Financial Statements and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2018

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To the shareholders of "UNIBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "UNIBANK" OPEN 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 of the financial statements for a description of the accounting policies and to note 35.1 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 theBank'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
Managing Partner

Armen Hovhannisyan
Engagement Partner

29 April 2019

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2018	2017
Interest and similar income	7	20,008,220	22,296,742
Interest and similar expense	7	(9,490,160)	(11,805,386)
Net interest income		10,518,060	10,491,356
Fee and commission income	8	2,186,448	897,588
Fee and commission expense	8	(365,896)	(298,538)
Net fee and commission income		1,820,552	599,050
Net trading income	9	824,570	631,274
Other income	10	1,599,371	1,732,594
Credit impairment losses	11	(5,525,293)	(5,974,493)
Staff costs	12	(3,798,717)	(3,480,771)
Depreciation of property and equipment	21	(397,354)	(511,350)
Amortization of intangible assets	22	(98,388)	(88,762)
Other expenses	13	(3,485,842)	(3,148,856)
Profit before income tax		1,456,959	250,042
Income tax expense	14	(525,662)	(182,440)
Profit for the year		931,297	67,602
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation losses on equity instruments at fair value through other comprehensive income		(102,335)	N/A
Revaluation of property and equipment		32,831	255,764
Income tax relating to items not reclassified		13,901	(51,153)
Net gains from items that will not be reclassified subsequently to profit or loss		(55,603)	204,611
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		724,749	N/A
Net amount reclassified to the income statement on sale of debt instruments at FVOCI		(2,080)	N/A
Changes in allowance for expected credit losses		24,176	N/A
Income tax related to the above		(144,534)	N/A
Net gains on financial investments at fair value through other comprehensive income		602,311	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	507,685
Income tax related to the above		N/A	(101,537)
Net gains on available-for-sale financial assets		N/A	406,148
Other comprehensive income for the year, net of tax		546,708	610,759
Total comprehensive income for the year		1,478,005	678,361
Earnings per share	15	0.00268	(0.00045)

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 80.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	16	32,049,007	31,843,954
Derivative financial assets	17	785	3,086
Amounts due from financial institutions	18	12,983,447	995,550
Loans and advances to customers	19	134,279,082	135,127,892
Investment securities	20		
- Investments available for sale		N/A	13,592,031
-Investment securities at fair value through other comprehensive income		3,817,080	N/A
-Investment securities at amortised cost		12,822,788	N/A
Securities pledged under repurchase agreements		-	7,877,164
Property, plant and equipment	21	8,549,052	8,193,410
Intangible assets	22	1,629,345	1,420,274
Prepaid income taxes		-	113,435
Other assets	23	3,669,102	3,554,675
Total assets		209,799,688	202,721,471
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	9,039,951	17,250,526
Amounts due to customers	25	151,452,004	128,427,923
Derivative financial liabilities	17	12,813	9,993
Borrowings	26	6,636,888	14,744,564
Debt securities issued	27	8,576,459	5,139,360
Income tax liability		60,492	-
Deferred income tax liabilities	14	526,588	1,131,722
Other liabilities	28	946,049	656,030
Total liabilities		177,251,244	167,360,118
Equity			
Share capital	29	20,489,653	20,489,653
Share premium		9,605,638	9,605,638
Statutory general reserve		448,298	426,482
Other reserves		1,239,518	1,493,358
Retained earnings		765,337	3,346,222
Total equity		32,548,444	35,361,353
Total liabilities and equity		209,799,688	202,721,471

The financial statements were signed on 29 April 2019 by:

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

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 80.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance As of 31 December 2017	20,489,653	9,605,638	426,482	24,275	1,469,083	3,346,222	35,361,353
Impact of adopting IFRS 9 (note 6)	-		-	(800,548)	-	(3,108,053)	(3,908,601)
Restated balance at 1 January 2018	20,489,653	9,605,638	426,482	(776,273)	1,469,083	238,169	31,452,752
Profit for the year	-	-	-	-	-	931,297	931,297
Other comprehensive income:							
Net change in fair value of equity instruments at FVOCI	-	-	-	(102,335)	-	-	(102,335)
Revaluation of property and equipment	-		-	-	32,831	-	32,831
Net change in fair value of debt instrument at FVOCI	-		-	724,749	-	-	724,749
Net amount reclassified to the statement of profit and loss on sale of debt instruments at FVOCI	-		-	(2,080)	-	-	(2,080)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-		-	24,176	-	-	24,176
Income tax relating to components of other comprehensive income	-		-	(124,067)	(6,566)	-	(130,633)
Total comprehensive income for the year	-	-	-	520,443	26,265	931,297	1,478,005
Distribution to reserve	-		21,816	-	-	(21,816)	-
Dividends to shareholders	-	-	-	-	-	(382,313)	(382,313)
Total transactions with owners	-	-	21,816	-	-	(404,129)	(382,313)
Balance as of 31 December 2018	20,489,653	9,605,638	448,298	(255,830)	1,495,348	765,337	32,548,444

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2017	19,093,378	7,790,481	426,482	(381,873)	1,297,921	6,616,654	34,843,043
Profit for the year	-	-	-	-	-	67,602	67,602
Other comprehensive income:							
Revaluation of property and equipment	-	-	-	-	255,764	-	255,764
Adjustment to reserve from the sale of property and equipment	-	-	-	-	(33,449)	33,449	-
Net unrealized gains from changes in fair value	-	-	-	507,685	-	-	507,685
Income tax relating to components of other comprehensive income	-	-	-	(101,537)	(51,153)	-	(152,690)
Total comprehensive income for the year	-	-	-	406,148	171,162	101,051	678,361
Increase in share capital	1,396,275	1,815,157	-	-	-	(3,211,432)	-
Dividends to shareholders	-	-	-	-	-	(160,051)	(160,051)
Total transactions with owners	1,396,275	1,815,157	-	-	-	(3,371,483)	(160,051)
Balance As of 31 December 2017	20,489,653	9,605,638	426,482	24,275	1,469,083	3,346,222	35,361,353

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 80.

Statement of cash flows

In thousand Armenian drams

	2018	2017
Cash flows from operating activities		
Profit before tax	1,456,959	250,042
Adjustments for		
Impairment charge of financial assets	5,525,293	5,974,493
Gains from reversal of impairment and sale of repossessed	(19,891)	(58,295)
Impairment of property and equipment	-	7
Amortization and depreciation allowances	495,742	600,112
Loss from sale of property and equipment	13,193	2,938
Gains from sale of other assets	(72,915)	-
Interest receivable	92,119	726,148
Interest payable	(33,396)	(369,819)
Revaluation of derivative financial instruments	417,107	(29,751)
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	(507,545)	428,837
Cash flows from operating activities before changes in operating assets and liabilities	7,366,666	7,524,712
(Increase)/decrease in operating assets		
Amounts due from financial institutions	(12,137,901)	2,294,537
Derivative financial instruments	(396,585)	112,087
Loans and advances to customers	(10,076,481)	(24,857,814)
Other assets	1,010,794	4,681,142
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	1,110,502	1,720,527
Amounts due to customers	25,141,193	(293,153)
Other liabilities	26,462	17,143
Net cash flow from/(used in) operating activities before income tax	12,044,650	(8,800,819)
Income tax	(110,352)	(32,425)
Net cash from/(used in) operating activities	11,934,298	(8,833,244)
Cash flows from investing activities		
(Purchase)/sale of investment securities	4,342,926	(6,752,977)
Purchase of property and equipment	(755,300)	(968,266)
Proceeds from sale of property and equipment	21,942	168,038
Purchase of intangible assets	(307,459)	(128,935)
Net cash from/(used in) investing activities	3,302,109	(7,682,140)

Statement of cash flows (continued)

In thousand Armenian drams

	2018	2017
Cash flow from financing activities		
Dividends paid	(160,050)	(160,051)
Loans received/(repaid) to financial institutions	(9,303,169)	10,432,480
Issue of bonds	3,446,491	2,465,424
Other long-term loans and advances received	(8,066,728)	1,366,159
Net cash from/(used in) financing activities	(14,083,456)	14,104,012
Net increase/(decrease) in cash and cash equivalents	1,152,951	(2,411,372)
Cash and cash equivalents at the beginning of the year	31,843,954	33,547,636
ECL	(35,785)	-
Exchange differences on cash and cash equivalents	(912,113)	707,690
Cash and cash equivalents at the end of the year (note 16)	32,049,007	31,843,954
Supplementary information:		
Interest received	20,100,339	23,022,890
Interest paid	(9,523,556)	(12,175,205)

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 80.

Notes to the financial statements

1 Principal activities

“Unibank” CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the “CBA”).

On 23 June 2015 according to the Bank’s license registered under number 0373, “UNIBANK” CJSC was reorganized to “UNIBANK” OJSC issuing 14,500,000 shares.

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

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 and it has 45 branches and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

On March 14, 2017, the international rating agency Moody's Investors Service has revised and raised the rating of "Unibank" by setting B2 for long-term deposits in AMD and foreign currency. Baseline credit assessment (BCA) / is defined b3, and long-term Counterparty Risk Assessment (CR Assessment/ B2(cr) level. Forecasting is stable.

On June 29 2018 the international rating agency Moody's Investors Service approved the Bank’s deposit attraction B3/NP rating, b3 base credit rating, B2(cr)/NP(cr) counterparty risk rating. Forecasting is stable.

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 land, buildings and the computer and communication technologies 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 35.1.2. 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 35.1.2.

Other new standards and amendments described below and applied for the first time in 2018, did not have a material impact on the annual consolidated 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 buildings currently treated as operating leases.
- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position

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 28, "Investments in associates" Long term interests in associates and joint ventures (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 comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. 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
AMD/1 RUB	6.97	8.40

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 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 or FVTPL.

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
- 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 35.1.2.

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 35.1.2.

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 other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from other 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 other 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 other 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. Bank's buildings and land and the computer and communication technologies are presented at fair value less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

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 (%)
Buildings	80	1.25
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATM	10	10
Other fixed assets	5	20

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.

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.

Land and buildings and the computer and communication technologies are 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 and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, 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.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.15 Intangible assets

Intangible assets include computer software, licences and other.

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. The estimated useful life of computer software and licences is 10 years. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Computer software development costs are recognized 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.

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 and non-redeemable preference shares with discretionary dividends are both 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.

Fair value reserve for investments securities at FVOCI

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

4.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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 32).

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 (refer to note 31).

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 35.1.2), 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 30.

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	31,843,954	31,837,387
Derivative financial assets	FVTPL	FVTPL (mandatory)	3,086	3,086
Amounts due from financial institutions	Loans and receivables	Amortised cost	995,550	991,975
Loans and advances to customers	Loans and receivables	Amortised cost	135,127,892	131,289,254
Investment securities – debt	Available for sale	FVOCI	21,447,735	8,991,228
Investment securities – debt	Available for sale	Amortised cost	-	11,439,853
Investment securities - equity	Available for sale	FVOCI	21,460	21,460
Other financial assets	Loans and receivables	Amortised cost	196,951	194,803
Total financial assets			189,636,628	184,769,046
Financial liabilities				
Amounts due to financial institutions	Amortised cost	Amortised cost	17,250,526	17,250,526
Amounts due to customers	Amortised cost	Amortised cost	128,427,923	128,427,923
Derivative financial liabilities	FVTPL	FVTPL	9,993	9,993
Borrowings	Amortised cost	Amortised cost	14,744,564	14,744,564
Debt securities issued	Amortised cost	Amortised cost	5,139,360	5,139,360
Other liabilities	Amortised cost	Amortised cost	400,375	400,375
Total financial liabilities			165,972,741	165,972,741

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	Reclassification	Remeasurement /ECL/	Remeasurement /Other/	IFRS 9 carrying amount 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents					
Opening balance	31,843,954				
Remeasurement			(6,567)		
Closing balance					31,837,387
Amounts due from financial institutions					
Opening balance	995,550				
Remeasurement			(3,575)		
Closing balance					991,975

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remeasure-ment /ECL/	Remeasure-ment /Other/	IFRS 9 carrying amount 1 January 2018
Loans and advances to customers					
Opening balance	135,127,892				
Remeasurement			(3,838,638)		
Closing balance					131,289,254
Investment securities – debt					
Opening balance	-				
From available-for-sale		12,456,507	(13,546)	(1,003,108)	
Closing balance					11,439,853
Other assets- other financial assets					
Opening balance	196,951				
Remeasurement			(2,148)		
Closing balance					194,803
Total amortised cost	168,164,347	12,456,507	(3,864,474)	(1,003,108)	175,753,272
Available-for-sale					
Investment securities					
Opening balance	21,469,195				
To FVOCI – Equity		(21,460)		N/A	
To amortised cost		(12,456,507)		N/A	
To FVOCI – Debt		(8,991,228)		N/A	
Closing balance					N/A
FVOCI-debt					
Investment securities					
Opening balance	-				
From available-for-sale		8,991,228			
Closing balance					8,991,228
FVOCI-equity					
Investment securities					
Opening balance	N/A				
From available-for-sale		21,460	N/A		
Closing balance					21,460
Total FVOCI	21,469,195	(12,456,507)	-	-	9,012,688
FVTPL					
Financial derivatives	3,086	N/A	N/A	N/A	3,086
Total FVTPL	3,086	N/A	N/A	N/A	3,086

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	Remeasurement /Other/	IFRS 9 carrying amount 1 January 2018
Financial liabilities					
Amortised cost					
Amounts due to financial institutions	17,250,526	N/A	N/A	N/A	17,250,526
Amounts due to customers	128,427,923	N/A	N/A	N/A	128,427,923
Borrowings	14,744,564				14,744,564
Debt securities issued	5,139,360	N/A	N/A	N/A	5,139,360
Other liabilities	400,375	N/A	N/A	N/A	400,375
Total amortised cost	165,962,748	N/A	N/A	N/A	165,962,748
FVTPL					
Derivative financial liabilities	9,993	N/A	N/A	N/A	9,993
Total FVTPL	9,993	N/A	N/A	N/A	9,993

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)	24,275
Reclassification of debt securities from available-for-sale to amortised cost	(1,003,108)
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	1,938
Deferred tax in relation to the above	200,622
Opening balance under IFRS 9 (1 January 2018)	(776,273)
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	3,346,222
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(3,884,582)
Deferred tax in relation to the above	776,529
Opening balance under IFRS 9 (1 January 2018)	238,169
Total change in equity due to adopting IFRS 9	3,908,601

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 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	-	(6,567)	(6,567)
Amounts due from financial institutions	-	(3,575)	(3,575)
Loans and advances to customers	(5,756,884)	(3,838,638)	(9,595,522)
Available-for-sale debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9:	-	(13,546)	(13,546)
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	(1,938)	(1,938)
Other financial assets	(12,707)	(2,148)	(14,855)
	(5,769,591)	(3,866,412)	(9,636,003)
Loan commitments and financial guarantee contracts issued	-	(18,170)	(18,170)
	-	(18,170)	(18,170)
Total impairment allowance	(5,769,591)	(3,884,582)	(9,654,173)

7 Interest and similar income and expense

In thousand Armenian drams	2018	2017
Loans and advances to customers	18,697,683	19,787,690
Investment securities at FVOCI (2017 available-for-sale)	108,501	2,067,391
Investment securities at amortised cost (2017 held-to-maturity)	1,001,105	-
Amounts due to financial institutions	181,395	33,641
Income from guarantee agreements	14,604	-
Reverse repurchase transactions	901	125,646
Interest accrued on individually impaired financial assets	-	266,106
Derivative financial instruments	4,031	16,268
Total interest and similar income	20,008,220	22,296,742

In thousand Armenian drams	2018	2017
Amounts due to customers	7,706,763	9,553,380
Amounts due to financial institutions	379,796	431,511
Government loans	329,541	325,569
Repurchase transactions	118,864	37,482
Borrowings	551,910	1,206,733
Bonds issued	390,601	250,711
Derivative instruments	12,685	-
Total interest and similar expense	9,490,160	11,805,386

8 Fee and commission income and expense

In thousand Armenian drams	2018	2017
Cash collection	350,015	433,879
Plastic cards operations	1,173,051	200,476
Guarantees and letters of credit	81,850	16,522
Foreign currency translation operations	481,286	99,975
Other fees and commissions	100,246	146,736
Total fee and commission income	2,186,448	897,588
Wire transfer fees	140,379	70,300
Plastic cards operations	192,142	181,735
Foreign currency translation operations	6,364	6,447
Stock exchange services	19,380	13,638
Other expenses	7,631	26,418
Total fee and commission expense	365,896	298,538

9 Net trading income

In thousand Armenian drams	2018	2017
Gains less losses from transactions in foreign currencies	1,239,597	601,523
Gains less losses from derivatives	(417,107)	29,751
Gains less losses from investments	2,080	-
Total net trading income	824,570	631,274

10 Other income

In thousand Armenian drams	2018	2017
Fines and penalties received	926,276	1,273,075
Foreign currency translation net gains of non-trading assets and liabilities	507,545	-
Reversal of impairment of repossessed assets	19,891	93,148
Gains from operations of precious metals	-	7,121
Gains from sale of other assets	72,915	-
Gains from guarantee agreements	48,922	-
Income from leased assets	20,062	341,248
Other income	3,760	18,002
Total other income	1,599,371	1,732,594

11 Credit impairment losses

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	16	29,218	-	-	29,218	-
Amounts due from financial institutions	18	67,538	-	-	67,538	-
Loans and advances to customers	19	301,676	176,831	4,695,296	5,173,803	5,940,569
Investment securities measured at FVOCI	20	24,176	-	-	24,176	-
Investment securities measured at amortised cost	20	94,492	-	-	94,492	-
Other assets	23	75,173	-	-	75,173	33,924
Financial guarantees and loan commitments	30	60,893	-	-	60,893	-
Total impairment losses		653,167	176,831	4,695,295	5,525,293	5,974,493

12 Staff costs

In thousand Armenian drams	2018	2017
Compensations of employees, related taxes included	3,796,686	3,477,720
Staff training and other costs	2,031	3,051
Total staff costs	3,798,717	3,480,771

13 Other expenses

In thousand Armenian drams	2018	2017
Fixed assets maintenance	623,087	594,812
Advertising costs	274,335	242,762
Business trip expenses	22,588	12,453
Communications	173,264	150,716
Operating lease	469,988	462,856
Taxes, other than income tax, duties	408,349	389,813
Foreign currency translation net losses of non-trading assets	-	428,837
Consulting and other services	83,023	31,813
Security	97,998	53,869
Representative expenses	143,138	50,892
Office supplies	186,375	87,439
Penalties paid	2,012	2,118
Deposit insurance	374,815	333,306
Computer software maintenance	44,160	44,640
Cash collection services	79,535	67,948
Loss on impairment of property and equipment	-	7
Loss on disposal of property and equipment	13,193	2,938
Loss on disposal of repossessed assets	-	34,853
Loss from operations of precious metals	4,982	-
Charitable donations	196,062	23,320
Other expenses	288,938	133,464
Total other expense	3,485,842	3,148,856

14 Income tax expense

In thousand Armenian drams	2018	2017
Current tax expense	284,278	161,386
Deferred tax	241,384	21,054
Total income tax expense	525,662	182,440

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	1,456,959		250,042	
Income tax at the rate of 20%	291,392	20	50,008	20
Non-taxable income	(3,978)	-	(26,991)	(10)
Other taxable income	4,144	-	2,186	1
Non-deductible expenses	252,192	17	65,520	26
Gains less losses from derivatives	83,421	6	5,950	2
Foreign exchange difference	(101,509)	(7)	85,767	34
Income tax expense	525,662	36	182,440	73

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	2018 Net	2018 Deferred tax asset	2018 Deferred tax liability
Cash and cash equivalents	-	1,313	5,844	-	7,157	7,157	-
Amounts due from financial institutions	(21,374)	715	11,498	-	(9,161)	-	(9,161)
Investments in securities	(4,934)	203,331	18,898	(124,067)	93,228	93,228	-
Loans and advances to customers	(805,482)	767,728	(242,413)	-	(280,167)	-	(280,167)
Property and equipment	(353,191)	-	6,638	(6,566)	(353,119)	-	(353,119)
Other assets	-	430	(53,121)	-	(52,691)	-	(52,691)
Other liabilities	73,220	-	(5,497)	-	67,723	67,723	-
Contingent liabilities	(19,961)	3,634	16,769	-	442	442	-
Deferred tax asset/(liability)	(1,131,722)	977,151	(241,384)	(130,633)	(526,588)	168,550	(695,138)

In thousand Armenian drams	31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2017
Other liabilities	62,846	10,374	-	73,220
Securities available for sale	96,603	-	(101,537)	(4,934)
Total deferred tax assets	159,449	10,374	(101,537)	68,286
Contingent liabilities	(22,516)	2,555	-	(19,961)
Amounts due from other financial institutions	(9,963)	(11,411)	-	(21,374)
Loans and advances to customers	(770,137)	(35,345)	-	(805,482)
Property and equipment	(314,811)	12,773	(51,153)	(353,191)
Total deferred tax liability	(1,117,427)	(31,428)	(51,153)	(1,200,008)
Net deferred tax liability	(957,978)	(21,054)	(152,690)	(1,131,722)

15 Earnings per share

In thousand Armenian drams	2018	2017
Profit for the year	931,297	67,602
Dividends on preferred shares	(382,313)	(160,051)
Profit/(Loss) less dividends on preferred shares	548,984	(92,449)
Weighted average number of ordinary shares (number of shares)	204,896,529	203,366,365
Profit/(Loss) per share – basic	0.002679	(0.0004546)

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2018	31 December 2017
Cash on hand	7,792,909	7,690,879
Correspondent accounts with CBA	17,126,388	20,879,961
Nostro accounts with other banks	7,165,495	3,273,114
	32,084,792	31,843,954
Less loss allowance	(35,785)	-
Total cash and cash equivalents	32,049,007	31,843,954

As of 31 December 2018 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 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 17,126,388 thousand (2017: AMD 14,638,272 thousand, 2% and 18% respectively). 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. The mandatory reserve deposits of the Bank are non-interest bearing.

As at 31 December 2018 the accounts in amount of AMD 5,543,004 thousand (77%) (2017: AMD 3,202,814 thousand (98%)) were due from two commercial banks.

An analysis of changes in the ECLs on cash and cash equivalents is 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	6,567	-
Net remeasurement of loss allowance	29,218	-
Balance as at 31 December	35,785	-

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

- repayment of AMD 1,151,576 thousand loan by repossessing the collateral (2017: AMD 1,892,940 thousand).

17 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.

Whether aggregate contractual or notional amount of derivative financial instruments are favourable or not, the 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						
Foreign exchange swap	2,673,068	-	12,761	2,770,514	3,086	9,993
Foreign exchange forward	612,506	785	52	-	-	-
Total derivative financial instruments		785	12,813		3,086	9,993

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Deposited funds with the CBA	211,500	210,000
Deposited funds with other banks	736,682	736,930
Loans to banks	11,775,880	-
Loans to financial institutions	330,498	48,620
	13,054,560	995,550
Less loss allowance	(71,113)	-
Total amounts due from other financial institutions	12,983,447	995,550

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

Deposited funds with other banks include guaranteed deposits for settlements via VISA and Master Card payment systems transactions.

As of 31 December 2018 the average effective interest rates on loans to banks were 4.10% for loans in USD, 1.61% for loans in EUR (no loans to banks in 2017).

An analysis of changes in the ECLs on amount due from 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	3,575	-
Net remeasurement of loss allowance	67,538	-
Balance as at 31 December	71,113	-

19 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	11,544,432	(771,932)	10,772,500	11,871,486	(118,715)	11,752,771
Consumer	66,101,888	(4,991,352)	61,110,536	55,631,593	(2,120,200)	53,511,393
Commercial lending						
Industry	11,087,751	(1,529,265)	9,558,486	8,591,135	(317,901)	8,273,234
Agriculture	1,870,427	(151,963)	1,718,464	547,754	(5,478)	542,276
Construction	12,155,295	(1,049,804)	11,105,491	9,426,511	(281,743)	9,144,768
Transportation	9,450,156	(488,988)	8,961,168	5,851,808	(227,146)	5,624,662
Trade	17,393,351	(2,796,481)	14,596,870	24,403,124	(1,426,243)	22,976,881
Services	11,999,332	(1,612,508)	10,386,824	8,073,613	(697,551)	7,376,062
Other	6,751,989	(683,246)	6,068,743	16,487,752	(561,907)	15,925,845
Total	148,354,621	(14,075,539)	134,279,082	140,884,776	(5,756,884)	135,127,892

As of 31 December 2018 the average effective interest rates on loans and advances to corporate customers were 13.76% for loans in AMD, 11.86% for loans in USD, 10.59% for loans in EUR, 12.71% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 22.46% for loans in AMD, 13.61% for loans in USD, 8.85% for loans in EUR, 9.38% for loans in RUB (2017: on loans and advances to corporate customers were 13.49% for loans in AMD, 12.32% for loans in USD, 12.30% for loans in RUB, 12.64% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 17.82% for loans in AMD, 13.25% for loans in USD, 11.14% for loans in EUR, no loans in RUB).

As of 31 December 2018, the Bank had a concentration of loans represented by AMD 30,790,668 thousand due from the 10 largest third party entities and parties related with them (21% of gross loan portfolio) (2017: AMD 34,868,710 thousand due from the 13 largest third party entities and parties related with them (25% of gross loan portfolio). An allowance of AMD 1,239,834 thousand (2017: AMD 560,441 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	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
				2018
Mortgage and consumer lending				
ECL allowance as at 1 January 2018	821,259	26,615	2,075,061	2,922,935
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	33,081	(1,537)	(31,544)	-
Transfer to Lifetime ECL not credit-impaired	(18,402)	28,720	(10,318)	-
Transfer to Lifetime ECL credit-impaired	(29,727)	(4,519)	34,246	-
Net remeasurement of loss allowance	257,534	199,110	3,313,362	3,770,006
Recoveries	-	-	2,878,992	2,878,992
Amounts written off during the year	-	-	(3,808,649)	(3,808,649)
Balance at 31 December	1,063,745	248,389	4,451,150	5,763,284

In thousand Armenian drams	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
				2018
Commercial lending				
ECL allowance as at 1 January 2018	87,662	-	6,584,925	6,672,587
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	12,201	-	(12,201)	-
Transfer to Lifetime ECL not credit-impaired	(29,066)	32,353	(3,287)	-
Transfer to Lifetime ECL credit-impaired	(341)	-	341	-
Net remeasurement of loss allowance	44,142	(22,279)	1,381,934	1,403,797
Recoveries	-	-	2,335,772	2,335,772
Amounts written off during the year	-	-	(2,099,901)	(2,099,901)
Balance at 31 December	114,598	10,074	8,187,583	8,312,255

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 35.1.2.

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	1,758,422	4,185,368	5,943,790
Charge for the year	5,131,304	809,265	5,940,569
Amounts written off	(5,646,462)	(3,122,951)	(8,769,413)
Recoveries	995,651	1,646,287	2,641,938
At 31 December 2017	2,238,915	3,517,969	5,756,884
Individual impairment	185,451	2,723,213	2,908,664
Collective impairment	2,053,464	794,756	2,848,220
	2,238,915	3,517,969	5,756,884
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,888,572	9,522,835	11,411,407

At 31 December 2018 and 2017 the estimated fair value of loans and advances to customers approximates it carrying value. See note 32.

Maturity analysis of loans and advances to customers are disclosed in note 34.

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 31.

20 Investment securities

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at amortised cost		
RA state bonds	10,464,958	-
Corporate bonds	2,465,868	
	12,930,826	-
Less loss allowance	(108,038)	-
Total investment securities at amortised cost	12,822,788	-

An analysis of changes in the ECLs on investment securities measured at amortised cost is as follows:

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	13,546	-
Net remeasurement of loss allowance	94,492	-
Balance as at 31 December	108,038	-

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at FVOCI		
Debt instruments		
RA state bonds	2,012,227	N/A
Corporate bonds	1,415,356	N/A
Equity instruments		
Equity investments	389,497	N/A
Available-for-sale investment securities		
Equity instruments of Armenian companies	N/A	21,460
RA state bonds	N/A	12,168,958
Corporate bonds	N/A	1,401,613
Total investment securities measured at FVOCI (2017 Available-for-sale)	3,817,080	13,592,031
Debt investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	-	7,877,164
Total investment securities measured at FVOCI (2017 available-for-sale)	3,817,080	21,469,195

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	1,938	-
Net remeasurement of loss allowance	24,176	-
Balance at 31 December	26,114	-

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 dates comprise:

In thousand Armenian drams	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
RA state bonds	10-11%	2020-2028	5.72-14.94%	2018-2028
Corporate bonds	5.95-10%	2019-2022	-	-

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 state bonds	6-12%	2020-2025	-	-
Corporate bonds	5-9.9%	2021-2022	-	-

As of 31 December 2017 debt securities measured at AFS AMD 7,877,164 thousand were pledged to third parties in sale and repurchase agreements for periods not exceeding 2 months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (see note 24).

21 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Cost/ Revalued amount						
At 1 January 2017	5,608,759	141,879	1,158,423	182,053	3,209,620	10,300,734
Additions	97,905	106,637	93,584	66,716	603,424	968,266
Disposals	(70,002)	(1,276)	(43,381)	(63,268)	(135,700)	(313,627)
Revaluation	255,757	-	-	-	-	255,757
Depreciation adjustment as a result of revaluation	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	5,821,754	247,240	1,208,626	185,501	3,677,344	11,140,465
Additions	15,019	3,500	172,456	26,974	537,351	755,300
Disposals	(31,300)	(3,938)	(410,351)	-	(39,489)	(485,078)
Revaluation	-	-	32,831	-	-	32,831
At 31 December 2018	5,805,473	246,802	1,003,562	212,475	4,175,206	11,443,518
Accumulated depreciation						
At 1 January 2017	11,842	42,364	795,185	106,803	1,692,827	2,649,021
Charge for the year	68,382	4,320	155,794	13,119	269,735	511,350
Disposals	(334)	(1,275)	(42,341)	(52,450)	(46,251)	(142,651)
Depreciation adjustment as a result of revaluation combination	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	9,225	45,409	908,638	67,472	1,916,311	2,947,055
Charge for the year	72,604	4,308	88,420	17,425	214,597	397,354
Disposals	(149)	(905)	(410,216)	-	(38,673)	(449,943)
At 31 December 2018	81,680	48,812	586,842	84,897	2,092,235	2,894,466
Carrying amount						
At 31 December 2017	5,812,529	201,831	299,988	118,029	1,761,033	8,193,410
At 31 December 2018	5,723,793	197,990	416,720	127,578	2,082,971	8,549,052

Revaluation of assets

The land and buildings and computer and communication technologies of the Bank are represented at the revalued amount. The land and buildings owned by the Bank were revaluated by an independent appraiser in December 2017 using the comparative methods resulting in a net increase in amount of AMD 255,757 thousand. Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 5,486,552 thousand as at 31 December 2018 (2017: AMD 5,555,765 thousand).

The computer and communication technologies owned by the Bank were revaluated in December 2018 using the comparative methods resulting in a net increase in amount of AMD 32,831 thousand (2017: nill).

The carrying value of the revalued computer and communication technologies was nill as at 31 December 2017.

Fully depreciated items

As at 31 December 2018 fixed assets included fully depreciated assets in cost of AMD 1,571,105 thousand (2017: AMD 1,819,313 thousand).

Fixed assets in the phase of installation

As at 31 December 2018 fixed assets included assets in the phase of installation amounting AMD 1,471,791 thousand, containing buildings in amount of AMD 19,300 thousand (2017: AMD 1,035,877 thousand, containing buildings in amount of AMD 50,600 thousand)

Restrictions on title of fixed assets

As at 31 December 2018, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2017: either).

Contractual commitments

As at 31 December 2018, the Bank had no contractual commitment in respect of investments in fixed assets (2017: nil).

22 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
Cost				
At 1 January 2017	936,942	810,912	101,021	1,848,875
Additions	7,825	121,110	-	128,935
At 31 December 2017	944,767	932,022	101,021	1,977,810
Additions	30,044	277,415	-	307,459
At 31 December 2018	974,811	1,209,437	101,021	2,285,269
Accumulated depreciation				
At 1 January 2017	228,087	178,817	61,870	468,774
Amortisation charge	55,702	30,663	2,397	88,762
At 31 December 2017	283,789	209,480	64,267	557,536
Amortisation charge	56,713	39,278	2,397	98,388
At 31 December 2018	340,502	248,758	66,664	655,924
Carrying amount				
At 31 December 2017	660,978	722,542	36,754	1,420,274
At 31 December 2018	634,309	960,679	34,357	1,629,345

Contractual commitments

As at 31 December 2018, the Bank did not have contractual commitments in respect of investments in intangible assets.

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

As at 31 December 2018, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 462,732 thousand (2017: AMD 489,449 thousand).

As at 31 December 2018 intangible assets included fully amortized assets in cost of AMD 12,870 thousand (2017: nill).

23 Other assets

In thousand Armenian drams	31 December 2018	31 December 2017
Accounts receivable	147,712	209,658
Less loss allowance	(523)	(12,707)
Total other financial assets	147,189	196,951
Prepayments and other debtors	453,302	628,009
Repossessed assets	2,210,359	1,876,321
Other prepaid taxes	3,399	3,403
Materials	130,905	148,063
Precious metals	68,650	63,194
Other assets	655,298	638,734
Total non-financial assets	3,521,913	3,357,724
Total other assets	3,669,102	3,554,675

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

In thousand Armenian drams	Total
At 1 January 2017	10,522
Net charge for the year	33,924
Write off	(31,739)
At 31 December 2017	12,707
Correcting opening balance effect of IFRS 9 provision	2,148
ECL allowance as at 1 January 2018	14,855
Net remeasurement of loss allowance	75,173
Write off	(89,505)
At 31 December 2018	523

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

24 Amounts due to financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Correspondent accounts of other banks	2,883,102	1,751,864
Current accounts of other financial institutions	54,699	93,025
Loans from financial institutions	4,721,126	6,606,372
Loans under repurchase agreements	-	7,773,155
Deposits from financial institutions	1,381,024	1,026,110
Total amounts due to financial institutions	9,039,951	17,250,526

As of 31 December 2018 the average effective interest rates on amounts due to financial institutions was 7.13% for borrowings in AMD (2017: 8.00%) and 6.34% for borrowings in USD (2017: 3.22%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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 customers

In thousand Armenian drams	31 December 2018	31 December 2017
Corporate customers		
Current/Settlement accounts	31,673,397	7,011,387
Time deposits	20,438,842	18,171,418
	52,112,239	25,182,805
Retail customers		
Current/Demand accounts	11,522,228	10,943,532
Time deposits	87,817,537	92,301,586
	99,339,765	103,245,118
Total amounts due to customers	151,452,004	128,427,923

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2018 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 12,636,107 thousand (2017: AMD 13,978,166 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2018 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 25,801,730 thousand (2017: AMD 23,009,790 thousand) or 17% of total retail and corporate customer accounts (2017: 18%).

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

As of 31 December 2018 the average effective interest rates on amounts due to corporate customers were 11.44% for liabilities in AMD, 4.96% for liabilities in USD, 9.08% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 8.84% for liabilities in AMD, 4.57% for liabilities in USD, 3.22% for liabilities in EUR, 6.74% for liabilities in RUB (2017: for corporate customers 13.81% for liabilities in AMD, 5.61% for liabilities in USD, 1.65% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 9.55% for liabilities in AMD, 4.65% for liabilities in USD, 3.45% for liabilities in EUR, 7.8% for liabilities in RUB).

26 Borrowings

In thousand Armenian drams	31 December 2018	31 December 2017
Subordinated debt provided by non-financial organizations	1,451,727	1,452,777
Loans from RA Government	4,086,709	5,199,665
Other borrowing	1,098,452	8,092,122
Total borrowings	6,636,888	14,744,564

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of “Rural Areas Development Programme” and “Economy stabilization lending programme”. Loans carry fixed interest rates.

The Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 31).

As of 31 December 2018 the average effective interest rate on amounts due to Government of the RA was 6.01% for loans in AMD, 4.10% for loans in USD (2017: the average effective interest rate was 6.19% for loans in AMD, 4.06% for loans in USD).

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

As of 31 December 2018 average weighted interest rate of borrowings was 12.55% for loans in USD, 12.57% for loans in EUR (2017: 11.59% for loans in USD).

27 Debt securities issued

In thousand Armenian drams	31 December 2018	31 December 2017
Bonds issued	8,576,459	5,139,360
Total debt securities issued	8,576,459	5,139,360

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

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
18.12.2017	USD	100	50,000	5.75	11.09.2020	5,000,000
03.04.2018	USD	100	50,000	5.5	13.05.2021	5,000,000
20.03.2018	AMD	10,000	25,000	10	13.02.2020	250,000,000
20.12.2018	USD	100	50,000	5.5	22.10.2021	5,000,000
23.11.2018	AMD	10,000	50,000	10	22.10.2020	500,000,000
17.12.2018	AMD	10,000	50,000	10	12.11.2020	500,000,000

The bonds of the Bank are listed at “NASDAQ OMX Armenia” stock exchange.

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

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

28 Other liabilities

In thousand Armenian drams	31 December 2018	31 December 2017
Accounts payables	166,026	115,730
Dividends payable	222,263	-
Due to personnel	251,120	284,645
Total other financial liabilities	639,409	400,375
Tax payable, other than income tax	183,166	204,659
Revenues of future periods	44,411	50,996
ECL for guarantee and loan commitments*	79,063	-
Total other non-financial liabilities	306,640	255,655
Total other liabilities	946,049	656,030

*Provisions have been made in respect of costs arising from financial guarantees and loan commitments. An analysis of changes in the ECLs on loan commitments and financial guarantees see note 30.

29 Equity

As at 31 December 2018 the Bank's registered and paid-in share capital was AMD 20,489,653 thousand. In accordance with the Bank's statute, the share capital consists of 172,886,525 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2018 and 2017 may be specified as follow:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Uniholding GG Ltd	17,981,523	88
Sfikaro Investments Ltd	1,350,900	6
Arolova Enterprises Ltd	776,701	4
Other	380,529	2
	20,489,653	100

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

In 2017 the Bank increased its share capital by AMD 3,211,432 thousand, from which the share premium was AMD 1,815,157 thousand. The share capital of the Bank was contributed through dividends declared and they are entitled to dividends and any capital distribution in Armenian Drams.

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. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2018 the dividends for preference shareholders recognized in the financial statements amounted to AMD 382,313 thousand (2017: AMD 160,051 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. 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 book.

30 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	5,218,917	7,307,417
Guarantees	1,505,185	702,633
Total commitments and contingent liabilities	6,724,102	8,010,050

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

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Financial guarantees and loan commitments		
ECL allowance as at 1 January 2018	18,170	-
Net remeasurement of loss allowance	60,893	-
Balance as at 31 December	79,063	-

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

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

In thousand Armenian drams	31 December 2018	31 December 2017
Not later than 1 year	397,700	459,302
Later than 1 year and not later than 5 years	634,725	806,463
Later than 5 years	20,007	47,065
Total operating lease commitments	1,052,432	1,312,830

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 21 and 22.

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 anticipates partially 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. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 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 shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income 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				
Loans and advances to customers				
Loans outstanding at January 1, gross	3,454,893	382,284	3,650,987	197,982
Loans issued during the year	6,181,129	271,814	26,891	279,456
Loan repayments during the year	(4,025,819)	(189,497)	(222,985)	(95,154)
Loans outstanding at 31 December gross	5,610,203	464,601	3,454,893	382,284
Less: allowance for loan impairment	(5,707)	(1,461)	(34,549)	(3,823)
Loans outstanding at December 31	5,604,496	463,140	3,420,344	378,461
Amounts due from financial institutions				
At January 1	277,177	-	356,283	-
Increase	58,564,718	-	43,901,871	-
Decrease	(56,363,224)	-	(43,980,977)	-
At December 31	2,478,671	-	277,177	-
Less: allowance impairment	(22,275)	-	-	-
Amount outstanding at December 31	2,456,396	-	277,177	-
Amounts due to financial institutions				
At January 1	1,876,288	-	440,151	-
Increase	75,887,623	-	17,108,731	-
Decrease	(74,427,486)	-	(15,672,594)	-
At December 31	3,336,425	-	1,876,288	-
Amounts due to customers				
At January 1	236,742	139,616	449,792	241,194
Deposits received during the year	11,493,662	2,879,958	7,762,798	925,196
Deposits repaid during the year	(8,439,784)	(2,746,228)	(7,975,848)	(1,026,744)
At December 31	3,290,620	273,346	236,742	139,616

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
Borrowings				
At January 1	9,544,899	-	10,134,574	-
Received during the year	16,638,641	-	31,577,312	-
Repaid during the year	(23,633,361)	-	(32,166,987)	-
Borrowings at December 31	2,550,179	-	9,544,899	-
Debt securities issued	-	71,531	-	56,642
Interest and similar income	584,812	54,635	392,646	37,482
Interest and similar expenses	(705,055)	(9,606)	(1,229,827)	(10,004)
Charge/(reversal) of credit losses	(6,567)	(2,362)	(1,961)	1,843
Insurance payments	-	-	(33,639)	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate 7.5%-24%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2018	2017
Salaries and bonuses	720,191	750,989
Total key management compensation	720,191	750,989

32 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. 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).

32.1 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	-	32,049,007	-	32,049,007	32,049,007
Amounts due from financial institutions	-	12,983,447	-	12,983,447	12,983,447
Loans and advances to customers	-	133,847,107	-	133,847,107	134,279,082
Investments securities measured at amortised cost	-	12,824,151	-	12,824,151	12,822,788
Other financial assets	-	147,189	-	147,189	147,189
Financial liabilities					
Amounts due to financial institutions	-	9,174,836	-	9,174,836	9,039,951
Amounts due to customers	-	151,668,504	-	151,668,504	151,452,004
Borrowings	-	7,117,876	-	7,117,876	6,636,888
Issued debt securities	-	8,413,974	-	8,413,974	8,576,459
Other financial liabilities	-	639,409	-	639,409	639,409

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	-	31,843,954	-	31,843,954	31,843,954
Amounts due from financial institutions	-	995,550	-	995,550	995,550
Loans and advances to customers	-	135,127,892	-	135,127,892	135,127,892
Other financial assets	-	196,951	-	196,951	196,951
Financial liabilities					
Amounts due to financial institutions	-	17,250,526	-	17,250,526	17,250,526
Amounts due to customers	-	128,427,923	-	128,427,923	128,427,923
Borrowings	-	14,744,564	-	14,744,564	14,744,564
Issued debt securities	-	5,183,230	-	5,183,230	5,139,360
Other financial liabilities	-	400,375	-	400,375	400,375

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 24% per annum (2017: 5% to 24% 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 valuers.

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.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The estimated fair value of the issued debt securities is determined based on the estimated future cash flows discounted at the relevant interest rates at the end of the year, which mainly coincides with the current interest rates.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**31 December 2018**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments securities at FVOCI	-	3,817,080	-	3,817,080
Derivative financial assets	-	785	-	785
Total	-	3,817,865	-	3,817,865
Financial liabilities				
Derivative financial liabilities	-	12,813	-	12,813
Total	-	12,813	-	12,813
Net fair value	-	3,805,052	-	3,805,052

In thousand Armenian drams				31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,086	-	3,086
Investments available-for-sale	-	13,570,571	-	13,570,571
Securities pledged under repurchase agreements	-	7,877,164	-	7,877,164
Total	-	21,450,821	-	21,450,821
Financial liabilities				
Derivative financial liabilities	-	9,993	-	9,993
Total	-	9,993	-	9,993
Net fair value	-	21,440,828	-	21,440,828

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

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.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs. Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

32.3 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 plant and equipment				
Land and buildings	-	-	5,805,473	5,805,473
Computer and communication technologies	-	-	1,003,562	1,003,562
Total non-financial assets	-	-	6,809,035	6,809,035
Net fair value	-	-	6,809,035	6,809,035

In thousand Armenian drams	As of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property plant and equipment				
Land and buildings	-	-	5,821,754	5,821,754
Total non-financial assets	-	-	5,821,754	5,821,754
Net fair value	-	-	5,821,754	5,821,754

Fair value measurements in Level 3

The Bank's non-financial assets were classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	2018		
	Property plant equipment	Computer and communi-cation technologies	Total
Non-financial assets			
Balance as at 1 January 2018	5,821,754	1,208,626	7,030,380
Gain recognised in other comprehensive income	-	32,831	32,831
Additions	15,019	172,456	187,475
Disposal	(31,300)	(410,351)	(441,651)
Balance as at 31 December, 2018	5,805,473	1,003,562	6,809,035
Net fair value	5,805,473	1,003,562	6,809,035

In thousand Armenian drams	2017	
	Property plant equipment	Total
Non-financial assets		
Balance as at 1 January 2017	5,608,759	5,608,759
Net loss from impairment recognized in comprehensive income	(7)	(7)
Depreciation adjustment as a result of revaluation of property and equipment	(70,665)	(70,665)
Gain recognised in other comprehensive income	255,764	255,764
Additions	97,905	97,905
Disposal	(70,002)	(70,002)
Balance as at 31 December, 2017	5,821,754	5,821,754

In thousand Armenian drams	2017	
	Property plant equipment	**Total**
Net fair value	5,821,754	5,821,754

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. 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.

33 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 2017					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	**Gross amount of recognised financial liabilities in the statement of financial position**	**Net amount of financial liabilities in the statement of financial position**	**Financial instruments in the statement of financial position**	**Cash collateral received**	**Net**
Financial liabilities						
Loans under repurchase agreements (note 24)	(7,773,155)	-	(7,773,155)	7,877,164	-	104,009

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed 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 3 months**	**From 3 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	32,049,007	-	-	32,049,007	-	-	-	32,049,007
Amounts due from financial institutions	4,328,038	963,341	7,446,597	12,737,976	245,471	-	245,471	12,983,447
Derivative financial assets	785	-	-	785	-	-	-	785
Loans and advances to customers	30,217,908	5,895,117	25,158,009	61,271,034	42,533,580	30,474,468	73,008,048	134,279,082
Investment securities								
- Investment securities at fair value through other comprehensive income	389,498	15,819	68,713	474,030	2,256,732	1,086,318	3,343,050	3,817,080
- Investments securities at amortised cost	-	166,274	67,916	234,190	4,859,870	7,728,728	12,588,598	12,822,788
Other financial assets	147,189	-	-	147,189	-	-	-	147,189
	67,132,425	7,040,551	32,741,235	106,914,211	49,895,653	39,289,514	89,185,167	196,099,378
Liabilities								
Amounts due to financial institutions	4,089,138	251,945	980,298	5,321,381	2,875,814	842,756	3,718,570	9,039,951
Amounts due to customers	58,971,276	19,578,352	64,819,609	143,369,237	8,028,786	53,981	8,082,767	151,452,004
Derivative financial liabilities	12,813	-	-	12,813	-	-	-	12,813
Borrowings	107,621	-	1,101,284	1,208,905	1,397,167	4,030,816	5,427,983	6,636,888
Debt securities issued	-	-	-	-	8,576,459	-	8,576,459	8,576,459
Other financial liabilities	639,409	-	-	639,409	-	-	-	639,409
	63,820,257	19,830,297	66,901,191	150,551,745	20,878,226	4,927,553	25,805,779	176,357,524
Net position	3,312,168	(12,789,746)	(34,159,956)	(43,637,534)	29,017,427	34,361,961	63,379,388	19,741,854
Accumulated gap	3,312,168	(9,477,578)	(43,637,534)		(14,620,107)	19,741,854		

In thousand Armenian drams								31 December 2017
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 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	31,843,954	-	-	31,843,954	-	-	-	31,843,954
Amounts due from financial institutions	995,550	-	-	995,550	-	-	-	995,550
Derivative financial assets	3,086	-	-	3,086	-	-	-	3,086
Loans and advances to customers	22,535,590	16,833,869	30,615,659	69,985,118	39,824,897	25,317,877	65,142,774	135,127,892
Available for sale investments	21,460	-	372,867	394,327	4,878,803	8,318,901	13,197,704	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164	-	-	-	7,877,164
Other financial assets	196,951	-	-	196,951	-	-	-	196,951
	63,473,755	16,833,869	30,988,526	111,296,150	44,703,700	33,636,778	78,340,478	189,636,628
Liabilities								
Amounts due financial institutions	13,840,218	380,951	1,532,215	15,753,384	40,182	1,456,960	1,497,142	17,250,526
Amounts due customers	32,976,417	28,351,422	58,307,935	119,635,774	7,721,832	1,070,317	8,792,149	128,427,923
Derivative financial liabilities	9,993	-	-	9,993	-	-	-	9,993
Borrowings	10,082	1,233	6,155,191	6,166,506	77,505	8,500,553	8,578,058	14,744,564
Debt securities issued	-	-	2,643,711	2,643,711	2,495,649	-	2,495,649	5,139,360
Other liabilities	400,375	-	-	400,375	-	-	-	400,375
	47,237,085	28,733,606	68,639,052	144,609,743	10,335,168	11,027,830	21,362,998	165,972,741
Net position	16,236,670	(11,899,737)	(37,650,526)	(33,313,593)	34,368,532	22,608,948	56,977,480	23,663,887
Accumulated gap	16,236,670	4,336,933	(33,313,593)		1,054,939	23,663,887		

35 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.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are 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, with additional emphasis on selected industries. 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.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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 managed accordingly.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

35.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. 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					
High	7,792,909	-	-	7,792,909	7,690,879
Standard	24,291,883	-	-	24,291,883	24,153,075
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	32,084,792	-	-	32,084,792	31,843,954
Loss allowance	(35,785)	-	-	(35,785)	-
Net carrying amount	32,049,007	-	-	32,049,007	31,843,954
Amounts due from financial institutions					
High	-	-	-	-	-
Standard	13,054,560	-	-	13,054,560	995,550
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	13,054,560	-	-	13,054,560	995,550
Loss allowance	(71,113)	-	-	(71,113)	-
Net carrying amount	12,983,447	-	-	12,983,447	995,550
Loans and advances to mortgage and consumer customers					
High grade	61,866,169	-	-	61,866,169	58,182,294
Standard grade	4,051,372	1,174,471	-	5,225,843	2,042,017
Substandard grade	-	972,639	-	972,639	322,905
Non-performing grade	-	-	9,581,669	9,581,669	6,955,863
Gross carrying amount	65,917,541	2,147,110	9,581,669	77,646,320	67,503,079
Loss allowance	(1,063,745)	(248,389)	(4,451,150)	(5,763,284)	(2,238,915)
Net carrying amount	64,853,796	1,898,721	5,130,519	71,883,036	65,264,164
Loans and advances to commercial customers					
High grade	35,566,201	-	-	35,566,201	37,746,604
Standard grade	4,067,068	405,463	-	4,472,531	9,087,292
Substandard grade	1,227,708	151,491	-	1,379,199	65,264
Non-performing grade	-	-	29,290,370	29,290,370	26,482,537
Gross carrying amount	40,860,977	556,954	29,290,370	70,708,301	73,381,697
Loss allowance	(114,598)	(10,074)	(8,187,583)	(8,312,255)	(3,517,969)
Net carrying amount	40,746,379	546,880	21,102,787	62,396,046	69,863,728

Debt investment securities at amortised cost (2017: held-to-maturity)					
High	-	-	-	-	-
Standard	12,930,826	-	-	12,930,826	-
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	12,930,826	-	-	12,930,826	-
Loss allowance	(108,038)	-	-	(108,038)	-
Net carrying amount	12,822,788	-	-	12,822,788	-
Debt investment securities at FVOCI (2017: available-for-sale)					
High	-	-	-	-	-
Standard *	3,817,080	-	-	3,817,080	13,592,031
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
	3,817,080	-	-	3,817,080	13,592,031
Other financial assets					
High grade	-	-	-	-	-
Standard grade	147,712	-	-	147,712	209,658
Substandard grade	-	-	-	-	-
Non-performing grade	-	-	-	-	-
Gross carrying amount	147,712	-	-	147,712	209,658
Loss allowance	(523)	-	-	(523)	(12,707)
Net carrying amount	147,189	-	-	147,189	196,951
Loan commitments and financial guarantee					
High grade	6,724,102	-	-	6,724,102	8,010,050
Standard grade	-	-	-	-	-
Substandard grade	-	-	-	-	-
Non-performing grade	-	-	-	-	-
	6,724,102	-	-	6,724,102	8,010,050
Loss allowance	(79,063)	-	-	(79,063)	-

Credit exposures arising from derivative transactions see note 17.

35.1.2 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 growth
- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan)

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	
Industry	1%
Agriculture	1%
Construction	1%
Transportation	1.9%
Trade	1.5%
Service	1%
Consumer	3.6%
Mortgage	1%
Other	1%

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
Loans and advances to customers					
Industry	1,294,052	398,141	44,104	1,667,960	3,404,257
Agriculture	-	-	-	366,232	366,232
Construction	1,592	-	-	798,643	800,235
Transportation and communication	4,440	114,137	-	2,663,204	2,781,781
Trade	310,566	52,353	18,524	4,679,332	5,060,775
Service	64,531	5,286	2,496	1,460,619	1,532,932
Consumer	796,398	680,328	275,558	2,396,687	4,148,971
Mortgage	242,708	17,358	24,664	636,836	921,566
Other	-	-	494	2,728,697	2,729,191
Total	2,714,287	1,267,603	365,840	17,398,210	21,745,940

35.1.3 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	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	24,956,691	3,358,501	3,733,815	32,049,007
Amounts due from financial institutions	12,319,327	664,120	-	12,983,447
Derivative financial assets	-	-	785	785
Loans and advances to customers	122,217,949	2,481,767	9,579,366	134,279,082
Investment securities				
- Investment securities at fair value through other comprehensive income	3,817,080	-	-	3,817,080
- Investment securities at amortised cost	12,822,788	-	-	12,822,788
Other financial assets	147,189	-	-	147,189
As of 31 December 2018	176,281,024	6,504,388	13,313,966	196,099,378
As of 31 December 2017	178,215,710	6,175,807	5,245,111	189,636,628

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

Industry sectors

The Bank’s main credit exposure as categorized by the industry sectors of the counterparties as of 31 December 2018 are concentrated in financial sector except for the loans. For the loan industry sector please see note 19.

35.1.4 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.

Allowance for ECL on loans at the total amount of 30,461,699 thousand has not been recognized because of collaterals.

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. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	31 December 2018	31 December 2017
Loans collateralized by real estate	77,735,979	70,670,551
Loans collateralized by movable property	8,603,791	6,386,071
Loans collateralized by goods in circulation	288,340	593,958
Loans collateralized by guarantees	4,076,125	5,616,929
Loans collateralized by cash	5,928,318	8,224,073
Loans collateralized by household appliances	21,519,423	19,080,000
Unsecured loans	30,202,645	30,313,194
Total loans and advances to customers (gross)	148,354,621	140,884,776

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.

35.2 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 a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 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. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, 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. 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	31 December 2018						
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
AMD	+1	-	-	-	11,973	61,110	73,083
USD	+1	-	-	-	31,343	-	31,343
AMD	-1	-	-	-	(12,179)	(66,103)	(78,282)
USD	-1	-	-	-	(32,366)	-	(32,366)

In thousand Armenian drams	31 December 2017						
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
AMD	+1	-	-	-	61,232	85,518	147,750
USD	+1	(12,399)	-	-	-	-	(12,399)
AMD	-1	-	-	-	(63,928)	(93,360)	(157,288)
USD	-1	12,399	-	-	-	-	12,399

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

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). 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
USD	+5	(50,878,720)	+5	(179,387)
EUR	+5	(1,424,050)	+5	53,240
USD	(5)	50,878,720	(5)	179,387
EUR	(5)	1,424,050	(5)	(53,240)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	18,727,353	12,780,032	541,622	32,049,007
Amounts due from financial institutions	261,451	12,721,996	-	12,983,447
Loans and advances to customers	72,864,398	58,424,199	2,990,485	134,279,082
Investment securities				
- Investment securities at fair value through other comprehensive income	2,086,866	1,730,214	-	3,817,080
- Investments securities at amortised cost	3,654,328	9,168,460	-	12,822,788
Other financial assets	147,189	-	-	147,189
Total	97,741,585	94,824,901	3,532,107	196,098,593
Liabilities				
Amounts due to financial institutions	3,565,370	5,474,564	17	9,039,951
Amounts due to customers	59,325,536	88,358,523	3,767,945	151,452,004
Borrowings	4,076,827	2,560,061	-	6,636,888
Debt securities issued	1,269,699	7,306,760	-	8,576,459
Other financial liabilities	638,446	963	-	639,409
Total	68,875,878	103,700,871	3,767,962	176,344,711
Total effect of derivative financial instruments	(12,761)	15,255	(14,522)	(12,028)
Net position as of 31 December 2018	28,852,946	(8,860,715)	(250,377)	19,741,854
Commitments and contingent liabilities as of 31 December 2018	3,243,348	3,480,754	-	6,724,102
Total financial assets	100,990,865	84,579,820	4,062,857	189,633,542
Total financial liabilities	73,753,921	89,054,037	3,154,790	165,962,748
Total effect of derivative financial instruments	(2,770,514)	1,979,365	784,242	(6,907)
Net position as of 31 December 2017	24,466,430	(2,494,852)	1,692,309	23,663,887
Commitments and contingent liabilities As of 31 December 2017	2,041,709	5,968,341	-	8,010,050

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

35.3 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 18% on certain obligations of the Bank denominated in foreign currency. Refer to note 16. 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.

As of 31 December, these ratios were as follows:

	Unaudited	
	31 December 2018, %	**31 December 2017, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	26.87	25.27
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	107.07	272.67

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 34 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.

Analysis of financial liabilities by remaining contractual maturities.

In thousand Armenian drams	31 December 2018					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities						
Amounts due to financial institutions	4,091,079	254,135	1,026,724	3,740,023	1,249,092	10,361,053
Amounts due to customers	59,010,872	19,781,588	67,504,794	9,577,501	119,856	155,994,611
Borrowings	107,806	-	1,133,599	2,147,945	6,204,338	9,593,688
Debt securities issued	-	132,535	397,605	9,255,412	-	9,785,552
Other financial liabilities	639,409	-	-	-	-	639,409
Total undiscounted non-derivative financial liabilities	63,849,166	20,168,258	70,062,722	24,720,881	7,573,286	186,374,313

In thousand Armenian drams	31 December 2018					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	613,240	-	-	-	-	613,240
Outflow	(612,455)	-	-	-	-	(612,455)
Foreign exchange swap contracts						
Inflow	2,660,308	-	-	-	-	2,660,308
Outflow	(2,673,121)	-	-	-	-	(2,673,121)
Commitments and contingent liabilities	149,412	626,172	1,167,511	2,629,007	2,152,000	6,724,102

In thousand Armenian drams	31 December 2017					
	Demand and less than 1 month	From 1 to 3 months	From 1 to 3 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial	13,843,955	385,089	1,618,942	48,741	2,145,763	18,042,490
Amounts due to	33,022,155	28,665,039	60,561,755	9,534,664	1,699,311	133,482,924
Borrowings	10,082	1,243	6,646,761	86,149	12,715,788	19,460,023
Debt securities issued	-	-	2,855,207	3,094,605	-	5,949,812
Other financial liabilities	400,375	-	-	-	-	400,375
Total discounted financial liabilities	47,276,567	29,051,371	71,682,665	12,764,159	16,560,862	77,335,624
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	2,763,898	-	-	-	-	2,763,898
Outflow	(2,770,805)	-	-	-	-	(2,770,805)
Commitments and contingent liabilities	558,822	476,502	1,765,339	5,209,387	-	8,010,050

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 34. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2018 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

35.4 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 Risk Management department, Board, Executive Management. 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.

36 Reconciliation of liabilities arising from financing activities

The changes in the Bank's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams					31 December 2018
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends payable**	**Total**
As of 1 January 2018	17,250,526	14,744,564	5,139,360	-	37,134,450
Cash-flows	*(9,303,169)*	*(8,066,728)*	*3,446,491*	*(160,050)*	*(14,083,456)*
Repayments	(673,322,533)	(25,863,834)	(5,493,738)	(160,050)	(704,840,155)
Proceeds	664,019,364	17,797,106	8,940,229	-	690,756,699
Non-cash	*1,092,594*	*(40,948)*	*(9,392)*	*382,313*	*1,424,567*
Foreign exchange	318	(60,118)	(46,960)	-	(106,760)
Accrued interest	1,092,276	19,170	37,568	-	1,149,014
Accrual of dividends	-	-	-	382,313	382,313
As of 31 December 2018	9,039,951	6,636,888	8,576,459	222,263	24,475,561

In thousand Armenian drams	31 December 2017				
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends payable**	**Total**
As of 1 January 2017	5,042,688	13,260,387	2,652,531	-	20,955,606
Cash-flows	*10,432,480*	*1,366,159*	*2,465,424*	*(160,051)*	*14,104,012*
Repayments	(140,507,859)	(33,378,724)	(1,728,402)	(160,051)	(175,775,03
Proceeds	150,940,339	34,744,883	4,193,826	-	189,879,04
Non-cash	*1,775,358*	*118,018*	*21,405*	*160,051*	*2,074,832*
Foreign exchange	(50,522)	(89,222)	(21,405)	-	(161,149)
Accrued interest	1,825,880	207,240	42,810	-	2,075,930
Accrual of dividends	-	-	-	160,051	160,051
As of 31 December 2017	17,250,526	14,744,564	5,139,360	-	37,134,450

37 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, police 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, 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 subordinated debt.

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.

	Unaudited	
In thousand Armenian drams	**31 December 2018**	**31 December 2017**
Tier 1 capital	27,813,124	28,463,986
Tier 2 capital	2,771,843	2,820,403
Total regulatory capital	30,584,967	31,284,389
Risk-weighted assets	210,205,959	183,593,833
Capital adequacy ratio	14.55%	17.04%

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 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

38 Segment reporting

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 "Operating Segments".

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.