applicable before 1 January 2018

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2017**
Loans and advances to customers	
Manufacture	2.1%
Agriculture	2.0%
Construction	2.0%
Trading	3.7%
Consumer	3.2%
Mortgage	2.0%
Other	2.0%

As of 31 December 2017 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams	31 December 2017				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Industry	-	82,644	820	1,505,252	1,588,716
Agriculture	-	420,327	-	-	420,327
Trading	-	-	276	1,556	1,832
Consumer	4,951	2,129	12,014	73,921	93,015
Mortgage	-	-	-	94,518	94,518
Other	-	-	-	534,560	534,560
Total	4,951	505,100	13,110	2,209,807	2,732,968

36.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Cash and cash equivalents	15,402,102	1,551,572	1,261,893	18,215,567
Amounts due from financial institutions	3,427,442	207,385	42,343	3,677,170
Loans and advances to customers	72,358,984	392,330	878,963	73,630,277
Investment securities at fair value through other comprehensive income	42,040,559	-	-	42,040,559
Investment securities at amortised cost	56,495,115	-	-	56,495,115
Securities pledged under repurchase agreements	32,945,467	-	-	32,945,467
Other assets	334,180	-	-	334,180
As of 31 December 2018	223,003,849	2,151,287	2,183,199	227,338,335
As of 31 December 2017	155,060,983	2,280,607	1,687,181	159,028,771

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institutions	Manu-facturing	Agri-culture	Construc-tion	Trading	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	18,215,567	-	-	-	-	-	-	-	18,215,567
Amounts due from financial institutions	3,677,170	-	-	-	-	-	-	-	3,677,170
Loans and advances to customers	-	26,345,029	8,737,400	7,042,695	9,462,100	2,336,301	7,784,045	11,922,707	73,630,277
Investment securities at fair value through OCI	6,429,392	39,035	-	-	-	-	-	35,572,132	42,040,559
Investment securities at amortised cost	-	-	-	-	-	-	-	56,495,115	56,495,115
Securities pledged under repurchase agreements	-	-	-	-	-	-	-	32,945,467	32,945,467
Other assets	-	-	-	-	-	-	-	334,180	334,180
As of 31 December 2018	28,322,129	26,384,064	8,737,400	7,042,695	9,462,100	2,336,301	7,784,045	137,269,601	227,338,335
As of 31 December 2017	16,149,119	25,396,977	6,772,609	3,883,097	5,236,118	2,607,441	6,216,832	92,766,578	159,028,771

36.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

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

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

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

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

In thousand Armenian drams	31 December 2018	31 December 2017
Loans collateralized by real estate	44,253,348	36,931,187
Loans collateralized by movable property	4,726,334	656,042
Loans collateralized by guarantees of RA Government	11,794,341	13,729,814
Loans collateralized by guarantees of other organizations	3,440,083	6,564,582
Loans collateralized by cash	2,421,337	1,533,458
Loans collateralized by shares of other companies	5,046,796	1,616,860
Other collateral	3,568,621	2,406,309
Total loans and advances to customers (gross)	75,250,860	63,438,252

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

36.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

36.2.1 Market risk – Non-trading

Interest rate risk

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2018 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							2018
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	0.5	-	(81)	-	(10,607)	(1,780,488)	(1,791,176)
USD	0.5	-	-	-	-	(220,072)	(220,072)
AMD	(0.5)	-	81	-	10,769	1,886,054	1,896,904
USD	(0.5)	-	-	-	-	226,895	226,895

In thousand Armenian drams			2017				
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	0.5	-	-	-	(13,036)	(2,334,996)	(2,348,032)
USD	0.5	-	-	-	(32,386)	(226,424)	(258,810)
AMD	(0.5)	-	-	-	13,254	2,480,108	2,493,362
USD	(0.5)	-	-	-	32,896	234,489	267,385

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2018		31 December 2017	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
AMD	5	109,854	5	104,009
USD	3	(208)	3	4,153

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	10,886,942	6,189,198	1,139,427	18,215,567
Amounts due from financial institutions	2,769,021	894,277	13,872	3,677,170
Loans and advances to customers	16,261,064	57,369,213	-	73,630,277
- Investment securities at fair value through other comprehensive income	32,716,400	9,324,159	-	42,040,559
- Investments securities at amortised cost	56,495,115	-	-	56,495,115
- Securities pledged under repurchase agreements	26,989,981	5,955,486	-	32,945,467
Other financial assets	193,090	141,090	-	334,180
	145,015,128	81,169,908	1,153,299	227,338,335

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Liabilities				
Amounts due to the CBA	20,665,778	-	-	20,665,778
Amounts due to financial institutions	20,863,239	8,263,208	7	29,126,454
Amounts due to customers	49,500,929	43,225,342	1,169,148	93,895,419
Debt securities issued	5,047,794	22,125,270	-	27,173,064
Subordinated debt	8,064,438	5,333,841	-	13,398,279
Other financial liabilities	260,487	55,834	-	316,321
Total	104,402,665	79,003,495	1,169,155	184,575,315
Net position as of 31 December 2018	40,612,463	2,166,413	(15,856)	42,763,020
Commitments and contingent liabilities as of 31 December 2018	4,530,980	2,981,033	-	7,512,013
Total financial assets	87,557,359	69,529,777	1,940,990	159,028,126
Total financial liabilities	51,937,438	68,271,165	2,084,929	122,293,532
Total effect of derivative financial instruments	436,557	(436,304)	-	253
Net position as of 31 December 2017	36,056,478	822,308	(143,939)	36,734,847
Commitments and contingent liabilities as of 31 December 2017	2,418,387	4,374,565	-	6,792,952

Freely convertible currencies represent mainly US dollar and EUR amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

36.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See Note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	Not audited
As of 31 December, these ratios were as follows:	2018, %	2017, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	58.08	58.64
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	651.48	462.71

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See Note 35 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. 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.

In thousand Armenian drams					31 December 2018
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts due to the CBA	18,272,199	301,654	1,891,802	734,415	21,200,070
Amounts due to financial institutions	12,687,676	13,550,557	3,409,825	639,999	30,288,057
Amounts due to customers	17,521,571	19,445,260	59,336,764	56,215,411	152,519,006
Debt securities issued	-	1,515,899	16,420,582	17,394,636	35,331,117
Subordinated debt	-	-	16,535,462	2,830,468	19,365,930
Other liabilities	131,731	184,590	-	-	316,321
Total undiscounted non-derivative financial liabilities	48,613,177	34,997,960	97,594,435	77,814,929	259,020,501
Commitments and contingent liabilities	7,512,013	-	-	-	7,512,013

In thousand Armenian drams					31 December 2017
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Amounts due to the CBA	206,888	352,266	1,834,685	835,471	3,229,310
Amounts due to financial institutions	6,452,693	12,435,821	4,892,990	644,591	24,426,095
Financial liabilities held for trading	20,716,637	21,403,284	22,167,550	3,065,507	67,352,978
Amounts due to customers	-	992,297	6,323,355	11,188,012	18,503,664
Debt securities issued	-	-	-	14,439,507	14,439,507
Subordinated debt	16,541	392,003	-	-	408,544
Other liabilities	206,888	352,266	1,834,685	835,471	3,229,310
Total undiscounted non-derivative financial liabilities	27,392,759	35,575,671	35,218,580	30,173,088	128,360,098
Derivative financial liabilities					
Foreign exchange swap contracts					
Inflow	431,701	4,856	-	-	436,557
Outflow	(431,484)	(4,820)	-	-	(436,304)
Commitments and contingent liabilities	5,822,623	424,173	546,156	-	6,792,952

36.4 Operational risk

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

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

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

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

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

37 Reconciliation of liabilities arising from financing activities

The changes in the Bank's liabilities arising from financing activities can be classified as follows: [additional columns of rows should be added, if needed]

In thousand Armenian drams					2018
	Amounts due to the CBA	**Loans from international financial institutions**	**Debt securities issued**	**Subordinated debt**	**Total**
As of 1 January 2018	2,681,088	5,888,000	17,600,637	13,402,138	39,571,863
Cash-flows	(43,070)	(1,155,930)	9,789,417	(7,381)	8,583,036
Repayments	(853,263)	(6,746,680)	(10,216,708)	(2,800,658)	(20,617,309)
Proceeds	810,193	5,590,750	20,006,125	2,793,277	29,200,345
Non-cash	15,420	(46)	(216,990)	3,522	(198,094)
Foreign exchange gain/loss	15,420	(46)	(216,990)	3,522	(198,094)
As of 31 December 2018	2,653,438	4,732,024	27,173,064	13,398,279	47,956,805

In thousand Armenian drams					2017
	Amounts due to the CBA	Loans from international financial institutions	Debt securities issued	Subordinated debt	Total
As of 1 January 2017	2,051,499	4,423,067	4,916,406	13,406,511	24,797,483
Cash-flows	*629,589*	*1,709,298*	*11,941,506*	*(2,420)*	*14,277,973*
Repayments	(1,011,157)	(3,061,279)	(849,265)	(1,406,277)	(6,327,978)
Proceeds	1,640,746	4,770,577	12,790,771	1,403,857	20,605,951
Non-cash	-	*(244,365)*	*742,725*	*(1,953)*	*496,407*
Foreign exchange gain/loss	-	(244,365)	742,725	(1,953)	*496,407*
As of 31 December 2017	2,681,088	5,888,000	17,600,637	13,402,138	39,571,863

38 Capital adequacy

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

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 maximise 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, polices and processes from the previous years.

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

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

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

As of 31 December 2018 and 2017 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	31 December 2018	31 December 2017
Tier 1 capital	32,301,274	26,997,668
Tier 2 capital	12,920,510	13,498,834
Total regulatory capital	45,221,784	40,496,502
Risk-weighted assets	289,697,526	199,278,842
Capital adequacy ratio	15.61%	20.32%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2004 the Board of RA Central Bank decided to determine the minimum size of total capital:

1) 5,000,000 thousand Armenian drams, till 1 January 2017,
2) 30,000,000 thousand Armenian drams for new banks, till 1 January 2017,
3) 30,000,000 thousand Armenian drams for the Bank and new banks, as of 1 January 2017 and after that period.

39 Segment reporting

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