ID Bank CJSC

Financial Statements

for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders and Council of ID Bank CJSC

Opinion

We have audited the financial statements of ID Bank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (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 these requirements and the IESBA Code. 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.

<table>
<tr><th colspan="2">Expected credit losses for loans to customers</th></tr>
<tr><td colspan="2">Please refer to the Note 23(b) and Note 13 in the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans to customers represent 50% of assets and are stated net of allowance for expected credit losses (hereinafter, the “ECL”) that is estimated on a regular basis and is sensitive to assumptions used.

From 1 January 2018 the Bank has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:

– timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments (hereinafter, “IFRS 9”));

– assessment of probability of default (PD) and loss given default (LGD);

– assessment of add-on adjustment to account for forward-looking information;

– expected cash flows forecast for loans to customers classified in Stage 3.

Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</td><td>We analyzed the key aspects of the Bank’s methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of our own financial risks management specialists.

To analyze the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we included in our audit procedures the following:

– for loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages.

– for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank.

– for a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation

– for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the design and implementation of the related models, and reconciled the model input data against the primary documents on a sample basis.

– we analyzed the overall adequacy of the add-on adjustment to account for forward-looking information by comparison with our own estimate considering current economic situation and business environment of certain categories of borrowers.

– for a sample of Stage 3 loans, where ECL are assessed individually, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically</td></tr>
</table>

	focused on those loans to customers that potentially may have the most significant impact on the financial statements. – for loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis. We assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2018 with the actual results for 2018. We also assessed that whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Adoption of IFRS 9 *'Financial instruments'*	
Please refer to the Note 3 and Note 4 in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The use of financial instruments is a core business of the Bank and financial assets constitute a majority of the Bank's assets. From 1 January 2018 the Bank has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets. Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to a significant impact of the new standard on the opening balances as at 1 January 2018 and financial position and performance of the Bank, this area is a key audit matter.	We analysed the criteria used to determine the business models for managing financial assets by making inquiries to responsible employees, reviewing the Bank's internal documentation and analysing internal business processes on selected significant financial instruments portfolios. We checked that the Bank has performed proper assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents for a sample of financial assets. We also assessed whether the financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Bank adoption of IFRS 9.

Other Information

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC
26 April 2019

	Notes	2018 AMD'000	2017* AMD'000
Interest income calculated using the effective interest method	5	11,634,191	22,036,520
Interest expense	5	(4,510,499)	(13,454,144)
Net interest income		**7,123,692**	**8,582,376**
Fee and commission income		738,970	559,827
Fee and commission expense		(454,591)	(310,229)
Net fee and commission income		**284,379**	**249,598**
Net foreign exchange income		361,857	468,190
Net income/(loss) on other financial instruments at FVTPL		165,636	(255,836)
Net realised gain on investment securities		1,481,635	911,472
Other operating income, net		496,934	979,287
Operating income		**9,914,133**	**10,935,087**
Net impairment losses on financial instruments	6	(1,813,773)	(4,060,115)
Personnel expenses		(3,002,806)	(2,814,399)
Other general administrative expenses	7	(2,204,748)	(1,683,991)
Profit before income tax		**2,892,806**	**2,376,582**
Income tax expense	8	(709,836)	(529,802)
Profit for the year		**2,182,970**	**1,846,780**
Other comprehensive (loss)/income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities:			
- Net change in fair value	8	(86,988)	2,146,088
- Net amount reclassified to profit or loss	8	(1,185,308)	(729,178)
Total items that are or may be reclassified subsequently to profit or loss		*(1,272,296)*	*1,416,910*
Items that will not be reclassified to profit or loss:			
Sale of revalued property, equipment and intangible assets	8	(45,691)	-
Total items that will not be reclassified to profit or loss		*(45,691)*	-
Other comprehensive (loss)/income for the year, net of income tax		**(1,317,987)**	**1,416,910**
Total comprehensive income for the year		**864,983**	**3,263,690**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

The financial statements as set out on pages 8 to 92 were approved by management on 25 April 2019 and were signed on its behalf by:

Mher Abrahamyan
Digitally signed by Mher Abrahamyan
Date: 2020.01.14 12:15:30 +04'00'

Mher Abrahamyan
Chairman of the Management Board

Anushik Khachatryan
Chief Accountant

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

	Notes	2018 AMD'000	2017* AMD'000
ASSETS			
Cash and cash equivalents	9	11,260,756	17,229,253
Investment securities measured at fair value through other comprehensive income			
- Held by the Bank	10	4,728,200	29,406,955
Investment securities measured at amortized cost			
- Held by the Bank	10	15,136,723	-
- Pledged under sale and repurchase agreements	10	5,587,003	-
Derivative financial assets		-	9,952
Loans and advances to banks and other financial institutions	11	13,068,992	11,476,427
Amounts receivable under reverse repurchase agreements	12	3,429,813	6,493,486
Loans to customers	13	61,470,502	57,763,789
Current tax asset		139,189	142,648
Property, equipment and intangible assets	14	5,061,844	5,034,278
Other assets	15	2,190,934	1,301,201
Total assets		**122,073,956**	**128,857,989**
LIABILITIES			
Derivative financial liabilities		1,337	229,753
Deposits and balances from banks and other financial institutions	16	5,245,790	4,988,819
Amounts payable under repurchase agreements	17	6,771,902	-
Debt securities issued	18	10,823,040	10,815,059
Current accounts and deposits from customers	19	56,320,356	64,651,008
Other borrowed funds	20	691,990	1,357,706
Deferred tax liabilities	8	617,324	1,486,487
Other liabilities	21	1,338,095	943,640
Total liabilities		**81,809,834**	**84,472,472**
EQUITY			
Share capital	22	33,971,850	33,971,850
Share premium		5,014,099	5,014,099
Revaluation surplus for buildings		110,808	156,499
Fair value reserve for investment securities		106,977	3,342,351
Retained earnings		1,060,388	1,900,718
Total equity		**40,264,122**	**44,385,517**
Total liabilities and equity		**122,073,956**	**128,857,989**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

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

	Notes	2018 AMD'000	2017* AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		11,012,778	23,815,358
Interest payments		(4,822,049)	(14,586,776)
Fee and commission receipts		738,970	559,827
Fee and commission payments		(454,591)	(310,229)
Net payments from financial instruments at fair value through profit or loss		(52,828)	(20,348)
Net receipts from foreign exchange		638,962	343,087
Other income receipts		381,597	885,476
Other general administrative expenses payments		(4,768,296)	(3,868,686)
Decrease/(increase) in operating assets			
Amounts receivable under reverse repurchase agreements		3,075,123	1,229,639
Loans and advances to banks and other financial institutions		(1,877,157)	(10,886,898)
Loans to customers		(9,413,928)	151,659,011
Other assets		(208,535)	2,581,737
(Decrease)/Increase in operating liabilities			
Deposits and balances from banks and other financial institutions		327,598	(61,167,608)
Amounts payable under repurchase agreements		6,757,099	-
Current accounts and deposits from customers		(7,569,030)	(101,202,329)
Other liabilities		499,054	(30,021)
Net cash provided used in operating activities before income tax paid		**(5,735,233)**	**(10,998,760)**
Income tax paid		(33,000)	(19,689)
Cash flows used in operations		**(5,768,233)**	**(11,018,449)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(5,194,557)	(8,547,725)
Proceeds from sale and repayment of investment securities		6,457,542	460,795
Purchases of property, equipment and intangible assets		(593,278)	(596,013)
Cash flows from/(used in) investing activities		**669,707**	**(8,682,943)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	18	2,418,750	8,336,627
Repayment of debt securities issued	18	(2,422,500)	-
Receipts of other borrowed funds	20	315,235	414,599
Repayment of other borrowed funds	20	(968,962)	(2,305,099)
Cash flows (used in)/from financing activities		**(657,477)**	**6,446,127**
Net decrease in cash and cash equivalents		**(5,756,003)**	**(13,255,265)**
Effect of changes in exchange rates on cash and cash equivalents		(212,494)	423,029
Cash and cash equivalents (gross) as at the beginning of the year		17,229,253	30,061,489
Cash and cash equivalents as at the end of the year	9	**11,260,756**	**17,229,253**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

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

AMD'000	Share capital	Share premium	Revaluation surplus for buildings	Revaluation reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2017	33,971,850	5,014,099	156,499	1,925,441	53,938	41,121,827
Total comprehensive income						
Profit for the year	-	-	-	-	1,846,780	1,846,780
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	2,146,088	-	2,146,088
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(729,178)	-	(729,178)
Total other comprehensive income	-	-	-	1,416,910	-	1,416,910
Total comprehensive income for the year	**-**	**-**	**-**	**1,416,910**	**1,846,780**	**3,263,690**
Balance as at 31 December 2017	**33,971,850**	**5,014,099**	**156,499**	**3,342,351**	**1,900,718**	**44,385,517**
Balance as at 1 January 2018	33,971,850	5,014,099	156,499	3,342,351	1,900,718	44,385,517
Adjustment on initial application of IFRS 9, net of tax (see Note 4)	-	-	-	(1,963,078)	(3,023,300)	(4,986,378)
Restated balance as at 1 January 2018	33,971,850	5,014,099	156,499	1,379,273	(1,122,582)	39,399,139
Total comprehensive income						
Profit for the year	-	-	-	-	2,182,970	2,182,970
Other comprehensive loss						
Fair value reserve for investment securities:						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	(86,988)	-	(86,988)
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,185,308)	-	(1,185,308)
Change in revaluation reserve of buildings, net of deferred tax	-	-	(45,691)	-	-	(45,691)
Total other comprehensive loss	-	-	(45,691)	(1,272,296)	-	(1,317,987)
Total comprehensive income for the year	**-**	**-**	**(45,691)**	**(1,272,296)**	**2,182,970**	**864,983**
Balance as at 31 December 2018	**33,971,850**	**5,014,099**	**110,808**	**106,977**	**1,060,388**	**40,264,122**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

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

1 Background

(a) Organisation and operations

ID Bank CJSC (the Bank) was established in the Republic of Armenia as a limited liability company in 1990, and reorganised into a closed joint stock company in 2007. Previously the bank operated under the brand name “Anelik Bank” CJSC. In June 2018 the Bank was renamed to “ID Bank” CJSC.

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

The Bank’s registered office is 13 Vardanants Street, Yerevan 0010, Republic of Armenia. The Bank has 13 branches. The majority of its assets and liabilities are located in the Republic of Armenia.

The Bank’s shareholders are FISTOCO LTD (59.68%) and Creditbank SAL (40.32%). The Bank is ultimately controlled by a single individual, Mr. Vartan Dilanyan, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

Related party transactions are described in detail in Note 27.

(b) Armenian business environment

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

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

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank’s annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Judgements

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

- Applicable to 2018 only
    - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
    - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 23(b).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
    - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 23(b).

- Applicable to 2018 and 2017

  - estimates of fair values of financial assets and liabilities – Note 28;
  - building revaluation estimates – Note 14
  - contingencies and litigations – Note 26 (b)
  - assessment of impairment of repossessed assets – Note 13.

(e) Changes in accounting policies and presentation

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying IFRS 9 is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 4);
- additional disclosures related to IFRS 9 (see Notes 23 (b) and 4).

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.* The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(e)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(e)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(e)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

  The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Bank has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

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

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

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

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances (nostro accounts) held with the CBA and other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Policy applicable from 1 January 2018

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

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

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

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

Policy applicable before 1 January 2018

The policy applicable before 1 January 2018 was the same except that:

- ‘effective interest rate’ was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses;
- purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate were not defined.

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets – 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.

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;

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

Reclassification

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

Financial 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.

See Note 3(g),(h).

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

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

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. Impairment

See also Note 23(b).

Policy applicable from 1 January 2018

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 23(b)).

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

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

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

Measurement of ECL

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

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

See also Note 23(b).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(e)(ii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 23(b)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

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

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

Non-integral financial guarantee contracts

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

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

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

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

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;

- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

Where possible, the Bank seeked to restructure loans rather than to take possession of collateral. This might involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring was as follows:

- If the currency of the loan had been changed the old loan was derecognized and the new loan was recognized.
- If the loan restructuring was not caused by the financial difficulties of the borrower the Bank used the same approach as for the loan portfolio.
- If the loan restructuring was due to the financial difficulties of the borrower and the loan was impaired after restructuring, the Bank recognized the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the impairment allowance for the period. In case the loan was not impaired after restructuring the Bank recalculated the effective interest rate.

Once the terms have been renegotiated, the loan was no longer considered past due. Management continuously reviewed renegotiated loans to ensure that all criteria were met and that future payments were likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

In assessing of whether an investment in sovereign debt was impaired the Bank considered the same steps as after January 2018.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consisted principally of loans and other receivables (loans and receivables). The Bank reviewed its loans and receivables to assess impairment on a regular basis.

The Bank first assessed whether objective evidence of impairment exists individually for loans and receivables that were individually significant, and individually or collectively for loans and receivables that were not individually significant. If the Bank determined that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it included the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss on a loan or receivable had been incurred, the amount of the loss was measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable might be limited or no longer fully relevant to current circumstances. This might be the case when a borrower was in financial difficulties and there was little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables were recognized in profit or loss and were only reversed if a subsequent increase in recoverable amount could be related objectively to an event occurring after the impairment loss had been recognized.

When a loan was uncollectable, it was written off against the related allowance for loan impairment. The Bank written off a loan balance (and any related allowances for loan losses) when management determined that the loans were uncollectible and when all necessary steps to collect the loan were completed.

Financial assets carried at cost

Financial assets carried at cost included unquoted equity instruments included in available-for-sale financial assets that were not carried at fair value because their fair value cannot be reliably measured. If there was objective evidence that such investments were impaired, the impairment loss was calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments were recognized in profit or loss and could not be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognized by transferring the cumulative loss that was recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that was reclassified from other comprehensive income to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value were reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase could be objectively related to an event occurring after the impairment loss had been recognized in profit or loss, the impairment loss was reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security was recognized in other comprehensive income.

Write-off

The Bank wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank determined that there was no realistic prospect of recovery.

v. Designation at fair value through profit or loss

Financial assets

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

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

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

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

(f) Embedded derivatives

Policy applicable from 1 January 2018

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

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

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

Policy applicable before 1 January 2018

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

- the host contract was not itself carried at FVTPL;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

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

(g) Loans to customers

Policy applicable from 1 January 2018

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans to customers included those classified as loans and receivables. Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(h) 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 (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI (see Note 3(e)(i)); and
- equity investment securities designated as at FVOCI (see Note 3(e)(i)).

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.

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Bank became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss (see Note 3(e)(iv)).

Other fair value changes, other than impairment losses (see Note 3(e)(iv)), were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(i) Deposits, debt securities issued and subordinated liabilities

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

(j) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018:* at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018:* at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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

For other loan commitments:

- *from 1 January 2018:* the Bank recognises a loss allowance (see Note 3(e)(iv)) in accordance with IFRS 9;
- *before 1 January 2018:* the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

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

(k) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

(ii) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	50 years
- leasehold improvements	20 years
- computers and communication equipment	4-10 years
- motor vehicles	10 years
- fixtures and fittings	10 years

(l) Intangible assets

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

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

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

(m) Repossessed assets

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

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

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

(n) Impairment of non-financial assets

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

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

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

(o) Provisions

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

(p) Share capital

(i) Ordinary shares

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

(ii) Share premium

Amount paid in excess of par value of shares issued is recognised as a share premium.

(iii) Dividends

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

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

(q) Taxation

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

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

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

(r) Leases

(i) 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 into other operating expenses.

(s) Comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 4.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- “Available-for-sale financial assets” were presented within “Investment securities” line item;
- “Revaluation reserve for available-for-sale financial assets” was presented within “Fair value reserve for investment securities” line item.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- “Interest income” was presented within “Interest income calculated using the effective interest method” line item;
- “Impairment losses” were presented within “Impairment losses on investment securities and other financial assets, loans to customers and loan commitments” line item.

(t) Standards issued but not yet effective

A number of new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

(i) IFRS 16 Leases

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

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 “Revenue from Contracts with Customer” at or before the date of initial application of IFRS 16.

The Bank commenced an initial assessment of the possible impact of applying IFRS 16 to its financial statements. To date, the most significant identified impact is the need for the Bank to recognize assets and liabilities under operating lease agreements regarding premises. In addition, the nature of the costs recognized for these contracts will change, because, in accordance with IFRS 16, instead of the lease expenses that are evenly recognized over the life of the contract, the Bank will have to reflect the cost of depreciation of assets in the form of the right to use and interest expenses related to the lease obligations. The Bank has not yet decided whether it will use optional simplifications.

As a lessee, the Bank can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the chosen approach consistently to all of its leases. Currently, The Bank plans to apply IFRS 16 initially on 1 January 2019. The Bank has not yet selected the type of transition.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16 and does not consider it material.

(ii) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank’s financial statements:

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards.*

4 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

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.

AMD'000	Note	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	9	Loans and receivables	Amortised cost	17,229,253	17,225,620
Investment securities – debt (a)	10	Available for sale	Amortised cost	20,436,965	17,806,848
Investment securities – debt (b)	10	Available for sale	FVOCI	8,796,012	8,796,012
Investment securities – equity (c)	10	Available for sale	FVOCI	173,978	173,978
Derivative financial assets		FVTPL	FVTPL	9,952	9,952
Loans and advances to banks and other financial institutions	11	Loans and receivables	Amortised cost	11,476,427	11,461,336
Amounts receivable under reverse repurchase agreements	12	Loans and receivables	Amortised cost	6,493,486	6,489,850
Loans to customers	13	Loans and receivables	Amortised cost	57,763,789	54,173,875
Other financial assets	15	Loans and receivables	Amortised cost	132,050	142,527
Total financial assets				**122,511,912**	**116,279,998**
Financial liabilities					
Derivative financial liabilities		FVTPL	FVTPL	229,753	229,753
Deposit and balances from banks and other financial institutions	16	Amortised cost	Amortised cost	4,988,819	4,988,819
Current accounts and deposits from customers	19	Amortised cost	Amortised cost	64,651,008	64,651,008
Debt securities issued	18	Amortised cost	Amortised cost	10,815,059	10,815,059
Other borrowed funds	20	Amortised cost	Amortised cost	1,357,706	1,357,706
Other financial liabilities	21	Amortised cost	Amortised cost	273,041	274,099
				82,315,386	**82,316,444**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(e)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below:

a. Certain debt securities are held by the Bank in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

b. Certain debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

c. Certain equity investments held by the Bank for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

AMD'000	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Opening balance	17,229,253	-	-	-
Remeasurement	-	-	(3,633)	-
Closing balance	-	-	-	17,225,620
Investment securities:				
Opening balance	-	-	-	-
From available-for-sale	-	20,436,965	-	-
Remeasurement	-	-	(2,630,118)	-
Closing balance	-	-	-	17,806,847
Loans and advances to banks and other financial institutions:				
Opening balance	11,476,427	-	-	-
Remeasurement	-	-	(15,091)	-
Closing balance	-	-	-	11,461,336
Amounts receivable under reverse repurchase agreements:				
Opening balance	6,493,486	-	-	-
Remeasurement	-	-	(3,636)	-
Closing balance	-	-	-	6,489,850
Loans to customers:				
Opening balance	57,763,789	-	-	-
Remeasurement	-	-	(3,589,914)	-
Closing balance	-	-	-	54,173,875
Other financial assets:				
Opening balance	132,050	-	-	-
Remeasurement	-	-	10,477	-
Closing balance	-	-	-	142,527
Total amortised cost	**93,095,005**	**20,436,965**	**(6,231,915)**	**107,300,055**
Available-for-sale				
Investment securities:				
Opening balance	29,406,955	-	-	-
To amortized cost		(20,436,965)	-	-
To FVOCI – debt	-	(8,796,012)	-	-
To FVOCI – equity	-	(173,978)	-	-
Closing balance	-	-	-	-

AMD'000	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
FVOCI – debt				
Investment securities:				
Opening balance	-	-	-	-
From available-for sale	-	8,796,012	-	-
Remeasurement	-	-	-	-
Closing balance at FV	-	-	-	8,796,012
FVOCI – equity				
Investment securities:				
Opening balance	-	-	-	-
From available-for sale	-	173,978	-	-
Closing balance	-	-	-	173,978
Total FVOCI	**29,406,955**	**(20,436,965)**	**-**	**8,969,990**
FVTPL				
Derivative financial assets	9,952	-	-	9,952
Total FVTPL	**9,952**	**-**	**-**	**9,952**
Financial liabilities				
Amortised cost				
Deposit and balances from banks and other financial institutions	4,988,819	-	-	4,988,819
Current accounts and deposits from customers	64,651,008	-	-	64,651,008
Other borrowed funds	1,357,706	-	-	1,357,706
Other financial liabilities	273,041	-	1,058	274,099
Total amortised cost	**71,270,574**	**-**	**1,058**	**71,271,632**
FVTPL				
Derivative financial liabilities	229,753	-	-	229,753
Debt securities issued	10,815,059	-	-	10,815,059
Total FVTPL	**11,044,812**	**-**	**-**	**11,044,812**

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

	AMD'000
From available-for-sale financial assets under IAS 39	
Fair value at 31 December 2018	21,864,083
Fair value loss that would have been recognised during 2018 in other comprehensive income if the financial assets had not been reclassified	1,372,732

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and accumulated losses. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

AMD'000	**Impact of adopting IFRS 9 at 1 January 2018**
Fair value reserve – FVOCI debt (31 December 2017 – Fair value reserve – available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	3,342,351
Reclassification of debt investment securities from available-for-sale to amortised cost	(1,963,078)
Opening balance under IFRS 9 (1 January 2018)	**1,379,273**
Accumulated losses	
Closing balance under IAS 39 (31 December 2017)	1,900,718
Recognition of expected credit losses under IFRS 9 for loans to customers (including loan commitments)	(2,871,932)
Recognition of expected credit losses under IFRS 9 for investment securities	(141,016)
Recognition of expected credit losses under IFRS 9 for other financial assets (including cash and cash equivalents, loans and advances to banks and other financial institutions, amounts receivable under reverse repurchase agreements, other financial assets)	(9,506)
Recognition of expected credit losses under IFRS 9 for financial guarantees provided	(846)
Opening balance under IFRS 9 (1 January 2018)	**(1,122,582)**

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 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

AMD'000	**31 December 2017 (IAS 39/IAS 37)**	**Reclassification**	**Remeasurement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans to banks, loans to customers, reverse repurchase agreements, other financial assets)	3,420,323	-	2,881,229	6,301,552
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	-	141,016	141,016
Total measured at amortised cost	**3,420,323**	**-**	**3,022,245**	**6,442,568**
Financial guarantee contracts issued	-	-	846	846

5 Net interest income

	2018 AMD'000	2017 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	8,659,983	18,551,523
Investment securities	2,574,919	2,980,826
Amounts receivable under reverse repurchase agreements	243,589	217,752
Loans and advances to banks and other financial institutions	141,861	278,514
Other	13,839	7,905
	11,634,191	**22,036,520**
Interest expense		
Current accounts and deposits from customers	3,031,927	9,736,316
Debt securities issued	712,633	431,068
Deposits and balances from banks and other financial institutions	370,497	2,553,153
Amounts payable under repurchase agreements	123,435	298,949
Other borrowed funds	77,992	210,370
Other	194,015	224,288
	4,510,499	**13,454,144**
	7,123,692	**8,582,376**

6 Net impairment losses on financial instruments

	2018 AMD'000	2017 AMD'000
Loans to customers and loan commitments	1,944,363	3,982,696
Investment securities at amortized cost	(139,526)	-
Other financial assets	8,936	77,419
	1,813,773	**4,060,115**

7 Other general administrative expenses

	2018 AMD'000	2017 AMD'000
Depreciation and amortization	470,154	386,748
Taxes other than on income	335,186	244,032
Advertising and marketing	282,656	62,550
Operating lease expense	199,268	179,576
Representation and organizational expenses	181,943	92,873
Office and utility expenses	152,108	120,797
Repairs and maintenance	113,554	125,132
Security	91,590	121,153
Professional services	77,647	68,899
Insurance	71,371	83,294
Communications and information services	63,829	59,634
Other	165,442	139,303
	2,204,748	**1,683,991**

8 Income tax expense

	2018 AMD'000	2017 AMD'000
Current tax expense underprovided in prior years	2,907	2,485
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	706,929	527,317
Total income tax expense	**709,836**	**529,802**

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

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

	2018 AMD'000	%	2017 AMD'000	%
Profit before income tax	2,892,806		2,376,582	
Income tax at the applicable tax rate	578,561	20.0	475,316	20.0
Non-deductible expenses	128,368	4.4	52,001	2.2
Under-provided in prior years	2,907	0.1	2,485	0.1
	709,836	**24.5**	**529,802**	**22.3**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2018 and 2017.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forward expires in 2021.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows:

AMD'000	Balance 1 January 2018 *	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Cash and cash equivalents	727	-	-	727
Investment securities	(310,058)	(44,247)	318,074	(36,231)
Loans and advances to banks and other financial institutions	(16,207)	(10,261)	-	(26,468)
Loans to customers	(53,257)	(858,404)	-	(911,661)
Property, equipment and intangible assets	(21,830)	(5,498)	11,423	(15,905)
Amounts receivable under reverse repurchase agreements	726	(726)	-	-
Other assets	(18,610)	(17,071)	-	(35,681)
Other liabilities	52,180	88,733	-	140,913
Tax loss carry-forwards	126,437	140,545	-	266,982
	(239,892)	**(706,929)**	**329,497**	**(617,324)**

* The balance as at 1 January 2018 includes the effect of initially applying IFRS 9 (see Note 4).

AMD'000	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2017
Available-for-sale financial assets	(481,695)	(159)	(354,228)	(836,082)
Loans and advances to banks and other financial institutions	(1,238)	(17,987)	-	(19,225)
Loans to customers	(525,312)	(245,928)	-	(771,240)
Held-to-maturity investments	(1,405)	1,405	-	-
Property, equipment and intangible assets	(18,626)	(3,204)	-	(21,830)
Other assets	(21,321)	4,806	-	(16,515)
Other liabilities	40,843	11,125	-	51,968
Tax loss carry-forwards	403,812	(277,375)	-	126,437
	(604,942)	**(527,317)**	**(354,228)**	**(1,486,487)**

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2018 and 2017 comprise the following:

	2018			2017		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of investment securities at FVOCI	(108,735)	21,747	(86,988)	2,682,610	(536,522)	2,146,088
Net change in fair value of investment securities at FVOCI transferred to profit or loss	(1,481,635)	296,327	(1,185,308)	(911,472)	182,294	(729,178)
Sale of revalued property, equipment and intangible assets	(57,114)	11,423	(45,691)	-	-	-
Other comprehensive (loss)/income	**(1,647,484)**	**329,497**	**(1,317,987)**	**1,771,138**	**(354,228)**	**1,416,910**

9 Cash and cash equivalents

	2018 AMD'000	2017 AMD'000
Cash on hand	2,602,168	2,967,268
Nostro accounts with the CBA	8,212,667	11,915,803
Nostro accounts with other banks		
- rated A- to A+	1,891	-
- rated BBB+	52,077	519
- rated from BB- to BB+	157,033	-
- rated from B- to B+	182,165	268,327
- not rated	56,388	76,596
Total nostro accounts with other banks	**449,554**	**345,442**
Cash equivalents		
Overnight deposit with the CBA	-	2,000,740
Total gross cash and cash equivalents	**11,264,389**	**17,229,253**
Credit loss allowance	(3,633)	-
Total net cash and cash equivalents	**11,260,756**	**17,229,253**

No cash and cash equivalents are credit impaired or past due.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

As at 31 December 2018 and 2017 the Bank has no bank except for CBA (2017: no bank except for the CBA) whose balances exceeded 10% of the equity.

Nostro accounts with the CBA

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

Banks are required to maintain a cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 18% of the amounts attracted in foreign currency.

The Bank's ability to withdraw such deposit is not restricted by the statutory legislation, however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams and in foreign currency, the sanctions may apply.

10 Investment securities

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

	2018 AMD'000	2017 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	1,533,661	22,590,656
- Eurobonds of the Republic of Armenia	2,071,829	5,622,338
Total government bonds	**3,605,490**	**28,212,994**
Corporate bonds		
- rated from B to B+	-	807,772
- not rated	-	212,211
Total corporate bonds	-	**1,019,983**
Equity instruments		
Corporate shares	1,122,710	173,978
Total investment securities measured at FVOCI	**4,728,200**	**29,406,955**

(b) Debt investment securities measured at amortized cost

	2018 AMD'000	2017 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	9,576,095	-
- Eurobonds of the Republic of Armenia	2,617,138	-
Total government bonds	**12,193,233**	-
Corporate bonds		
- rated from B to B+	2,287,867	-
- not rated	692,367	-
Total corporate bonds	**2,980,234**	-
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	5,587,003	-
Total government bonds	**5,587,003**	-
Total gross investment securities measured at amortized cost	**20,760,470**	-
Credit loss allowance	(36,744)	-
Total net investment securities measured at amortized cost	**20,723,726**	

None of investment securities are past due.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

11 Loans and advances to banks and other financial institutions

	2018 AMD'000	2017 AMD'000
Credit card settlement deposit with the CBA	523,000	520,000
Loans and deposits		
Eurasian Union banks	4,841,505	-
Armenian banks		
- rated from BB- to BB+	971,196	-
- rated from B- to B+	4,862,396	6,545,340
Other non resident banks		
- rated A- to A+	166,818	-
- rated from BBB- to BBB+	83,047	-
- rated from B- to B+	-	426,808
- not rated	502,071	814,513
Armenian medium size credit organizations	973,412	3,139,304
Other financial institutions	187,081	46,046
Total loans and deposits	**12,587,526**	**10,972,011**
Total gross loans and advances to banks and other financial institutions	**13,110,526**	**11,492,011**
Credit loss allowance	(41,534)	(15,584)
Total net loans and advances to banks and other financial institutions	**13,068,992**	**11,476,427**

No amounts due from banks are past due.

The Bank uses credit ratings per Standard&Poor's in disclosing credit quality.

(a) Credit card settlement deposit with the CBA

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

(b) Concentration of loans and advances to banks and other financial institutions

As at 31 December 2018 the Bank has one bank (2017: none), whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2018 is AMD 4,841,505 thousand (2017: nil).

12 Amounts receivable under reverse repurchase agreements

	2018 AMD'000	2017 AMD'000
Amounts receivable from local financial institutions	3,431,830	3,576,045
Amounts receivable from local banks with B rating per Standard&Poor's	-	2,900,619
Amounts receivable from individuals	-	16,822
Total gross amounts receivable under reverse repurchase agreements	**3,431,830**	**6,493,486**
Credit loss allowance	(2,017)	-
Total net amounts receivable under reverse repurchase agreements	**3,429,813**	**6,493,486**

As at 31 December 2018 the Bank has no counterparty (2017: none) whose amount receivable under reverse repurchase agreements exceed 10% of equity.

Amounts receivables under reverse repurchase agreements are from reputable local financial institutions. None of them are past due.

Collateral accepted as security for assets

As at 31 December 2018 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 3,693,871 thousand (2017: AMD 6,721,464 thousand).

13 Loans to customers

	2018 AMD'000	2017 AMD'000
Loans to customers at amortized cost		
Loans to large corporates	33,388,034	24,807,302
Loans to trading companies	2,540,210	2,548,457
Loans to manufacturing companies	1,579,952	2,008,280
Secured loans to small- and medium sized companies	955,768	1,473,041
Cash covered loans	242,590	1,532,333
Other corporate loans	2,840,726	2,483,657
Total loans to corporate customers	**41,547,280**	**34,853,070**
Loans to retail customers		
Consumer loans secured with real estate	11,894,266	10,650,232
Mortgage loans	5,918,862	2,805,923
Gold secured loans	5,905,991	5,904,584
Express loans without guarantee	1,179,693	2,685,149
Express loans with guarantee	887,010	1,474,187
Salary project loans	707,000	786,041
Cash covered loans	336,774	900,998
Credit lines	230,514	521,647
Other retail loans	2,617,709	1,442,116
Total loans to retail customers	**29,677,819**	**27,170,877**
Gross loans to customers at amortised cost	**71,225,099**	**62,023,947**
Credit loss allowance	(9,754,597)	(4,260,158)
Net loans to customers at amortised cost	**61,470,502**	**57,763,789**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2018 and 31 December 2017:

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Loans to corporate customers					
Loans to large corporate customers					
- not overdue	19,780,307	-	-	19,780,307	12,253,086
- not overdue credit impaired	-	-	13,607,727	13,607,727	12,554,216
Total gross loans to large corporate customers	**19,780,307**	**-**	**13,607,727**	**33,388,034**	**24,807,302**
Credit loss allowance	**(182,092)**	**-**	**(7,637,739)**	**(7,819,831)**	**(2,736,400)**
Total net loans to large corporate customers	**19,598,215**	**-**	**5,969,988**	**25,568,203**	**22,070,902**
Loans to trading companies					
- not overdue	1,523,437	-	111,512	1,634,949	1,609,375
- overdue of less than 30 days	-	6,151	-	6,151	22,379
- overdue of 31-90 days				-	468,926
- overdue of 91-180 days	-	-	100,196	100,196	41,660
- overdue of 181-360 days	-	-	332,691	332,691	79,737
- overdue more than 1 year	-	-	466,223	466,223	326,380
Total gross loans to trading companies	**1,523,437**	**6,151**	**1,010,622**	**2,540,210**	**2,548,457**
Credit loss allowance	**(13,979)**	**-**	**(367,043)**	**(381,022)**	**(284,704)**
Total net loans to trading companies	**1,509,458**	**6,151**	**643,579**	**2,159,188**	**2,263,753**
Loans to manufacturing companies	-	-	-		
- not overdue	1,342,573	-	40,059	1,382,632	1,433,501
- overdue of less than 30 days	-	-	30,756	30,756	21,250
- overdue of 91-180 days				-	24,649
- overdue of 181-360 days				-	140,772
- overdue more than 1 year	-	-	166,564	166,564	388,108
Total gross loans to manufacturing companies	**1,342,573**	**-**	**237,379**	**1,579,952**	**2,008,280**
Credit loss allowance	**(485)**	**-**	**(16,866)**	**(17,351)**	**(133,287)**
Total net loans to manufacturing companies	**1,342,088**	**-**	**220,513**	**1,562,601**	**1,874,993**
Secured loans to small- and medium sized companies					
- not overdue	641,462	76,437	35,304	753,203	1,058,699
- overdue of less than 30 days	1,971	11,124	15,463	28,558	65,083
- overdue of 31-90 days	-	35,097	-	35,097	50,475
- overdue of 91-180 days	-	-	10,945	10,945	37,252
- overdue of 181-360 days	-	-	7,569	7,569	103,525
- overdue more than 1 year	-	-	120,396	120,396	158,007
Total gross secured loans to small- and medium sized companies	**643,433**	**122,658**	**189,677**	**955,768**	**1,473,041**
Credit loss allowance	**(1,933)**	**(309)**	**(23,693)**	**(25,935)**	**(76,112)**

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Total net secured loans to small- and medium sized companies	**641,500**	**122,349**	**165,984**	**929,833**	**1,396,929**
Cash covered loans					
- not overdue	242,590	-	-	242,590	1,532,333
Credit loss allowance	-	-	-	-	-
Total net cash covered loans	**242,590**	**-**	**-**	**242,590**	**1,532,333**
Other corporate loans					
- not overdue	1,038,269	2,585	767,019	1,807,873	1,276,339
- overdue of less than 30 days	8,417	17,912	27,135	53,464	53,913
- overdue of 31-90 days					77,072
- overdue of 91-180 days	-	-	4,769	4,769	2,941
- overdue of 181-360 days					215,921
- overdue more than 1 year	-	-	974,620	974,620	857,471
Total gross other corporate loans	**1,046,686**	**20,497**	**1,773,543**	**2,840,726**	**2,483,657**
Credit loss allowance	**(5,578)**	**(473)**	**(905,418)**	**(911,469)**	**(484,779)**
Total net other corporate loans	**1,041,108**	**20,024**	**868,125**	**1,929,257**	**1,998,878**
Gross loans to corporate customers	**24,579,026**	**149,306**	**16,818,948**	**41,547,280**	**34,853,070**
Total expected credit loss on corporate customers	**(204,067)**	**(782)**	**(8,950,759)**	**(9,155,608)**	**(3,715,283)**
Total net loans to corporate customers	**24,374,959**	**148,524**	**7,868,189**	**32,391,672**	**31,137,787**
Loans to retail customers					
Consumer loans secured with real estate					
- not overdue	9,756,583	169,682	29,429	9,955,694	9,073,788
- overdue of less than 30 days	200,362	922	-	201,284	173,018
- overdue of 31-90 days	119,743	-	-	119,743	157,211
- overdue of 91-180 days	50,558	-	-	50,558	283,651
- overdue of 181-360 days	58,659	-	181,580	240,239	555,302
- overdue more than 1 year	30,533	-	1,296,215	1,326,748	407,262
Total gross consumer loans secured with real estate	**10,216,438**	**170,604**	**1,507,224**	**11,894,266**	**10,650,232**
Credit loss allowance	**(70,883)**	**(13,161)**	**(217,631)**	**(301,675)**	**(299,568)**
Total net consumer loans secured with real estate	**10,145,555**	**157,443**	**1,289,593**	**11,592,591**	**10,350,664**
Mortgage loans					
- not overdue	5,550,213	42,831	-	5,593,044	2,636,273
- overdue of less than 30 days	91,553	-	-	91,553	5,954
- overdue of 31-90 days	71,528		-	71,528	27,978
- overdue of 91-180 days	11,289	-	-	11,289	31,049
- overdue of 181-360 days	24,437	-	-	24,437	82,175
- overdue more than 1 year	6,351	-	120,660	127,011	22,494
Total gross mortgage loans	**5,755,371**	**42,831**	**120,660**	**5,918,862**	**2,805,923**
Credit loss allowance	**(17,463)**	**(4,058)**	**(7,014)**	**(28,535)**	**(28,060)**
Total net mortgage loans	**5,737,908**	**38,773**	**113,646**	**5,890,327**	**2,777,863**

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Gold secured loans					
- not overdue	5,587,245	43,047	15,382	5,645,674	5,796,017
- overdue of less than 30 days	127,630	206	108	127,944	54,172
- overdue of 31-90 days	84,335	358	-	84,693	30,379
- overdue of 91-180 days	22,845	401	-	23,246	12,731
- overdue of 181-360 days	14,486	-	-	14,486	11,285
- overdue more than 1 year	5,942	-	4,006	9,948	-
Total gross gold secured loans	**5,842,483**	**44,012**	**19,496**	**5,905,991**	**5,904,584**
Credit loss allowance	**(14,629)**	**(5,491)**	**(9,854)**	**(29,974)**	**(29,526)**
Total net gold secured loans	**5,827,854**	**38,521**	**9,642**	**5,876,017**	**5,875,058**
Express loan without guarantee					
- not overdue	1,090,903	29,545	-	1,120,448	2,551,731
- overdue of less than 30 days	31,034	-	-	31,034	69,644
- overdue of 31-90 days	15,798	219	-	16,017	63,774
- overdue of 91-180 days	6,188	84	-	6,272	-
- overdue of 181-360 days	4,740	968	-	5,708	-
- overdue more than 1 year	194	20	-	214	-
Total gross express loans without guarantee	**1,148,857**	**30,836**	**-**	**1,179,693**	**2,685,149**
Credit loss allowance	**(46,402)**	**(13,916)**	**-**	**(60,319)**	**(77,513)**
Total net express loans without guarantee	**1,102,455**	**16,920**	**-**	**1,119,374**	**2,607,636**
Cash covered loans					
- not overdue	311,426	25,348	-	336,774	900,998
Total gross cash covered loans	**311,426**	**25,348**	**-**	**336,774**	**900,998**
Credit loss allowance	**-**	**-**	**-**	**-**	**-**
Total net cash covered loans	**311,426**	**25,348**	**-**	**336,774**	**900,998**
Express loan with guarantee					
- not overdue	804,288	9,336	-	813,624	1,413,660
- overdue of less than 30 days	15,023	405	-	15,428	9,480
- overdue of 31-90 days	6,337	-	-	6,337	17,271
- overdue of 91-180 days	4,781	-	-	4,781	13,961
- overdue of 181-360 days	4,627	589	2,486	7,702	19,815
- overdue more than 1 year	362	-	38,776	39,138	-
Total gross express loans with guarantee	**835,418**	**10,330**	**41,262**	**887,010**	**1,474,187**
Credit loss allowance	**(14,838)**	**(3,077)**	**(24,712)**	**(42,627)**	**(30,053)**
Total net express loans with guarantee	**820,580**	**7,253**	**16,550**	**844,383**	**1,444,134**
Salary project loans					
- not overdue	663,198	1,111	4,146	668,455	762,412
- overdue of less than 30 days	13,763	-	-	13,763	3,650
- overdue of 31-90 days	10,012	-	-	10,012	5,224
- overdue of 91-180 days	2,002	-	-	2,002	6,060
- overdue of 181-360 days	3,874	-	8,894	12,768	8,695
Total gross salary project loans	**692,849**	**1,111**	**13,040**	**707,000**	**786,041**
Credit loss allowance	**(6,313)**	**(353)**	**(7,449)**	**(14,115)**	**(11,329)**
Total net salary project loans	**686,536**	**758**	**5,591**	**692,885**	**774,712**

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Credit lines					
- not overdue	222,623	-	-	222,623	491,058
- overdue of less than 30 days	3,283	-	-	3,283	3,711
- overdue of 31-90 days	1,468	-	-	1,468	16,406
- overdue of 91-180 days	3,130	-	-	3,130	-
- overdue of 181-360 days	-	-	-	-	2,414
- overdue more than 1 year	10	-	-	10	8,058
Total gross credit lines	**230,514**	**-**	**-**	**230,514**	**521,647**
Credit loss allowance	**(4,289)**	**-**	**-**	**(4,289)**	**(13,989)**
Total net credit lines	**226,225**	**-**	**-**	**226,225**	**507,658**
Other retail loans					
- not overdue	2,240,729	21,686	5,557	2,267,972	1,338,063
- overdue of less than 30 days	39,811	4,963	-	44,774	19,197
- overdue of 31-90 days	18,219	-	-	18,219	12,415
- overdue of 91-180 days	3,475	-	-	3,475	44,278
- overdue of 181-360 days	3,716	242	196,895	200,853	11,195
- overdue more than 1 year	2,975	-	79,441	82,416	16,968
Total gross other retail loans	**2,308,925**	**26,891**	**281,893**	**2,617,709**	**1,442,116**
Credit loss allowance	**(49,775)**	**(7,080)**	**(60,601)**	**(117,456)**	**(54,838)**
Total net other retail loans	**2,259,150**	**19,811**	**221,293**	**2,500,254**	**1,387,278**
Total gross loans to retail customers	**27,342,281**	**351,963**	**1,983,575**	**29,677,819**	**27,170,877**
Total expected credit loss on retail customers	**(224,592)**	**(47,136)**	**(327,261)**	**(598,989)**	**(544,876)**
Total net loans to retail customers	**27,117,689**	**304,827**	**1,656,314**	**29,078,830**	**26,626,001**

(b) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

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

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

31 December 2018 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans which are not credit impaired			
Bank account turnover	4,338,179	4,338,179	-
Real estate	4,778,882	-	4,778,882
Corporate guarantee	6,795,629	-	6,795,629
Corporate shares	3,852,334	-	3,852,334
Highly liquid assets *	197,453	197,453	-
Other collateral	861,369		861,369
No collateral or other credit enhancement	3,699,637	-	3,699,637
Total loans which are not credit impaired	**24,523,483**	**4,535,632**	**19,987,851**
Credit impaired loans			
Real estate**	5,642,939	5,642,939	-
Highly liquid assets*	2,225,250	2,225,250	-
Total credit impaired loans	**7,868,189**	**7,868,189**	**-**
Total loans to corporate customers	**32,391,672**	**12,403,821**	**19,987,851**

31 December 2017 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Bank account turnover	7,241,797	7,241,797	-
Real estate	5,490,769	-	5,490,769
Corporate shares	3,395,000	-	3,395,000
Traded securities	1,416,283	-	1,416,283
Equipment	552,923	-	552,923
Highly liquid assets *	159,721	159,721	-
Corporate guarantee	45,364	-	45,364
Other collateral	58,063	-	58,063
No collateral (personal guarantee)	30,006	-	30,006
No collateral or other credit enhancement	44,300	-	44,300
Total loans without individual signs of impairment	**18,434,226**	**7,401,518**	**11,032,708**
Overdue or impaired loans			
Real estate**	12,628,084	-	12,628,084
Equipment	52,301	-	52,301
Other collateral	1,693	-	1,693
No collateral (personal guarantee)	4,389	-	4,389
No collateral or other credit enhancement	17,095	-	17,095
Total overdue or impaired loans	**12,703,562**	**-**	**12,703,562**
Total loans to corporate customers	**31,137,788**	**7,401,518**	**23,736,270**

* Highly liquid assets include deposits from banks and customers.

** The amount of real state includes an amount of AMD 3,744,738 thousand (2017: AMD 5,317,311 thousand), which is not directly pledged with the Bank. However, it secures right which has been pledged with the Bank against loans extended to two borrowers.

The tables above excludes overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed on the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

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

(ii) Loans to retail customers

Consumer loans are mainly secured by real estate. The Bank's policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of a maximum of 40%.

Express loans with guarantee and without guarantee are mainly unsecured.

Gold secured loans are secured by golden jewelry.

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Cash covered loans and part of credit lines are secured with highly liquid assets which include deposits, purchased debt securities issued by the Bank and current accounts.

Salary project loans and part of credit lines are secured with the current accounts of the customers.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date.

(iii) Repossessed collateral

During the year ended 31 December 2018, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 552,491 thousand (2017: AMD 459,259 thousand). As at 31 December 2018 and 31 December 2017, the repossessed collateral comprises real estate.

	2018 Carrying amount AMD'000	**2017 Carrying amount AMD'000**
Balance at 1 January	749,383	3,164,048
Additions	552,491	459,259
Sales	(214,431)	(2,873,924)
Balance at 31 December	**1,087,443**	**749,383**

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

(c) Industry and geographical analysis of the loan portfolio

Loans are issued to customers that operate in the following economic sectors:

	2018 AMD'000	2017 AMD'000
Trade and finance	21,795,817	21,204,831
Energy	8,697,421	7,928,899
Manufacturing	1,878,999	1,773,712
Hospitality	645,957	616,180
Transportation and communication	647,589	441,745
Construction	613,725	118,680
Mining	53,899	53,903
Agriculture, forestry and timber	19,935	20,610
Service	132,800	327
Other	7,061,138	2,694,183
Loans to retail customers	29,677,819	27,170,877
	71,225,099	**62,023,947**
Credit loss allowance	(9,754,597)	(4,260,158)
	61,470,502	**57,763,789**

As at 31 December 2018, loans to customers with a gross value of AMD 66,319,916 thousand (2017: AMD 62,023,947 thousand) are issued to customers located within the Republic of Armenia.

(d) Assets under lien

As at 31 December 2018, loans to customers with a gross value of AMD 2,503,920 thousand (2017: AMD 3,159,743 thousand) serve as collateral for loans from credit organisations and borrowings from Government of Armenia (Notes 16, 20).

(e) Significant credit exposures

As at 31 December 2018, the Bank has five borrowers or groups of connected borrowers (2017: four), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2018 is AMD 29,776,070 thousand (2017: AMD 26,218,329 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 23 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Property, equipment and intangible assets

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2018	4,396,920	208,321	1,375,132	864,006	101,781	564,637	7,510,797
Additions	68,894	58,196	96,980	294,496	26,455	105,457	650,478
Disposals/write-offs	(187,477)	-	(8,016)	(71,768)	(46,365)	(11,784)	(325,410)
Reclassification	-	-	35,603	(35,603)	-	-	-
Balance at 31 December 2018	**4,278,337**	**266,517**	**1,499,699**	**1,051,131**	**81,871**	**658,310**	**7,835,865**
Depreciation and amortisation							
Balance at 1 January 2018	787,947	45,612	831,003	456,714	55,387	299,856	2,476,519
Depreciation and amortisation for the year	85,336	10,967	169,665	90,289	6,965	106,932	470,154
Disposals/write-offs	(50,900)	-	(7,927)	(62,370)	(39,907)	(11,548)	(172,652)
Reclassification	-	-	274	(274)	-	-	-
Balance at 31 December 2018	**822,383**	**56,579**	**993,015**	**484,359**	**22,445**	**395,240**	**2,774,021**
Carrying amount							
At 31 December 2018	**3,455,954**	**209,938**	**506,684**	**566,772**	**59,426**	**263,070**	**5,061,844**
Cost/revalued amount							
Balance at 1 January 2017	4,324,746	185,036	1,091,770	776,983	93,763	533,585	7,005,883
Additions	72,174	25,565	287,813	113,010	32,096	71,603	602,261
Disposals/write-offs	-	(2,280)	(4,451)	(25,987)	(24,078)	(40,551)	(97,347)
Balance at 31 December 2017	**4,396,920**	**208,321**	**1,375,132**	**864,006**	**101,781**	**564,637**	**7,510,797**
Depreciation and amortisation							
Balance at 1 January 2017	703,512	35,526	709,224	415,985	75,100	242,130	2,181,477
Depreciation and amortisation for the year	84,435	10,086	125,771	63,814	4,365	98,277	386,748
Disposals/write-offs	-	-	(3,992)	(23,085)	(24,078)	(40,551)	(91,706)
Balance at 31 December 2017	**787,947**	**45,612**	**831,003**	**456,714**	**55,387**	**299,856**	**2,476,519**
Carrying amount							
At 1 January 2017	3,621,234	149,510	382,546	360,998	18,663	291,455	4,824,406
At 31 December 2017	**3,608,973**	**162,709**	**544,129**	**407,292**	**46,394**	**264,781**	**5,034,278**

(a) Revalued assets

In preparing 2014 financial statements management contracted independent appraisal to estimate fair value of buildings. The fair value of buildings estimated by independent appraisal has approximated the carrying value of buildings.

The basis used for the appraisal are the combination of market and income capitalization methods.

The fair value of buildings is categorised into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

Based on analysis of changes in real estate prices during 2015-2018 management believes that fair value of buildings approximates the carrying amount as at 31 December 2018.

The carrying value of buildings as at 31 December 2018, if the buildings would not have been revalued, would be AMD 3,368,903 thousand (2017: AMD 3,480,180 thousand).

15 Other assets

	2018 AMD'000	**2017 AMD'000**
Other receivables	250,940	147,034
Credit loss allowance	(660)	(14,984)
Total net other financial assets	**250,280**	**132,050**
Repossessed assets	1,087,443	749,383
Prepayments	767,052	360,550
Materials and supplies	75,277	59,218
Other	10,882	-
Total other non-financial assets	**1,940,654**	**1,169,151**
Total other assets	**2,190,934**	**1,301,201**

16 Deposits and balances from banks and other financial institutions

	2018 AMD'000	**2017 AMD'000**
Term deposits from banks and other financial institutions	1,914,529	2,139,087
Secured loans from credit organizations	1,707,152	1,926,549
Vostro accounts	1,624,109	923,183
	5,245,790	**4,988,819**

As at 31 December 2018, loans to customers with a gross value of AMD 1,802,431 thousand (2017: AMD 1,918,263 thousand) serve as collateral for secured loans from credit organizations (Note 13).

As at 31 December 2018 the Bank has no banks and other financial institutions (2017: no banks and other financial institutions), whose balances exceed 10% of equity.

17 Amounts payable under repurchase agreements

	2018 AMD'000	2017 AMD'000
Amounts payable under repurchase agreements to CBA	4,002,696	-
Amounts payable under repurchase agreements to local banks	2,769,206	-
	6,771,902	**-**

18 Debt securities issued

	2018 AMD'000	2017 AMD'000
Debt securities issued	**10,823,040**	**10,815,059**

During October 2018 the Bank issued bonds with nominal amount of USD 5,000,000 (2017: USD 15,000,000 and AMD 1,000,000 thousand). The bonds are listed on NASDAQ OMX Stock Exchange.

During the year the Bank's bonds listed on NASDAQ OMX Stock Exchange issued in 2016 with nominal amount of USD 5,000,000, matured.

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities – debt securities issued

'000 AMD	2018 AMD'000	2017 AMD'000
Balance at 1 January	10,815,059	2,428,223
Changes from financing cash flows		
Proceeds from debt securities issued	2,418,750	8,336,627
Repayment of debt securities issued	(2,422,500)	-
Total changes from financing cash flows	**(3,750)**	**8,336,627**
The effect of changes in foreign exchange rates	**(448)**	**21,986**
Other changes		
Interest expense	712,633	431,068
Interest paid	(700,454)	(402,845)
Balance at 31 December	**10,823,040**	**10,815,059**

19 Current accounts and deposits from customers

	2018 AMD'000	2017 AMD'000
Current accounts and demand deposits		
- Retail	5,880,267	4,066,690
- Corporate	4,820,251	2,900,646
Term deposits		
- Retail	42,687,970	43,406,498
- Corporate	2,931,868	14,277,174
	56,320,356	**64,651,008**

As at 31 December 2018, the Bank maintained customer deposit balances of AMD 3,655,108 thousand (2017: AMD 12,200,646 thousand) that serve as collateral for loans to customers and guarantees issued by the Bank.

As at 31 December 2018, the Bank has no customers (2017: one customer), whose balances exceed 10% of equity. The balance as at 31 December 2018 is nil (2017: AMD 12,200,646 thousand).

20 Other borrowed funds

	2018 AMD'000	2017 AMD'000
Borrowings from Government of Armenia	691,990	1,293,648
Unsecured loans from other international financial institutions	-	64,058
	691,990	**1,357,706**

As at 31 December 2018, loans to customers with a gross value of AMD 701,489 thousand (2017: AMD 1,241,480 thousand) serve as collateral for borrowings from Government of Armenia (Note 13).

As at 31 December 2018, the Bank has no lender (2017: no lender), whose balances exceed 10% of equity.

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities – other borrowed funds

'000 AMD	**2018 AMD'000**	**2017 AMD'000**
Balance at 1 January	1,357,706	3,262,564
Changes from financing cash flows		
Proceeds from other borrowed funds	315,235	414,599
Repayment of other borrowed funds	(968,962)	(2,305,099)
Total changes from financing cash flows	**(653,727)**	**(1,890,500)**
Other changes		
Interest expense	77,992	210,370
Interest paid	(89,981)	(224,728)
Balance at 31 December	**691,990**	**1,357,706**

21 Other liabilities

	2018 AMD'000	2017 AMD'000
Other financial liabilities	269,467	273,041
Total other financial liabilities	**269,467**	**273,041**
Payables to employees	664,205	458,053
Other non-financial liabilities	288,661	211,300
Taxes payable other than on income	115,762	1,246
Total other non-financial liabilities	**1,068,628**	**670,599**
Total other liabilities	**1,338,095**	**943,640**

22 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 679,437 ordinary shares (2017: 679,437). All shares have a nominal value of AMD 50,000 (2017: AMD 50,000).

During 2018 no ordinary shares were issued (2017: none). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognised or impaired.

Fair value reserve for investment securities

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to Armenian legislation.

No dividends were declared in 2018 and 2017.

23 Risk management

(a) Risk management policies and procedures

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

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

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Chairman of the Management Board and indirectly to the Council of the Bank. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees, depending on the type and amount of the exposure.

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

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

(b) Financial risk review

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

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv).

Significant increase in credit risk

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

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

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

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades

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

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

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

Corporate exposure	**All exposures (corporate and retail exposures)**
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes	• Payment record – this includes overdue status as well as a range of variables about payment ratios
• Data from credit reference agencies, press articles, changes in external credit ratings	• Utilisation of the granted limit • Requests for and granting of forbearance
• Quoted bond and credit default swap (CDS) prices for the borrower where available	• Existing and forecast changes in business, financial and economic conditions
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers and 1 day for loans and advances to banks and other financial institutions and investment securities. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling the remaining lifetime PD increased by more than 116%.

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days for loans to customers and 30 days for loans and advances to banks and other financial institutions and investment securities on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

Incorporation of forward-looking information

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

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

The key driver is forecast of prices in real estate market. The Bank formulates two economic scenarios: a base case, assigned a 90% probability of occurring, and a less likely scenario (stress testing), assigned a 10% probability of occurring. The base case is aligned with external information. The external information considered includes historical data of the price changes in the Armenian real estate market over the past 10 years published by the State Cadaster of the Republic of Armenia. The Management expects the same trend in real estate prices.

Predicted relationships between the other key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 6 years.

Managements assesses the impact of incorporation of the other forward-looking information to be immaterial.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

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

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

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(e)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

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

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

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

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

- instrument type;
- credit risk gradings;
- collateral type.

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

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

		External benchmarks used	
	Exposure	**PD**	**LGD**
Investment securities measured at FVOCI	4,728,200	S&P default study	Moody's recovery studies
Investment securities measured at amortised cost	20,760,470	S&P default study	Moody's recovery studies
Loans to corporate customers	14,693,031	S&P default study	Moody's recovery studies
Loans and advances to banks and other financial institutions	13,110,526	S&P default study	Moody's recovery studies

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				**2017**
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Cash and cash equivalents					
Balance at 1 January	(3,633)	-	-	(3,633)	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	3,633	-	-	3,633	-
New financial assets originated or purchased	(3,633)	-	-	(3,633)	-
Balance at 31 December	**(3,633)**	**-**	**-**	**(3,633)**	**-**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to banks and other financial institutions at amortized cost					
Balance at 1 January	(30,675)	-	-	(30,675)	(338)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	30,675	-	-	30,675	-
New financial assets originated or purchased	(41,534)	-	-	(41,534)	(15,246)
Balance at 31 December	**(41,534)**	**-**	**-**	**(41,534)**	**(15,584)**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Amounts receivable under reverse repurchase agreements at amortized cost					
Balance at 1 January	(3,636)	-	-	(3,636)	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	3,636	-	-	3,636	-
New financial assets originated or purchased	(2,017)	-	-	(2,017)	-
Balance at 31 December	**(2,017)**	**-**	**-**	**(2,017)**	**-**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost – corporate customers					
Balance at 1 January	(121,832)	(11,607)	(7,061,736)	(7,195,175)	(315,141)
Transfer to Stage 1	(41)	41	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	3,305	-	(3,305)	-	-
Net remeasurement of loss allowance	52,355	5,111	(1,722,105)	(1,664,639)	(3,311,871)
New financial assets originated or purchased	(176,869)	(252)	-	(177,121)	-
Write offs/(recoveries)	39,015	5,925	(163,613)	(118,673)	(88,271)
Balance at 31 December	**(204,067)**	**(782)**	**(8,950,759)**	**(9,155,608)**	**(3,715,283)**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost – retail customers					
Balance at 1 January	(243,450)	(70,647)	(340,800)	(654,897)	(945,981)
Transfer to Stage 1	(2,552)	2,278	274	-	-
Transfer to Stage 2	29,312	(29,473)	161	-	-
Transfer to Stage 3	126,394	14,774	(141,168)	-	-
Net remeasurement of loss allowance	(114,829)	10,291	141,081	36,543	(670,825)
New financial assets originated or purchased	(110,100)	(9,276)	(19,770)	(139,146)	-
Write offs	90,633	34,917	32,961	158,511	1,071,930
Balance at 31 December	**(224,592)**	**(47,136)**	**(327,261)**	**(598,989)**	**(544,876)**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Other financial assets at amortized cost					
Balance at 1 January	(4,507)	-	-	(4,507)	(2,084)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	4,507	-	-	4,507	(12,900)
New financial assets originated or purchased	(660)	-	-	(660)	-
Balance at 31 December	**(660)**	**-**	**-**	**(660)**	**(14,984)**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Investment securities at amortized cost (2017: available-for-sale securities)					
Balance at 1 January	(176,270)	-	-	(176,270)	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	182,341	-	-	182,341	-
New financial assets originated or purchased	(42,815)	-	-	(42,815)	-
Balance at 31 December	**(36,744)**	**-**	**-**	**(36,744)**	**-**

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Financial guarantees given					
Balance at 1 January	(1,058)	-	-	(1,058)	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	1,058	-	-	1,058	-
New financial assets originated or purchased	(4,601)	-	-	(4,601)	-
Balance at 31 December	**(4,601)**	**-**	**-**	**(4,601)**	**-**

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'Impairment losses on investment securities and other financial assets, loans to customers and loan commitments line item in the statement of profit or loss and other comprehensive income.

AMD'000	Net remeasurement of loss allowance	New financial assets originated or purchased	Total
Cash and cash equivalents	3,633	(3,633)	-
Loans and advances to banks and other financial institutions at amortized cost	30,675	(41,534)	(10,859)
Amounts receivable under reverse repurchase agreements at amortized cost	3,636	(2,017)	1,619
Loans to customers at amortised cost – corporate customers	(1,664,639)	(177,121)	(1,841,760)
Loans to customers at amortised cost – retail customers	36,543	(139,146)	(102,603)
Other financial assets at amortized cost	4,507	(660)	3,847
Investment securities at amortized cost	182,341	(42,815)	139,526
Financial guarantees given	1,058	(4,601)	(3,543)
Total	**(1,402,246)**	**(411,527)**	**(1,813,773)**

Significant changes in the gross carrying amount of retail and corporate portfolios during the period that contributed to changes in loss allowance were as follows:

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers – gross carrying amount				
Balance at 1 January	17,666,275	222,740	16,964,055	34,853,070
Transfer to Stage 1	2,050	(2,050)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(165,250)	-	165,250	-
New financial assets originated or purchased	13,355,365	14,218	-	13,369,583
Financial assets that have been fully or partially repaid	(6,240,399)	(79,677)	(473,970)	(6,794,046)
(Write-offs)/recoveries	(39,015)	(5,925)	163,613	118,673
Balance at 31 December	**24,579,026**	**149,306**	**16,818,948**	**41,547,280**

	2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail – gross carrying amount				
Balance at 1 January	24,852,344	638,301	1,680,233	27,170,878
Transfer to Stage 1	10,633	(9,492)	(1,141)	-
Transfer to Stage 2	(122,133)	122,804	(671)	-
Transfer to Stage 3	(461,581)	(22,523)	484,104	-
New financial assets originated or purchased	17,214,547	91,217	54,848	17,360,612
Financial assets that have been fully or partially repaid	(14,060,896)	(433,427)	(200,837)	(14,695,160)
Write-offs	(90,633)	(34,917)	(32,961)	(158,511)
Balance at 31 December	**27,342,281**	**351,963**	**1,983,575**	**29,677,819**

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018 and available-for-sale debt assets as at 31 December 2017. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

	31 December 2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Cash and cash equivalents				
Rated A- to A+	1,891	-	-	1,891
Rated BBB+	52,077	-	-	52,077
Rated from BB- to BB+	157,033	-	-	157,033
Rated from B- to B+	10,997,000	-	-	10,997,000
Not rated	56,388	-	-	56,388
	11,264,389	**-**	**-**	**11,264,389**
Credit loss allowance	**(3,633)**	**-**	**-**	**(3,633)**
Carrying amount	**11,260,756**	**-**	**-**	**11,260,756**
Loans and advances to banks and other financial institutions at amortized cost				
Rated A- to A+	166,818	-	-	166,818
Rated from BBB- to BBB+	83,047	-	-	83,047
Rated from BB- to BB+	971,196	-	-	971,196
Rated from B- to B+	5,385,396	-	-	5,385,396
Not rated	6,504,069	-	-	6,504,069
	13,110,526	**-**	**-**	**13,110,526**
Credit loss allowance	**(41,534)**	**-**	**-**	**(41,534)**
Carrying amount	**13,068,992**	**-**	**-**	**13,068,992**
Loans to customers at amortised cost – corporate customers*				
Not overdue	24,568,638	79,022	14,561,621	39,209,281
Overdue of less than 30 days	10,388	35,187	73,354	118,929
Overdue of 31-90 days	-	35,097	-	35,097
Overdue of 91-180 days	-	-	115,910	115,910
Overdue of 181-360 days	-	-	340,260	340,260
Overdue more than 1 year	-	-	1,727,803	1,727,803
	24,579,026	**149,306**	**16,818,948**	**41,547,280**
Credit loss allowance	**(204,067)**	**(782)**	**(8,950,759)**	**(9,155,608)**
Carrying amount	**24,374,959**	**148,524**	**7,868,189**	**32,391,672**

* As at 31 December 2018 Loans to customers with carrying amount of AMD 14,693,031 thousand have PDs equal to country's corporate rating grade where the borrowers operate.

	31 December 2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Loans to customers at amortised cost – retail customers				
Not overdue	26,227,208	342,586	54,514	26,624,308
Overdue of less than 30 days	522,459	6,496	108	529,063
Overdue of 31-90 days	327,440	577	-	328,017
Overdue of 91-180 days	104,268	485	-	104,753
Overdue of 181-360 days	114,539	1,799	389,855	506,193
Overdue more than 1 year	46,367	20	1,539,098	1,585,485
	27,342,281	**351,963**	**1,983,575**	**29,677,819**
Credit loss allowance	**(224,592)**	**(47,136)**	**(327,261)**	**(598,989)**
Carrying amount	**27,117,689**	**304,827**	**1,656,314**	**29,078,830**
Amounts receivable under reverse repurchase agreements at amortized cost				
Not rated	3,431,830	-	-	3,431,830
	3,431,830	**-**	**-**	**3,431,830**
Credit loss allowance	**(2,017)**	**-**	**-**	**(2,017)**
Carrying amount	**3,429,813**	**-**	**-**	**3,429,813**
Investment securities at amortized cost				
Rated from B- to B+	20,068,103	-	-	20,068,103
Not rated	692,367	-	-	692,367
	20,760,470	**-**	**-**	**20,760,470**
Credit loss allowance	**(36,744)**	**-**	**-**	**(36,744)**
Carrying amount	**20,723,726**	**-**	**-**	**20,723,726**
Other financial assets at amortized cost				
Not rated	250,940	-	-	250,940
	250,940	**-**	**-**	**250,940**
Credit loss allowance	**(660)**	**-**	**-**	**(660)**
Carrying amount	**250,280**	**-**	**-**	**250,280**

Concentrations of credit risk

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

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

	2018 AMD'000	2017 AMD'000
ASSETS		
Cash and cash equivalents	8,658,588	14,261,985
Derivative financial assets	-	9,952
Investment securities measured at fair value through other comprehensive income	4,728,200	29,406,955
Investment securities measured at amortized cost	20,723,726	-
Loans and advances to banks and other financial institutions	13,068,992	11,476,427
Amounts receivable under reverse repurchase agreements	3,429,813	6,493,486
Loans to customers	61,470,502	57,763,789
Other financial assets	250,280	132,050
Total maximum exposure	**112,330,101**	**119,544,644**

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 13.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 25.

As at 31 December 2018 and 2017 the Bank has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10 percent maximum credit risk exposure, except for balances with the CBA and Government securities.

Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

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

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

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	3,429,813	-	3,429,813	(3,429,813)	-	-
Total financial assets	**3,429,813**	**-**	**3,429,813**	**(3,429,813)**	**-**	**-**
Deposits and balances from banks and other financial institutions	(1,707,152)	-	(1,707,152)	1,707,152	-	-
Amounts payable under repurchase agreements	(6,771,902)		(6,771,902)	6,771,902		-
Other borrowed funds	(691,990)	-	(691,990)	691,990	-	-
Total financial liabilities	**(9,171,044)**	**-**	**(9,171,044)**	**(9,171,044)**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	6,493,486	-	6,493,486	(6,493,486)	-	-
Total financial assets	**6,493,486**	**-**	**6,493,486**	**(6,493,486)**	**-**	**-**
Deposits and balances from banks and other financial institutions	(1,925,446)	-	(1,925,446)	1,925,446	-	-
Other borrowed funds	(1,357,706)	-	(1,357,706)	1,357,706	-	-
Total financial liabilities	**(3,283,152)**	**-**	**(3,283,152)**	**3,283,152**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Investment securities measured at fair value through other comprehensive income	-	-	-	308,200	3,177,559	1,242,441	4,728,200
Investment securities measured at amortized cost	66,387	925,784	912,046	3,416,502	15,403,007	-	20,723,726
Loans and advances to banks and other financial institutions	8,214,655	965,409	2,873,894			1,015,034	13,068,992
Amounts receivable under reverse repurchase agreements	3,429,813	-	-	-	-	-	3,429,813
Loans to customers	3,922,392	7,172,129	6,174,262	37,782,849	6,418,870	-	61,470,502
	15,633,247	**9,063,322**	**9,960,202**	**41,507,551**	**24,999,436**	**2,257,475**	**103,421,233**
LIABILITIES							
Deposits and balances from banks and other financial institutions	787,673	673,500	479,415	502,120	1,178,973	1,624,109	5,245,790
Debt securities issued	3,504,627	2,422,063	2,451,389	2,444,961	-	-	10,823,040
Amounts payable under repurchase agreements	6,771,902	-	-	-	-	-	6,771,902
Current accounts and deposits from customers	14,104,413	11,563,156	15,710,086	3,191,261	1,050,922	10,700,518	56,320,356
Other borrowed funds	-	1,830	-	690,160	-	-	691,990
	25,168,615	**14,660,549**	**18,640,890**	**6,828,502**	**2,229,895**	**12,324,627**	**79,853,078**
	(9,535,368)	**(5,597,227)**	**(8,680,688)**	**34,679,049**	**22,769,541**	**(10,067,152)**	**23,568,155**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	2,000,740	-	-	-	-	15,228,513	17,229,253
Available-for-sale financial assets	247,737	1,165,313	1,942,993	8,936,926	16,940,009	173,977	29,406,955
Loans and advances to banks and other financial institutions	9,596,626	35,000	9,726	581,177	-	1,253,898	11,476,427
Amounts receivable under reverse repurchase agreements	6,476,664	-	-	16,822	-	-	6,493,486
Loans to customers	5,124,030	9,037,147	7,641,453	33,106,930	2,854,229	-	57,763,789
	23,445,797	**10,237,460**	**9,594,172**	**42,641,855**	**19,794,238**	**16,656,388**	**122,369,910**
LIABILITIES							
Deposits and balances from banks and other financial institutions	550,801	834,626	767,864	1,359,893	552,452	923,183	4,988,819
Debt securities issued	92,185	40,778	2,420,943	8,261,153	-	-	10,815,059
Current accounts and deposits from customers	13,545,509	22,078,316	16,763,225	4,051,111	1,242,506	6,970,341	64,651,008
Other borrowed funds	8,728	29,711	34,729	850,316	434,222	-	1,357,706
	14,197,223	**22,983,431**	**19,986,761**	**14,522,473**	**2,229,180**	**7,893,524**	**81,812,592**
	9,248,574	**(12,745,971)**	**(10,392,589)**	**28,119,382**	**17,565,058**	**8,762,864**	**40,557,318**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %			**2017 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents						
- Overnight deposit with CBA	-	-	-	4.5%	-	-
Investment securities measured at fair value through other comprehensive income	9.5%	6.7%	-	13.7%	6.6%	-
Investment securities measured at amortized cost	14.6%	5.4%	-	-	-	-
Loans and advances to banks and other financial institutions	7.5%	3.5%	13.2%	7.8%	1.5%	12.0%
Amounts receivable under reverse repurchase agreements	6.8%	3.3%	-	6.1%	2.6%	0.5%
Loans to customers	12.6%	11.7%	6.9%	14.3%	12.7%	12.9%
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	9.5%	4.7%	-	11.4%	5.8%	-
- Loans from banks and other financial institutions	8.6%	-	-	8.6%	-	-
Current accounts and deposits from customers						
- Term deposits	9.0%	4.8%	3.7%	11.0%	5.1%	3.2%
Debt securities issued	12.3%	5.8%	-	12.3%	4.8%	-
Amounts payable under repurchase agreements	6.2%	-	0.9%	-	-	-
Other borrowed funds	8.1%			7.6%	23.9%	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017, is as follows:

	2018 AMD'000	**2017 AMD'000**
100 bp parallel fall	113,423	13,256
100 bp parallel rise	(113,423)	(13,256)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets measured at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2018	**2017**
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	182,498	1,383,860
100 bp parallel rise	(182,498)	(1,383,860)

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

	AMD AMD'000	**USD AMD'000**	**EUR AMD'000**	**Other currencies AMD'000**	**Total AMD'000**
ASSETS					
Cash and cash equivalents	7,070,377	2,320,822	480,114	1,389,443	11,260,756
Investment securities measured at fair value through other comprehensive income	1,570,422	2,209,045	-	948,733	4,728,200
Investment securities measured at amortized cost	16,703,028	4,020,698	-	-	20,723,726
Loans and advances to banks and other financial institutions	585,429	11,934,458	98,143	450,962	13,068,992
Amounts receivable under reverse repurchase agreements	3,236,227	193,586	-	-	3,429,813
Loans to customers	29,746,643	26,880,223	4,151,994	691,642	61,470,502
Other financial assets	217,415	32,742	117	6	250,280
Total assets	**59,129,541**	**47,591,574**	**4,730,368**	**3,480,786**	**114,932,269**

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
LIABILITIES					
Deposits and balances from banks and other financial institutions	4,330,487	896,023	16,955	2,325	5,245,790
Current accounts and deposits from customers	19,268,486	34,905,492	1,778,639	367,739	56,320,356
Debt securities issued	1,036,400	9,786,640	-	-	10,823,040
Other borrowed funds	691,990	-	-	-	691,990
Amounts payable under repurchase agreements	4,002,696	-	2,769,206	-	6,771,902
Other financial liabilities	256,276	12,824	367	-	269,467
Total liabilities	**29,586,335**	**45,600,979**	**4,565,167**	**370,064**	**80,122,545**
Net position	**29,543,206**	**1,990,595**	**165,201**	**3,110,722**	**34,809,724**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2017:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	8,664,994	3,155,947	3,342,366	2,065,946	17,229,253
Available-for-sale financial assets	23,647,401	5,758,620	934	-	29,406,955
Loans and advances to banks and other financial institutions	1,574,199	2,598,098	4,125,130	3,179,000	11,476,427
Amounts receivable under reverse repurchase agreements	3,114,690	478,177	2,900,619	-	6,493,486
Loans to customers	30,091,574	26,894,826	519,502	257,887	57,763,789
Other financial assets	51,542	77,224	69	3,215	132,050
Total assets	**67,144,400**	**38,962,892**	**10,888,620**	**5,506,048**	**122,501,960**
LIABILITIES					
Deposits and balances from banks and other financial institutions	4,224,291	748,625	15,903	-	4,988,819
Current accounts and deposits from customers	19,892,109	42,627,218	945,341	1,186,340	64,651,008
Debt securities issued	1,036,968	9,778,091	-	-	10,815,059
Other borrowed funds	1,293,812	63,894	-	-	1,357,706
Other financial liabilities	231,871	24,653	444	16,073	273,041
Total liabilities	**26,679,051**	**53,242,481**	**961,688**	**1,202,413**	**82,085,633**
The effect of derivatives held for risk management	**3,374,390**	**9,575,769**	**(8,933,540)**	**(4,236,420)**	**(219,801)**
Net position	**43,839,739**	**(4,703,820)**	**993,392**	**67,215**	**40,196,526**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2018 and 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 AMD'000	**2017 AMD'000**
10% appreciation of USD against AMD	159,248	(376,306)
10% appreciation of EUR against AMD	13,216	79,471

A strengthening of the AMD against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1,655,674	798,066	719,863	568,962	2,416,250	6,158,815	5,245,790
Current accounts and deposits from customers	17,850,775	8,089,972	11,994,217	17,553,752	6,349,919	61,838,635	56,320,356
Debt securities issued	29,108	3,604,882	2,519,757	2,563,902	2,590,501	11,308,150	10,823,040
Other borrowed funds	-	-	27,911	27,835	817,795	873,541	691,990
Amounts payable under repurchase agreements	6,780,089	-	-	-	-	6,780,089	6,771,902
Other financial liabilities	101,348	151,702	16,417	-	-	269,467	269,467
Total financial liabilities	**26,416,994**	**12,644,622**	**15,278,165**	**20,714,451**	**12,174,465**	**87,228,697**	**80,122,545**
Credit related commitments	**2,537,830**	**-**	**-**	**-**	**-**	**2,537,830**	**-**

The maturity analysis for financial assets and liabilities as at 31 December 2017 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1,237,693	1,150,547	867,291	822,090	2,036,160	6,113,781	4,988,819
Current accounts and deposits from customers	12,274,850	8,353,465	22,480,846	17,633,166	7,770,922	68,513,249	64,651,008
Debt securities issued	-	286,040	309,204	2,689,370	8,412,338	11,696,952	10,815,059
Other borrowed funds	2,382	6,652	32,088	39,405	1,708,639	1,789,166	1,357,706
Other financial liabilities	81,673	191,368	-	-	-	273,041	273,041
Derivative liabilities							
- Inflow	16,533,462	-	-	-	-	16,533,462	16,533,462
- Outflow	(16,313,661)	-	-	-	-	(16,313,661)	(16,313,661)
Total financial liabilities	**13,816,399**	**9,988,072**	**23,689,429**	**21,184,031**	**19,928,059**	**88,605,990**	**82,305,434**
Credit related commitments	**19,768,641**	**-**	**-**	**-**	**-**	**19,768,641**	**-**

Under Armenian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates as follows:

	2018 AMD'000	**2017 AMD'000**
Demand and less than 1 month	5,859,177	5,272,497
From 1 to 3 months	6,365,294	7,866,022
From 3 to 6 months	11,170,115	9,022,348
From 6 to 12 months	15,190,423	16,524,836
From 1 to 5 years	3,095,720	3,560,974
More than 5 years	1,007,241	1,159,821
	42,687,970	**43,406,498**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	11,260,756	-	-	-	-	-	-	11,260,756
Investment securities measured at fair value through other comprehensive income	119,731	-	-	308,200	3,177,559	1,122,710	-	4,728,200
Investment securities measured at amortized cost	-	66,387	1,837,830	3,416,502	15,403,007	-	-	20,723,726
Loans and advances to banks and other financial institutions	6,295,224	1,937,548	3,835,670	80,035	-	920,515	-	13,068,992
Amounts receivable under reverse repurchase agreements	3,429,813	-	-	-	-	-	-	3,429,813
Loans to customers	1,838,440	2,317,989	12,835,681	36,337,058	6,155,094		1,986,240	61,470,502
Current tax asset	-	-	139,189	-	-	-	-	139,189
Property, equipment and intangible assets	-	-	-	-	-	5,061,844	-	5,061,844
Other assets	302,525	386,759	131,305	31,302	-	1,339,043	-	2,190,934
Total assets	**23,246,489**	**4,708,683**	**18,779,675**	**40,173,097**	**24,735,660**	**8,444,112**	**1,986,240**	**122,073,956**
LIABILITIES								
Derivative financial liabilities	1,337	-	-	-	-	-	-	1,337
Deposits and balances from banks and other financial institutions	1,636,921	774,861	1,152,915	502,120	1,178,973	-	-	5,245,790
Current accounts and deposits from customers	16,980,184	7,824,747	27,273,242	3,191,261	1,050,922	-	-	56,320,356
Debt securities issued	-	3,504,627	4,873,452	2,444,961	-	-	-	10,823,040
Other borrowed funds	-	-	1,830	690,160	-	-	-	691,990
Amounts payable under repurchase agreements	6,771,902	-	-	-	-	-	-	6,771,902
Deferred tax liabilities	-	-	-	-	-	617,324	-	617,324
Other liabilities	775,953	160,256	392,205	6,758	2,923	-	-	1,338,095
Total liabilities	**26,166,297**	**12,264,491**	**33,693,644**	**6,835,260**	**2,232,818**	**617,324**	**-**	**81,809,834**
Net position	**(2,919,808)**	**(7,555,808)**	**(14,913,969)**	**33,337,837**	**22,502,842**	**7,826,788**	**1,986,240**	**40,264,122**

* Overdue portion of outstanding overdue loans

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2017:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	17,229,253	-	-	-	-	-	-	17,229,253
Financial instruments at fair value through profit or loss	9,952	-	-	-	-	-	-	9,952
Available-for-sale financial assets	24,281	223,456	3,108,306	8,936,926	16,940,009	173,977	-	29,406,955
Loans and advances to banks and other financial institutions	7,489,837	2,106,789	44,726	581,177	-	1,253,898	-	11,476,427
Amounts receivable under reverse repurchase agreements	6,476,664	-	-	16,822	-	-	-	6,493,486
Loans to customers	1,442,987	2,544,793	16,678,600	33,106,930	2,854,229	-	1,136,250	57,763,789
Current tax asset	-	142,648	-	-	-	-	-	142,648
Property, equipment and intangible assets	-	-	-	-	-	5,034,278	-	5,034,278
Other assets	101,391	261,315	129,894	-	-	808,601	-	1,301,201
Total assets	**32,774,365**	**5,279,001**	**19,961,526**	**42,641,855**	**19,794,238**	**7,270,754**	**1,136,250**	**128,857,989**
LIABILITIES								
Financial instruments at fair value through profit or loss	229,753	-	-	-	-	-	-	229,753
Deposits and balances from banks and other financial institutions	950,607	523,377	1,602,490	1,359,893	552,452	-	-	4,988,819
Current accounts and deposits from customers	12,251,945	8,260,738	38,841,541	4,051,111	1,245,673	-	-	64,651,008
Debt securities issued	-	92,185	40,778	2,420,943	8,261,153	-	-	10,815,059
Other borrowed funds	2,350	6,378	63,953	850,316	434,709	-	-	1,357,706
Deferred tax liabilities	-	-	-	-	-	1,486,487	-	1,486,487
Other liabilities	293,818	191,368	329,446	129,008	-	-	-	943,640
Total liabilities	**13,728,473**	**9,074,046**	**40,878,208**	**8,811,271**	**10,493,987**	**1,486,487**	**-**	**84,472,472**
Net position	**19,045,892**	**(3,795,045)**	**(20,916,682)**	**33,830,584**	**9,300,251**	**5,784,267**	**1,136,250**	**44,385,517**

* Overdue portion of outstanding overdue loans

The reported ratios of highly liquid assets to demand liabilities at the reporting date are as follows:

	2018 Unaudited	2017 Unaudited
At 31 December	235.4%	604.4%
Average for December	268.2%	536.0%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA.

24 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2018 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2017:12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2018 and 2017.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2018 AMD'000 Unaudited	2017 AMD'000 Unaudited
Core capital		
Core capital	36,409,735	37,711,970
Deductions	(1,894,244)	(1,013,698)
Total core capital	**34,515,491**	**36,698,272**
Additional capital		
Additional capital	217,785	3,498,848
Deductions	-	-
Total additional capital	**217,785**	**3,498,848**
Total capital	**34,733,276**	**40,197,120**
Total risk weighted assets, combining credit, market and operational risks	**92,690,658**	**120,282,650**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**37.5%**	**33.4%**

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of potential losses.

The Bank also monitors its capital adequacy in accordance with the Basel II. The calculation of capital adequacy based on the Basel II as at 31 December is as follows:

	2018 AMD'000 Unaudited	2017 AMD'000 Unaudited
Tier 1	43,402,297	40,886,667
Tier 2	217,785	3,498,850
Total capital	**43,620,082**	**44,385,517**
Risk weighted assets	**94,483,462**	**131,168,266**
Credit risk	87,887,131	90,614,466
Market risk	234,248	4,591,438
Operational risk	557,312	275,018
Capital adequacy ratio	**46.17%**	**33.84%**

According to the Basel II, capital for supervisory purposes should be defined in two tiers in a way which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings (Tier 1). The other elements of capital (supplementary capital) will be admitted into Tier 2 limited to 100% of Tier 1.

25 Credit related commitments

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

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

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

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

	2018 AMD'000	2017 AMD'000
Contracted amount		
Loan and credit line commitments	925,248	6,114,547
Credit card commitments	1,276,546	1,137,393
Guarantees and letters of credit	336,036	12,516,701
	2,537,830	**19,768,641**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

26 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has property insurance and Banker's Blanket Bond (BBB) insurance with up to USD 3,000 thousand coverage.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

On 4 October 2017 a claim was submitted to the First instance court with demand of USD 22,301 thousand from the Bank because of the violation of the agreement concluded between the Bank and one of its clients. On 2 March 2018 the first instance court satisfied the claim of demand USD 22,301 thousand from the Bank. On 30 March 2018 the Bank appealed the decision of the first instance court in the Court of Appeals of the Republic of Armenia. On 20 July 2018, the Court of Appeals of Armenia has rejected the First instance court decision, and returned the case into the First Instance Court of Yerevan district for a new trial.

The management believes that probability of any payment is low because of the conclusion of the agreement (which has been subsequently violated) is not in compliance with legislation (the agreement should have been registered in the State Cadastre of Armenia), and as a result, the agreement is void.

(c) Taxation contingencies

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.

27 Related party transactions

(a) Control relationships

The Bank's parent company is FISTOCO LTD. The party with ultimate control over the Bank is Mr. Vartan Dilanyan.

No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with members of the Council and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2018 and 2017 is as follows:

	2018 AMD'000	2017 AMD'000
Members of the Council of the Bank	69,998	97,920
Members of the Management Board	637,423	574,070
	707,421	**671,990**

These amounts include cash and non-cash benefits in respect of members of the Council and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2018 and 2017 for transactions with members of the Council and the Management Board are as follows:

	2018 AMD'000	Average effective interest rate, %	2017 AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans issued (gross)	151,800	9.9%	53,958	13.1%
Loan impairment allowance	(1,281)	-	(540)	-
Amounts receivable under reverse repurchase agreements	-	-	16,822	7.3%
Other assets	745	-	180	-
LIABILITIES				
Deposits received	296,214	5.3%	241,132	6.9%
Debt securities issued	22,096	5.7%	99,086	6.3%
Other liabilities	-	-	30	-
Guarantees	38,477	0.0%	28,634	13.8%

Amounts included in profit or loss in relation to transactions with members of the Council and the Management Board for the year ended 31 December are as follows:

	2018 AMD'000	2017 AMD'000
Profit or loss		
Interest income	7,342	10,167
Interest expense	(2,843)	(3,977)
Impairment (loss) / recovery, net	(741)	736
Fee and commission income	1,068	604
Fee and commission expense	(28,877)	(182)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows:

	Shareholders		Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position							
ASSETS							
Cash and cash equivalents	617	-	-	-	-	-	617
Loans to customers	-	-	453,826	0.0%	-	-	453,826
Other assets	-	-	48,119	-	-	-	48,119
LIABILITIES							
Deposits and balances from banks							
- Vostro accounts	765,833	-	-	-	-	-	765,833
Current accounts and deposits from customers							
- Current accounts	35,974	-	-	-	639	-	36,613
Debt securities issued	-	-	-	-	146,595	5.25%	146,595
Other liabilities	-	-	7,794	-	-	-	7,794
Profit (loss)							
Interest income	1,967		14,812		1,576		18,355
Fee and commission income	34,130		4		10		34,144
Fee and commission expense	(10)		(10)		(4)		(24)

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

	Shareholders		Entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Cash and cash equivalents	203	-	-	-	-	-	203
Loans to customers	-	-	546,935	0.0%	-	-	546,935
Other assets	-	-	51,547	-	-	-	51,547
LIABILITIES							
Deposits and balances from banks							
- Vostro accounts	773,314	-	-	-	-	-	773,314
Current accounts and deposits from customers							
- Current accounts	6,668	-	20,756	-	1,602	-	29,026
Debt securities issued	32,313	6.5%	242,781	6.5%	-	-	275,094
Other liabilities	-	-	8,410	-	-	-	8,410
Profit (loss)							
Interest income	-		13,779		3,006		16,785
Interest expense	(8,721)		(15,701)		(82)		(24,504)
Fee and commission income	77		-		40		117
Fee and commission expense	-		-		(17)		(17)

Other related parties include transactions with companies under significant influence of Council and Management Board and their close family members.

The majority of balances resulting from transactions with other related parties mature within one year. Transactions with other related parties are not secured.

As at 31 December 2018 the loans with carrying value of AMD 11,012,530 thousand (31 December 2017: AMD 16,240,141 thousand) were provided to the close business partners of the shareholders of the Bank.

28 Fair values of financial instruments

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

The estimated fair values of all financial instruments as at 31 December 2018 and as at 31 December 2017 approximate their carrying amounts.

(a) Fair value hierarchy

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative liabilities	-	(1,337)	(1,337)
Investment securities			
- Debt and other fixed income instruments	-	3,605,490	3,605,490
- Equity instruments	1,122,712	-	1,122,712

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	9,952	9,952
- Derivative liabilities	-	(229,753)	(229,753)
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	29,232,977	29,232,977
- Equity instruments	173,978	-	173,978