Financial Statements
and Independent Auditor's Report

“Artsakhbank” Closed Joint Stock Company

31 December 2018

Contents

Independent auditor's report

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

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

To the Shareholders and Board of Directors of Closed Joint Stock Company "Artsakhbank"

Opinion

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

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

Basis for Opinion

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

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

22 April 2019

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2018	2017
Interest and similar income	7	14,896,356	12,149,920
Interest and similar expense	7	(7,262,165)	(6,734,618)
Net interest income		7,634,191	5,415,302
Fee and commission income	8	439,611	400,037
Fee and commission expense	8	(140,840)	(122,732)
Net fee and commission income		298,771	277,305
Net trading income	9	399,116	418,777
Other income	10	265,972	244,893
Impairment reversal	11	2,367,343	1,185,818
Net gains/(losses) from foreign currency translation of non-trading assets and liabilities		(59,974)	24,591
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		1,448	-
Staff costs	12	(2,055,293)	(2,033,362)
Depreciation of property and equipment	20	(227,366)	(247,165)
Amortization of intangible assets	21	(30,820)	(26,982)
Other expenses	13	(1,035,331)	(1,172,222)
Profit before income tax		7,558,057	4,086,955
Income tax expense	14	(1,495,950)	(676,782)
Profit for the year		6,062,107	3,410,173
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation gains on equity instruments at fair value through other comprehensive income		500	-
Net gains from items that will not be reclassified subsequently to profit or loss		500	-

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

In thousand Armenian drams

	Notes	2018	2017
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Revaluation gains on debt instruments at fair value through other comprehensive income		64,793	-
Reclassification to the statement of profit or loss and other comprehensive income		(4,733)	-
Changes in allowance for expected credit losses		6,025	-
Income tax related to the above		(12,012)	-
Net gains on financial instruments at fair value through other comprehensive income		54,073	-
Movement in fair value reserve (available –for-sale)			
Net unrealized gains from changes in fair value from available-for-sale financial assets		-	2,875
Other comprehensive income for the year, net of tax		54,573	2,875
Total comprehensive income for the year		6,116,680	3,413,048

The accompanying notes on pages 12 to 75 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	15	13,804,136	19,493,573
Amounts due from financial institutions	17	16,179,537	16,077,157
Investmen securities	19		
- Investments available for sale		-	58,958
- Investments held to maturity		-	23,121,599
- Investment securities at fair value through other comprehensive income		6,286,788	-
- Investment securities at amortised cost		28,162,730	-
Loans to customers	18	83,289,946	71,162,381
Property and equipment	20	3,053,679	3,158,168
Intangible assets	21	33,747	52,284
Repossessed assets	22	2,466,954	2,516,104
Prepaid income taxes		-	11,013
Deferred tax assets	14	129,712	-
Other assets	23	426,875	697,131
Total asstes		153,834,104	136,348,368
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	10,925,001	8,289,425
Amounts due to customers	25	98,110,154	90,413,523
Derivative financial liabilities	16	8,508	-
Current income tax liabilities		1,388,848	-
Deferred income tax liabilities	14	-	65,658
Subordinated debt	26	7,730,703	7,731,064
Other liabilities	27	661,540	339,681
Total liabilities		118,824,754	106,839,351

Statement of financial position (continued)

In thousand Armenian drams

	Notes	31 December 2018	31 December 2017
Equity			
Share capital	28	23,261,150	23,261,150
Statutory general reserve		1,142,248	801,232
Fair value reserve		57,098	2,525
Other reserves		1,541,289	1,541,289
Retained earnings		9,007,565	3,902,821
Total equity		35,009,350	29,509,017
Total liabilities ans equity		153,834,104	136,348,368

The financial statements from pages 5 to 75 were signed by the Bank's Executive Director and Chief Accountant on 22 April 2019:

Artak Balayan
Executive Director

Ruzan Khachatryan
Chief Accountant

The accompanying notes on pages 12 to 75 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of property and equipment	Fair value reserve	Retained earnings	Total
Balance As of 31 December 2017	23,261,150	801,232	1,541,289	2,525	3,902,821	29,509,017
Impact of adopting IFRS 9 (note 6)	-	-	-	-	(616,347)	(616,347)
Restated balance at 1 January 2018	23,261,150	801,232	1,541,289	2,525	3,286,474	28,892,670
Profit for the year	-	-	-	-	6,062,107	6,062,107
Other comprehensive income:						
Revaluation gains on equity instruments at fair value through other comprehensive income	-	-	-	500	-	500
Revaluation gains on debt instruments at fair value through other comprehensive income	-	-	-	64,793	-	64,793
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	-	(4,733)	-	(4,733)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	6,025	-	6,025
Income tax relating to components of other comprehensive income	-	-	-	(12,012)	-	(12,012)
Total comprehensive income for the year	-	-	-	54,573	6,062,107	6,116,680
Distribution to reserve	-	341,016	-	-	(341,016)	-
Total transactions with owners	-	341,016	-	-	(341,016)	-
Balance as of 31 December 2018	23,261,150	1,142,248	1,541,289	57,098	9,007,565	35,009,350
Balance as of 1 January 2017	23,261,150	657,233	1,541,289	(350)	636,647	26,095,969
Profit for the year	-	-	-	-	3,410,173	3,410,173
Other comprehensive income:						
Net unrealized gains from changes in fair value	-	-	-	2,875	-	2,875
Total comprehensive income for the year	-	-	-	2,875	3,410,173	3,413,048
Distribution to reserve	-	143,999	-	-	(143,999)	-
Total transactions with owners	-	143,999	-	-	(143,999)	-
Balance As of 31 December 2017	23,261,150	801,232	1,541,289	2,525	3,902,821	29,509,017

The accompanying notes on pages 12 to 75 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams

	2018	2017
Cash flows from operating activities		
Profit before tax	7,558,057	4,086,955
Adjustments for:		
Amortization and depreciation allowances	258,186	274,147
Net income from disposal of property , equipment and intangible assets	(1,476)	(3,569)
Impairment reversal	(2,367,343)	(1,185,818)
Net (gains)/loss from foreign currency translation of non-trading assets and liabilities	59,974	(24,591)
Interest receivable	(111,918)	(258,349)
Interest payable	228,016	455,855
Net (gains)/loss from sale and impairment of other assets	(114,349)	160,975
Net gains from changes in fair value of derivative instruments	(117,334)	-
Cash flows from operating activities before changes in operating assets and liabilities	5,391,813	3,505,605
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	(222,363)	(13,019,113)
Loans to customers	(11,335,919)	(6,581,277)
Repossessed assets	1,026,052	515,203
Other assets	251,601	537,978
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	2,791,295	(2,168,191)
Amounts due to customers	7,540,845	30,643,590
Derivative instruments	125,842	-
Other liabilities	289,356	129,736
Net cash from operating activities	5,858,522	13,563,531
Income tax paid	(149,383)	-
Net cash from operating activities	5,709,139	13,563,531
Cash flows from investing activities		
Purchase of investment securities	(11,141,836)	(5,285,460)
Purchase of property and equipment	(124,321)	(90,727)
Sale of property and equipment	2,920	4,016
Purchase of intangible assets	(12,283)	(22,614)
Net cash used in investing activities	(11,275,520)	(5,394,785)

Statement of cash flows (continued)

In thousand Armenian drams	2018	2017
Cash flow from financing activities		
Long term loans	(11,485)	126,337
Net cash from/ (used in) financing activities	(11,485)	126,337
Net increase/(decrease) in cash and cash equivalents	(5,577,866)	8,295,083
Cash and cash equivalents at the beginning of the year	19,493,573	10,993,034
Effect of ECL	17,779	-
Exchange differences on cash and cash equivalents	(129,350)	205,456
Cash and cash equivalents at the end of the year (note 15)	13,804,136	19,493,573
Supplementary information:		
Interest received	14,784,438	11,891,571
Interest paid	(7,034,149)	(6,278,763)

The accompanying notes on pages 12 to 75 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

"Artsakhbank"(the "Bank") is a Closed Joint Stock Company incorporated in the Republic of Armenia in 1996. The Bank is regulated by the legislation of RA and conducts its business under license number 75, granted on 14 August 1996 by the Central Bank of Armenia (the "CBA").

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

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

The Bank has 23 branches through which implements its activity. The main office of the Bank is in Yerevan, 1b, Charents Str.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

IFRS 9 Financial Instruments

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

Changes to classification and measurement

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

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

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

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

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

Changes to the impairment calculation

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

Details of the Bank's impairment assessment are disclosed in note 34.1.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 6.

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 6, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 34.1.2.

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

- *"Revenue from contracts with customers" (IFRS 15) and "Revenue from contracts with customer", Clarifications (Amendment to IFRS 15)*
- *"Share based payments" classification and measurement of share-based payment transactions (Amendment to IFRS 2)*
- *Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IFRS 1 and IAS 28*

- *Amendments to IAS 40 Investment Property: Transfers of Investment Property*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

IFRS 16 Leases

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

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

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

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Bank has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset
- believes that the most significant impact will be that the Bank will need to recognise a right of use asset and a lease liability for the office buildings currently treated as operating leases.
- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position

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

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

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

Other standards

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019),
- Amendment to IFRS 9 "Financial instruments"-Prepayment features with negative compensation (effective from 1 January 2019),
- Amendment to IAS 28, "Investments in associates" Long term interests in associates and joint ventures (effective from 1 January 2019),
- Amendment to IAS 19 "Employee benefits" – Plan amendment, curtailment or settlement (effective from 1 January 2019),
- Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see note 4.4.6.

Fee and commission income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency translation

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

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

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

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

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

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

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets – Policy applicable from 1 January 2018

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 (The SPPI test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial assets – Policy applicable before 1 January 2018

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

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

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

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

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

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

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

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

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

4.4.6 Impairment

Policy applicable from 1 January 2018

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 34.1.2.

Based on the above process, the Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 as described below:

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

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

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

The PD, the EAD and the LGD are further explained in note 34.1.2.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

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;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

4.5 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

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

Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Trading assets and liabilities

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

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

4.8 Loans and advances

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

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

4.9 Investment securities

Policy applicable from 1 January 2018

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

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

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

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

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

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

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

Policy applicable before 1 January 2018

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Fair value through profit or loss

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

4.10 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.11 Leases

Operating - Bank as lessee

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

4.12 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates.

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

4.13 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation except land and buildings, which are stated at fair values. The Bank's building is stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	30	3.33
Computers	3	33.3
ATMs	10	10
Vehicles	8	12.5
Other fixed assets	8	12.5

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

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

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

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

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

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

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

4.15 Repossessed assets

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

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

4.16 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.17 Borrowings

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

4.18 Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

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

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

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions include liabilities arising from financial guarantees and loan commitments as provided in note 29.

4.20 Equity

Share capital

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for investments securities at FVOCI

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

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 31).

Useful Life of property and equipment

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

Related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 30).

Impairment of financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 34.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 29.

6 Transition disclosure

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

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

In thousand Armenian drams	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	19,493,573	19,492,044
Amounts due from financial institutions	Loans and receivables	Amortised cost	16,077,157	16,019,129
Investment securities – debt	Held to maturity	Amortised cost	23,121,599	23,100,789
Investment securities – equity	Available for sale	FVOCI	58,958	58,958
Loans to customers	Loans and receivables	Amortised cost	71,162,381	70,482,795
Other assets- other financial assets	Loans and receivables	Amortised cost	351,699	349,560
Total financial assets			130,265,367	129,503,275
Financial liabilities				
Amounts due to financial institutions	Amortised cost	Amortised cost	8,289,425	8,289,425
Amounts due to customers	Amortised cost	Amortised cost	90,413,523	90,413,523
Subordinated debt	Amortised cost	Amortised cost	7,731,064	7,731,064
Other liabilities-other financial liabilities	Amortised cost	Amortised cost	243,173	243,173
Total financial liabilities			106,677,185	106,677,185

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

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents				
Opening balance	19,493,573			
Remeasurement		-	(1,529)	
Closing balance				19,492,044
Amounts due from financial institutions				
Opening balance	16,077,157			
Remeasurement		-	(58,028)	
Closing balance				16,019,129
Loans to customers				
Opening balance	71,162,381			
Remeasurement		-	(679,586)	
Closing balance				70,482,795
Investment securities – debt				
Opening balance	-			
From held-to-maturity		23,121,599	(20,810)	
Closing balance				23,100,789
Other assets- other financial assets				
Opening balance	351,699			
Remeasurement			(2,139)	
Closing balance				349,560
Total amortised cost	107,084,810	23,121,599	(762,092)	129,444,317
Available-for-sale				
Investment securities				
Opening balance	58,958			
To FVOCI – Debt		(58,958)	-	
Closing balance				-
Held-to-maturity				
Investment securities	23,121,599			
To amortised cost		(23,121,599)	-	
Closing balance				-
FVOCI-equity				
Investment securities				
Opening balance	-			
From available-for-sale		58,958	-	
Closing balance				58,958

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
Financial liabilities				
Amortised cost				
Amounts due to financial institutions	8,289,425	-	-	8,289,425
Amounts due to customers	90,413,523	-	-	90,413,523
Subordinated debt	7,731,064	-	-	7,731,064
Other liabilities	243,173	-	-	243,173
Total amortised cost	106,677,185	-	-	106,677,185

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

In thousand Armenian drams	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	2,525
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	-
Opening balance under IFRS 9 (1 January 2018)	2,525
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	3,902,821
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(770,434)
Deferred tax in relation to the above	154,087
Opening balance under IFRS 9 (1 January 2018)	3,286,474
Total change in equity due to adopting IFRS 9	616,347

The following table reconciles:

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

In thousand Armenian drams	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	-	(1,529)	(1,529)
Amounts due from financial institutions	-	(58,028)	(58,028)
Loans and receivables and held to maturity securities per IAS 39/financial assets at amortised cost under IFRS 9	(1,105,187)	(679,586)	(1,784,773)
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	(20,810)	(20,810)
Other assets	(10,777)	(2,139)	(12,916)
	(1,115,964)	(762,092)	(1,878,056)
Financial guarantee contracts issued	-	(8,342)	(8,342)
Total impairment allowance	(1,115,964)	(770,434)	(1,886,398)

7 Interest and similar income and expense

In thousand Armenian drams	2018	2017
Loans to customers	11,072,531	9,478,853
Investment securities at FVOCI (2017 available-for-sale)	386,625	-
Investment securities at amortised cost (2017: held-to-maturity)	2,210,900	1,854,527
Amounts due from financial institutions	74,769	87,886
Reverse repurchase transactions	1,151,531	690,251
Interest accrued on impaired financial assets	-	38,403
Total interest and similar income	14,896,356	12,149,920
Amounts due to customers	5,822,439	5,135,710
Amounts due to financial institutions	617,348	749,363
Repurchase transactions	-	25,425
Subordinated debt	822,378	824,120
Total interest and similar expense	7,262,165	6,734,618

8 Fee and commission income and expense

In thousand Armenian drams	2018	2017
Wire transfer operations	208,991	214,334
Plastic cards operations	211,624	178,682
Guarantees and letters of credit	18,996	7,021
Total fee and commission income	439,611	400,037
Wire transfer and cash operations	17,731	17,185
Plastic cards operations	123,109	105,547
Total fee and commission expense	140,840	122,732

9 Net trading income

In thousand Armenian drams	2018	2017
Gains less losses from trading in foreign currencies	244,704	418,777
Gains less losses from derivative instruments	37,078	-
Gains less losses from fair value changes of derivative instruments	117,334	-
Total net trading income	399,116	418,777

10 Other income

In thousand Armenian drams	2018	2017
Fines and penalties received	134,841	202,923
Gains less losses from operations with precious metals	-	15,425
Gains less losses from disposal of property and equipment	1,476	3,569
Gains less losses from disposal of other assets	114,349	-
Income from grants (note 27)	476	476
Other income	14,830	22,500
Total other income	265,972	244,893

11 Impairment (losses)/reversal

2018 In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2018	Total 2017
Cash and cash equivalents	15	19,308	-	-	19,308	(18,507)
Amounts due from other financial institutions	17	(59,014)	-	-	(59,014)	-
Loans to customers	18	(110,593)	22,131	2,522,320	2,433,858	1,177,165
Investment securities measured at FVOCI	19	(6,025)	-	-	(6,025)	-
Investment securities measured at amortised cost	19	(18,604)	-	-	(18,604)	-
Other assets	23	25,370	-	-	25,370	27,160
Financial guarantees	29	(27,550)	-	-	(27,550)	-
Total impairment (losses)/reversal		(177,108)	22,131	2,522,320	2,367,343	1,185,818

12 Staff costs

In thousand Armenian drams	2018	2017
Salaries and other similar payments	2,052,032	2,031,302
Other expenses	3,261	2,060
Total staff costs	2,055,293	2,033,362

13 Other expenses

In thousand Armenian drams	2018	2017
Operating lease	193,529	213,629
Fixed assets maintenance	168,330	166,612
Taxes, other than income tax, duties	128,578	145,769
Security	97,394	128,492
Impairment loss on repossessed collaterals	-	160,975
Deposit Insurance expenses	93,980	86,250
Communications	64,844	64,389
Charitable distributions	52,182	-
Consulting and other services	32,270	12,000
Advertising costs	36,735	34,202
Payment system services	32,432	35,583
Office supplies	25,285	20,909
Business trip expenses	15,688	12,303
Loan extension expenses	17,545	18,532
Cash collection expenses	26,671	20,615
Net loss from operations with precious metals	2,324	-
Penalties paid	122	4,158
Other expenses	47,422	47,804
Total other expense	1,035,331	1,172,222

14 Income tax expense

In thousand Armenian drams	2018	2017
Current tax expense	1,569,018	260,000
Adjustments of income tax of previous years	(19,773)	-
Deferred tax	(53,295)	416,782
Total income tax expense	1,495,950	676,782

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

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

In thousand Armenian drams	2018	Effective rate (%)	2017	Effective rate (%)
Profit before tax	7,558,057		4,086,955	
Income tax at the rate of 20%	1,511,611	20	817,391	20
Non-deductible expenses	15,584	-	13,853	-
Foreign exchange (gains)/losses	11,995	-	(4,918)	-
Non-taxable income	(23,467)	-	(3,371)	-
Adjustments of current income tax of previous years	(19,773)	-	-	-
Use of accumulated tax losses	-	-	(146,173)	(3)
Income tax expense	1,495,950	20	676,782	17

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehen-sive income	2018 Net	2018 Deffered tax asset	2018 Deffered tax liability
Cash and cash equivalents	-	306	(67)	-	239	239	-
Amounts due from financial institutions	(33,300)	11,606	44,405	-	22,711	22,711	-
Investments securities at amortised cost	-	4,162	3,637	-	7,799	7,799	-
Loans to customers	20,068	135,917	(26,823)	-	129,162	129,162	-
Property and equipment	(191,773)	-	8,004	-	(183,769)	-	(183,769)
Repossessed assets	99,132	-	(19,638)	-	79,494	79,494	-
Other assets	-	428	(2,647)	-	(2,219)	-	(2,219)
Amounts due to customers	(864)	-	374	-	(490)	-	(490)
Other liabilities	41,079	1,668	46,050	-	88,797	88,797	-
Fair value reserve	-	-	-	(12,012)	(12,012)	-	(12,012)
Deferred tax asset/(liability)	(65,658)	154,087	53,295	(12,012)	129,712	328,202	(198,490)

In thousand Armenian drams	31 December 2016	Recognized in profit or loss	31 December 2017
Loans to customers	97,057	(76,989)	20,068
Repossessed assets	62,866	36,266	99,132
Amounts due to customers	1,461	(1,461)	-
Other liabilities	16,954	24,125	41,079
Transferred tax losses	526,173	(526,173)	-
Total deferred tax assets	704,511	(544,232)	160,279
Tax asset evaluation	(146,173)	146,173	-
Total deferred tax assets	558,338	(398,059)	160,279
Amounts due from financial institutions	(1,302)	(31,998)	(33,300)
Property and equipment	(205,912)	14,139	(191,773)
Amounts due to customers	-	(864)	(864)
Total deferred tax liability	(207,214)	(18,723)	(225,937)
Net deferred tax asset/(liability)	351,124	(416,782)	(65,658)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2018	31 December 2017
Cash on hand	3,166,018	1,907,200
Correspondent account with the CBA	6,304,514	8,669,354
Correspondent accounts with other banks	332,824	914,061
Deposits for less than 90 days in the CBA	4,001,972	8,002,958
	13,805,328	19,493,573
Less loss allowance	(1,192)	-
Total cash and cash equivalents	13,804,136	19,493,573

Correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in AMD. As of 31 December 2018 these obligations amount to AMD 6,743,255 thousand (2017: AMD 6,724,276 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

Non-cash transactions performed by the Bank during 2018 represent the repayment of the loans in the amount of AMD 800,640 thousand by confiscation of collateral (2017: AMD 1,114,892 thousand).

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

In thousand Armenian drams	2018	2017
	12-month ECL	Total
Cash and cash equivalents		
ECL allowance as at 1 January 2018	1,529	-
Net remeasurement of loss allowance	(19,308)	18,507
Amounts written off	-	(18,507)
Recovery	18,971	
Balance at 31 December	1,192	-

16 Derivative financial instruments

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

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

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

In thousand Armenian drams	31 December 2018		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	2,383,260	-	8,508
Total derivative financial instruments	2,383,260	-	8,508

17 Amounts due from financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Deposited funds with CBA	374,500	270,000
Reverse repurchase agreements	15,827,879	15,704,713
Payment systems	16,140	31,623
Other accounts	78,060	70,821
	16,296,579	16,077,157
Less loss allowance on amounts due from financial institutions	(117,042)	-
Total amounts due from financial institutions	16,179,537	16,077,157

As of 31 December 2018 other accounts include blocked deposit for the Bank's membership to MasterCard payment system in the amount of AMD 78,060 thousand (2017: AMD 70,821 thousand).

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

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

In thousand Armenian drams	2018	2017
	12-month ECL	Total
Amount due from financial institutions		
ECL allowance as at 1 January 2018	58,028	-
Net remeasurement of loss allowance	59,014	-
Balance at 31 December	117,042	-

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements are presented as follows:

In thousand Armenian drams	31 December 2018		31 December 2017	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds under repurchase agreements	16,880,392	15,827,879	15,778,547	15,704,713

18 Loans and advances to customers

In thousand Armenian drams	31 December 2018			31 December 2017		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	8,948,281	(140,659)	8,807,622	8,604,308	(224,297)	8,380,011
Consumer	7,967,306	(268,426)	7,698,880	7,048,332	(71,554)	6,976,778
Commercial lending	68,314,786	(1,531,342)	66,783,444	56,614,928	(809,336)	55,805,592
Total	85,230,373	(1,940,427)	83,289,946	72,267,568	(1,105,187)	71,162,381

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

As of 31 December 2018 the weighted average effective interest rates on loans to customers was 15.17% for loans in AMD (2017: 16.36%) and 11.83% for loans in USD, EUR and other freely convertible currencies (2017: 13.36%).

During the year ended at 31 December 2018 the Bank obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets amounted to AMD 800,640 thousand (2017: AMD 1,114,892 thousand) (refer to note 22). The Bank intends to sell these assets in a short period.

As of 31 December 2018 the Bank has two borrowers (as of 31 December 2017: two), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2018 amounts to AMD 47,255,947 thousand (2017: AMD 45,456,227 thousand). Moreover, AMD 42,998,197 thousand or 50.4% of the gross loan portfolio is concentrated to single borrower related to the Bank and parties related to them (as of 31 December 2017: AMD 40,756,545 thousand or 56.4% of the gross loan portfolio).

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows. The policies on whether ECL allowances are calculated on an individual or collective basis.

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January 2018	182,225	47,507	62,732	292,464
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	73,942	(13,940)	(60,002)	-
Transfer to Lifetime ECL not credit-impaired	(1,449)	1,675	(226)	-
Transfer to Lifetime ECL credit-impaired	(2,260)	(1,672)	3,932	-
Net remeasurement of loss allowance	34,426	2,938	(638,683)	(601,319)
Recoveries	-	-	873,696	873,696
Amounts written off during the year	-	-	(155,756)	(155,756)
Balance at 31 December	286,884	36,508	85,693	409,085

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January 2018	1,434,366	46,435	11,508	1,492,309
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	17,067	(17,067)	-	-
Transfer to Lifetime ECL not credit-impaired	(128)	128	-	-
Transfer to Lifetime ECL credit-impaired	-	(722)	722	-
Net remeasurement of loss allowance	76,167	(25,069)	(1,883,637)	(1,832,539)
Recoveries	-	-	1,994,345	1,994,345
Amounts written off during the year	-	-	(122,773)	(122,773)
Balance at 31 December	1,527,472	3,705	165	1,531,342

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in note 34.1.2.

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

In thousand Armenian drams			2017
	Mortgage and consumer lending	Commercial lending	Total
At 1 January 2017	449,732	2,094,639	2,544,371
Charge/(Reversal) for the year	(391,021)	(786,144)	(1,177,165)
Amounts written off	(532,786)	(1,223,646)	(1,756,432)
Recoveries	769,926	724,487	1,494,413
At 31 December 2017	295,851	809,336	1,105,187
Individual impairment	17,370	20,482	37,852
Collective impairment	278,481	788,854	1,067,335
	295,851	809,336	1,105,187
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	29,059	327,323	356,382

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

Maturity analysis of loans and advances to customers are disclosed in note 33.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 34. The information on related party balances is disclosed in note 30.

19 Investment securities

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at amortised cost		
Held-to-maturity investment securities	-	23,121,599
Investment securities measured at amortised cost	28,202,144	-
	28,202,144	23,121,599
Less loss allowance	(39,414)	-
Total investment securities at amortised cost (2017: held-to-maturity)	28,162,730	23,121,599

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

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	20,810	-
Net remeasurement of loss allowance	18,604	-
Balance at 31 December	39,414	-

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at FVOCI-debt instruments	6,227,331	-
Investment securities measured at FVOCI-equity instruments	59,457	-
Available-for-sale investment securities	-	58,958
Total investment securities measured at FVOCI (2017: available-for-sale)	6,286,788	58,958

An analysis of changes in the ECLs on debt investment securities measured at FVOCI as follow:

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	-	-
Net remeasurement of loss allowance	6,025	-
Balance at 31 December	6,025	-

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

All debt securities have fixed coupons.

As of 31 December 2018 RA corporate bonds at the amount of AMD 14,363,962 thousand, measured at amortized cost, have been issued by the Bank's related parties and its related parties (as of 31 December 2017: AMD 13,833,987 thousand).

As of 31 December 2018 RA corporate bonds at FVOCI AMD 525,995 thousand, measured at amortized cost, have been issued by the Bank's related parties and its related parties (as of 31 December 2017: nil)

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2017: either).

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	2018		2017	
	%	Maturity	%	Maturity
Government bonds	8-13%	2020-2047	-	-
Corporate bonds	9.5%	2023	-	-

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

In thousand Armenian drams	2018		2017	
	%	Maturity	%	Maturity
RA Government securities	8-13%	2019-2032	8.00-13.00	2018-2032
Corporate bonds	7.5-12%	2019-2023	7.50-12.00	2018-2021

20 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer equipment	Vehicles	Equipment	Total
Cost and revalued amount						
At 1 January 2017	4,830,799	101,245	1,026,070	168,874	583,924	6,710,912
Additions	-	-	70,744	835	19,148	90,727
Disposals	-	-	(9,712)	(24,276)	(9,700)	(43,688)
Reclassifications	(61,913)	-	-	-	-	(61,913)
At 31 December 2017	4,768,886	101,245	1,087,102	145,433	593,372	6,696,038
Additions	-	-	79,390	33,451	11,480	124,321
Disposals	-	-	(65,005)	(16,927)	(15,686)	(97,618)
At 31 December 2018	4,768,886	101,245	1,101,487	161,957	589,166	6,722,741
Accumulated depreciation						
At 1 January 2017	1,911,079	16,819	878,842	92,719	442,900	3,342,359
Charge for the year	142,167	8,911	24,348	19,437	52,302	247,165
Disposals	-	-	(9,712)	(23,829)	(9,700)	(43,241)
Reclassifications	(8,413)	-	-	-	-	(8,413)
At 31 December 2017	2,044,833	25,730	893,478	88,327	485,502	3,537,870
Chaarge for the year	140,049	8,836	41,502	13,571	23,408	227,366
Disposals	-	-	(64,936)	(16,087)	(15,151)	(96,174)
Reclassifications						
At 31 December 2018	2,184,882	34,566	870,044	85,811	493,759	3,669,062
Carrying amount						
At 31 December 2017	2,724,053	75,515	193,624	57,106	107,870	3,158,168
At 31 December 2018	2,584,004	66,679	231,443	76,146	95,407	3,053,679

Revaluation of assets

The buildings and land owned by the Bank were revalued by an independent appraiser as of 31 December 2011 using comparative, cost and income methods resulting in a revaluation of AMD 1,926,611 thousand. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

For the fair value hierarchy of property and equipment refer to note 31.3

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

Reclassification of assets

In 2017 the Bank has reclassified the building to further dispose of other assets.

Fully depreciated items

As of 31 December 2018 fixed assets included fully depreciated assets in amount of AMD 365,580 thousand (2017: AMD 435,295 thousand).

Fixed assets in the phase of installation

As of 31 December 2018 fixed assets included assets in the phase of installation in amount of AMD 78,337 thousand (2017: AMD 125,809 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As of 31 December 2018 the Bank did not have contractual commitments (2017: nil).

21 Intangible assets

In thousand Armenian drams	**Licenses**	**Computer software**	**Other**	**Total**
Cost				
At 1 January 2017	42,486	102,165	1,080	145,731
Additions	22,614	-	-	22,614
Disposals	(8,961)	-	-	(8,961)
At 31 December 2017	56,139	102,165	1,080	159,384
Additions	9,283	3,000	-	12,283
Disposals	(6,006)	(110)	(1,080)	(7,196)
At 31 December 2018	59,416	105,055	-	164,471
Accumulated amortisation				
At 1 January 2017	21,945	66,186	948	89,079
Amortisation charge	9,926	16,947	109	26,982
Disposals	(8,961)	-	-	(8,961)
At 31 December 2017	22,910	83,133	1,057	107,100

In thousand Armenian drams	Licenses	Computer software	Other	Total
Amortisation charge	11,314	19,483	23	30,820
Disposals	(6,006)	(110)	(1,080)	(7,196)
At 31 December 2018	28,218	102,506	-	130,724
Carrying amount				
At 31 December 2017	33,229	19,032	23	52,284
At 31 December 2018	31,198	2,549	-	33,747

Fully amortized items

As of 31 December 2018 the Bank has not possess intangible assets included fully amortized assets (2017: nil).

Restrictions on title of intangible assets

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

Contractual commitments

As of 31 December 2018 the Bank had no contractual commitments (2017: either).

22 Repossessed assets

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

In thousand Armenian drams	31 December 2018	31 December 2017
Property	2,390,255	2,446,343
Vehicles	-	4,872
Other	76,699	64,889
Total repossessed assets	2,466,954	2,516,104

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

23 Other assets

In thousand Armenian drams	31 December 2018	31 December 2017
Receivables and other proceeds	203,960	362,476
Other financial assets	203,960	362,476
Less loss allowance on other assets	(8,817)	(10,777)
Total other financial assets	195,143	351,699
Prepayments	65,177	109,492
Precious metals	120,787	123,110
Materials	23,760	28,246
Other assets	22,008	84,584
Total non-financial assets	231,732	345,432
Total other assets	426,875	697,131

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

In thousand Armenian drams	Total
at 1 January 2018	45,096
Reversal for the year	(27,160)
Amounts written off	(43,004)
Recoveries	35,845
At 31 December 2017	10,777
Restated balance at 01 January 2018	2,139
ECL allowance as at 1 January 2018	12,916
Reversal for the year	(25,370)
Amounts written off	(11,281)
Recoveries	32,552
Balance at 31 December 2018	8,817

24 Amounts due to financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Loans from other banks	5,825,968	-
Correspondent accounts of other banks	1,410	1,184
Deposits from other financial institutions	2,558,795	5,360,855
Bank accounts from other financial institutions	41,847	55,147
Loans from other financial institutions	2,495,884	2,870,993
Other liabilities	1,097	1,246
Total amounts due to financial institutions	10,925,001	8,289,425

As of 31 December 2018 the Bank has one borrower (as of 31 December 2017: four borrowers), whose loans and deposit balances exceed 10% of the Bank's equity. The total value of these amounts as of 31 December 2018 amounts to AMD 4,994,538 thousand (as of 31 December 2017: AMD 7,429,775 thousand).

All deposits and loans from banks and financial institutions have fixed interest rates.

As of 31 December 2018 the average effective interest rates on amounts due to the financial institutions was 8.46% for borrowings in AMD (2017: 9.22 and 1.54 % for loans in USD, EUR and other freely convertible currencies (2017: nil).

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

25 Amounts due to customers

In thousand Armenian drams	31 December 2018	31 December 2017
Government of the RA		
Current/Settlement accounts	1,430,593	537,479
Loans received	185,029	195,237
	1,615,622	732,716
Legal entities		
Current/Settlement accounts	19,663,387	21,738,269
Time deposits	23,467,317	19,310,175
	43,130,704	41,048,444
Indivisuals		
Current/Settlement accounts	8,789,194	8,516,949
Time deposits	44,574,634	40,115,414
	53,363,828	48,632,363
Total amounts due to customers	98,110,154	90,413,523

Customers' deposits carry fixed interest rates.

As of 31 December 2018 included in amounts due to customers are deposits amounting to AMD 6,449,770 thousand (2017: AMD 6,539,264 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates the carrying amount.

As of 31 December 2018 the aggregate balance of top two customers of the Bank (including related parties, see note 30) amounts to AMD 43,385,876 thousand (2017: 40,596,225 thousand) or 44.17% of total customer accounts and subordinated debt (2017: 41.36%). The amount of top two customers does not include amounts due to RA Government.

As of 31 December 2018 the average effective interest rates on amounts due to customers was 10.44% for amounts attracted in AMD (2017: 11.44%) and 6.60% for amounts attracted in USD, EUR and other freely convertible currencies (2017: 6.59%).

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

26 Subordinated debt

In thousand Armenian drams	31 December 2018	31 December 2017
Subordinate debt from other institutions	7,730,703	7,731,064
Total subordinated debt	7,730,703	7,731,064

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

The maturity for subordinate debt attracted from legal entities is set until 2026.

As of 31 December 2018 average weighted interest rate of subordinated debt was 13.56% (2017: 13.56%), for borrowings in US dollar was 7.81% (2017: 7.81%).

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

27 Other liabilities

In thousand Armenian drams	31 December 2018	31 December 2017
Due to personnel	483,225	195,196
Accounts payables	57,282	47,977
Total other financial liabilities	540,507	243,173
Tax payable, other than income tax	68,401	79,291
Grants related to assets	7,088	7,564
Provisions for guarantees	35,892	-
Other	9,652	9,653
Total other non-financial liabilities	121,033	96,508
Total other liabilities	661,540	339,681

Grants related to assets

In thousand Armenian drams	2018	2017
At 1 January	7,564	8,040
Recognition of income (note 10)	(476)	(476)
At 31 December	7,088	7,564

* Provisions have been made in respect of costs arising from financial guarantees. An analysis of changes in the ECLs on loan commitments and financial guarantees see note 29.

28 Equity

As of 31 December 2018 the Bank's registered and paid-in share capital was AMD 23,261,150 thousand (2017: AMD 23,261,150 thousand).

In accordance with the Bank's statues, the share capital consists of 465,223 shares, all of which have a par value of AMD 50,000 each.

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

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Armenia Business Fund	12,030,100	51.72
Artsakh Investment Fund	10,130,450	43.55
Nersisyan Kamo Sergey	354,750	1.53
Selefyan Arden	334,250	1.44
Gabrielyan Inna Valeri	328,100	1.41
Other (4 shareholders in total)	83,500	0.35
	23,261,150	100

As of 31 December 2018, the Bank did not repurchase any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

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

29 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Loan commitment and financial guarantee

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**31 December 2018**	**31 December 2017**
Undrawn loan commitments	1,098,707	723,403
Guarantees	1,722,393	541,309
Total commitments and contingent liabilities	2,821,100	1,264,712

An analysis of changes in the ECLs on financial guarantee as follow: The ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 18).

In thousand Armenian drams	**2018**	**2017**
	12-month ECL	**Total**
Financial guarantees		
ECL allowance as at 1 January 2018	8,342	-
Net remeasurement of loss allowance	27,550	-
Balance at 31 December	35,892	-

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for building and office area.

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

In thousand Armenian drams	31 December 2018	31 December 2017
Not later than 1 year	51,861	48,442
Total operating lease commitments	51,861	48,442

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20, 21.

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

30 Transactions with related parties

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

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

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

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

In thousand Armenian drams	2018		2017	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Investment securities at amortised cost				
At 1 January	13,833,987	-	9,590,261	-
Acquired during the year	3,446,753	-	4,243,726	-
Repayments during the year	(2,916,778)	-	-	-
At 31 December, gross	14,363,962	-	13,833,987	-
Less allowance for impairment	(12,928)	-	-	-
At 31 December	14,351,034	-	13,833,987	-

In thousand Armenian drams	2018		2017	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Investment securities at FVOCI				
At 1 January	27,500	-	-	-
Acquired during the year	526,495	-	27,500	-
Repayments during the year	-	-	-	-
At 31 December	553,995	-	27,500	-
Loans to customers				
Loans outstanding at January 1	45,456,228	24,844	41,135,663	27,842
Loans issued during the year	11,432,776	62,408	76,040,353	23,056
Loan repayments during the year	(3,492,183)	(57,872)	(71,719,788)	(26,054)
Loans outstanding at 31 December, gross	53,396,821	29,380	45,456,228	24,844
Less allowance for impairment	(1,126,459)	(1,836)	(454,562)	(246)
Loans outstanding at 31 December	52,270,362	27,544	45,001,666	24,598
Amounts due from financial institutions				
At 1 January	12,500	-	5,218	-
Issued during the year	5,838,172	-	6,738,365	-
Repayments during the year	(5,838,927)	-	(6,731,083)	-
At 31 December, gross	11,745	-	12,500	-
Less allowance for impairment	(26)	-	-	-
At 31 December	11,719	-	12,500	-
Other receivables	44,000	-	268,332	-
Amounts due to financial instittions				
At 1 January	-	-	165,000	-
Issued during the year	2,410,097	-	1,750,786	-
Repayments during the year	(2,409,377)	-	(1,915,786)	-
At 31 December	720	-	-	-
Amounts due to customers				
Deposits at January 1	29,720,881	223,438	3,878,589	80,385
Deposits received during the year	71,455,247	505,955	73,682,624	2,415,237
Deposits repaid during the year	(72,752,642)	(410,113)	(47,840,332)	(2,272,384)
Deposits at December 31	28,423,486	319,280	29,720,881	223,238
Subordinated debt at 31 December	7,730,703	-	7,731,064	-

In thousand Armenian drams		2018		2017
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Guarantees issued	17,568	-	-	59,046
Sale of repossessed collateral	534,656	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income	6,703,373	3,190	3,457,993	246
Interest expense	1,913,432	21,416	(1,781,330)	(4,433)
Impairment (losses)/reversal	(684,851)	(1,590)	(407,859)	32
Net income on sale of repossessed collateral	1,339	-	-	-
Other expenses(lease)	119,599		113,734	-

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 to 15 years (2017: from 1 to 15 years) and have interest rates of 9-18% (2017: 11-18%). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2018	2017
Salaries and other short-term payments	225,057	209,059
Total key management compensation	225,057	209,059

31 Fair value measurement

The Bank’s Board determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

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

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

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

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

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

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

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					31 December 2018
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	13,804,136	-	13,804,136	13,804,136
Amounts due from financial institutions	-	16,179,537	-	16,179,537	16,179,537
Loans to customers	-	83,289,946	-	83,289,946	83,289,946
Investments securities measured at amortised cost	-	28,684,022	-	28,684,022	28,162,730
Other assets	-	195,143	-	195,143	195,143
Financial liabilities					
Amounts due to financial institutions	-	10,925,001	-	10,925,001	10,925,001
Amounts due to customers	-	98,110,154	-	98,110,154	98,110,154
Subordinated debt	-	7,730,703	-	7,730,703	7,730,703
Other liabilities	-	540,507	-	540,507	540,507

In thousand Armenian dramsl					31 December 2017
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	19,493,573	-	19,493,573	19,493,573
Amounts due from financial institutions	-	16,077,157	-	16,077,157	16,077,157
Investments held-to-maturity	-	22,874,176	-	22,874,176	23,121,599
Loans and advances to customers	-	71,162,381	-	71,162,381	71,162,381
Other assets	-	351,699	-	351,699	351,699
Financial liabilities					
Amounts due to financial institutions	-	8,289,425	-	8,289,425	8,289,425
Amounts due to customers	-	90,413,523	-	90,413,523	90,413,523
Subordinated debt	-	7,731,064	-	7,731,064	7,731,064
Other liabilities	-	243,173	-	243,173	243,173

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 6% to 24% per annum (2017: 6% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

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

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

Amounts due to financial institutions and customers

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

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams				31 December 2018
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
State and corporate bonds	-	6,227,331		6,227,331
Equity instruments	28,000	31,457	-	59,457
Total	28,000	6,258,788	-	6,286,788
Financial liabilities				
Derivative financial liabilities	-	8,508	-	8,508
Total	-	8,508	-	8,508
Net fair value	28,000	6,250,280	-	6,278,280

In thousand Armenian drams				31 December 2017
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments available-for-sale	27,501	-	-	27,501
Net fair value	27,501	-	-	27,501

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

Derivatives

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

The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

31.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2018
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Land and buildings	-	-	4,768,886	4,768,886
Total	-	-	4,768,886	4,768,886
Net fair value	-	-	4,768,886	4,768,886

In thousand Armenian drams				31 December 2017
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Land and buildings	-	-	4,768,886	4,768,886
Total	-	-	4,768,886	4,768,886
Net fair value	-	-	4,768,886	4,768,886

Fair value measurements in Level 3

The Bank's non-financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

The financial assets within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams		2018
	Land and buildings	Total
Non-financial assets		
Balance as of 1 January 2018	4,768,886	4,768,886
Balance as of 31 December, 2018	4,768,886	4,768,886
Net fair value	4,768,886	4,768,886

In thousand Armenian drams	2017	
	Land and buildings	**Total**
Non-financial assets		
Balance as of 1 January 2017	4,830,799	4,830,799
Reclassification	(61,913)	(61,913)
Balance as of 31 December, 2017	4,768,886	4,768,886
Net fair value	4,768,886	4,768,886

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

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

The land and buildings were revalued on 31 December 2011.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

32 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2018					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	**Gross amount of recognised financial assets/ liabilities in the statement of financial position**	**Net amount of financial assets/ liabilities in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net**
Financial assets						
Reverse repurchase agreements (note 17)	15,827,879	-	15,827,879	(15,827,879)	-	-

In thousand Armenian drams						31 December 2017
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 17)	15,704,713	-	15,704,713	(15,704,713)	-	-

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See note 34.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								2018
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Cash and cash equivalents	13,804,136	-	-	13,804,136	-	-	-	13,804,136
Amounts due from other financial institutions	16,179,537	-	-	16,179,537	-	-	-	16,179,537
Investment securities								
- Investment securities at fair value through other comprehensive income	59,457	-	561,976	621,433	2,860,597	2,804,758	5,665,355	6,286,788
- Investments securities at amortised cost	958,610	69,678	4,027,115	5,055,403	21,348,912	1,758,415	23,107,327	28,162,730
Loans to customers	4,022,388	4,852,995	14,637,405	23,512,788	48,767,179	11,009,979	59,777,158	83,289,946
Other assets	195,143	-	-	195,143	-	-	-	195,143
	35,219,271	4,922,673	19,226,496	59,368,440	72,976,688	15,573,152	88,549,840	147,918,280
Liabilities								
Amounts due to financial institutions	2,432,685	1,348,091	4,668,619	8,449,395	1,140,118	1,335,488	2,475,606	10,925,001
Derivative financial liabilities	8,508	-	-	8,508	-	-	-	8,508
Amounts due to customers	32,525,764	10,332,032	43,987,757	86,845,553	6,165,811	5,098,790	11,264,601	98,110,154
Subordinated debt	-	-	-	-	-	7,730,703	7,730,703	7,730,703
Other liabilities	540,507	-	-	540,507	-	-	-	540,507
	35,507,464	11,680,123	48,656,376	95,843,963	7,305,929	14,164,981	21,470,910	117,314,873
Net position	(288,193)	(6,757,450)	(29,429,880)	(36,475,523)	65,670,759	1,408,171	67,078,930	30,603,407
Accumulated gap	(288,193)	(7,045,643)	(36,475,523)		29,195,236	30,603,407		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total 2017
Assets								
Cash and cash equivalents	19,493,573	-	-	19,493,573	-	-	-	19,493,573
Amounts due from financial institutions	16,077,157	-	-	16,077,157	-	-	-	16,077,157
Investments available-for-sale	58,958	-	-	58,958	-	-	-	58,958
Investments held-to-maturity	-	784,588	2,794,225	3,578,813	18,700,604	842,182	19,542,786	23,121,599
Loans and advances to customers	1,574,890	7,650,975	21,263,537	30,489,402	36,238,143	4,434,836	40,672,979	71,162,381
Other assets	140,267	98,808	33,547	272,622	79,077	-	79,077	351,699
	37,344,845	8,534,371	24,091,309	69,970,525	55,017,824	5,277,018	60,294,842	130,265,367
Liabilities								
Amounts due to financial institutions	2,065,230	1,106,776	2,255,960	5,427,966	980,868	1,880,591	2,861,459	8,289,425
Amounts due to customers	32,589,083	4,292,948	29,337,376	66,219,407	19,401,534	4,792,582	24,194,116	90,413,523
Subordinated debt	-	-	-	-	-	7,731,064	7,731,064	7,731,064
Other liabilities	243,173	-	-	243,173	-	-	-	243,173
	34,897,486	5,399,724	31,593,336	71,890,546	20,382,402	14,404,237	34,786,639	106,677,185
Net position	2,447,359	3,134,647	(7,502,027)	(1,920,021)	34,635,422	(9,127,219)	25,508,203	23,588,182
Accumulated gap	2,447,359	5,582,006	(1,920,021)		32,715,401	23,588,182		

34 Risk management

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

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

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

Risk management structure

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

Board of Directors

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Internal audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

As of 31 December 2018 the Bank had a concentration in loan portfolio and security investments represented by AMD 42,998,197 thousand and AMD 14,889,957 thousand (2017: AMD 40,456,545 thousand and AMD

13,833,987 thousand) respectively due from single third party entities and parties related with them (38% of Bank's assets (2017: 40%)). The Bank's management believes that these loans and bonds will be repaid according to the contractual terms and the concentrations will not cause a deterioration of the Bank's financial condition.

34.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Executive Board regularly.

34.1.1 Credit quality analysis

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

In thousand Armenian drams				31 December 2018	31 December 2017
Internal rating grade	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Cash and cash equivalents					
High	3,166,018	-	-	3,166,018	1,907,200
Standard	10,639,310	-	-	10,639,310	17,586,373
Gross carrying amount	13,805,328	-	-	13,805,328	19,493,573
Loss allowance	(1,192)	-	-	(1,192)	-
Net carrying amount	13,804,136	-	-	13,804,136	19,493,573
Amounts due from financial institutions					
Standard	16,296,579	-	-	16,296,579	16,077,157
Gross carrying amount	16,296,579	-	-	16,296,579	16,077,157
Loss allowance	(117,042)	-	-	(117,042)	-
Net carrying amount	16,179,537	-	-	16,179,537	16,077,157
Debt investment securities at amortised cost (2017: held-to-maturity)					
Standard	28,202,144	-	-	28,202,144	23,121,599
Gross carrying amount	28,202,144	-	-	28,202,144	23,121,599
Loss allowance	(39,414)	-	-	(39,414)	-
Net carrying amount	28,162,730	-	-	28,162,730	23,121,599
Investment securities at FVOCI (2017: available-for-sale)					
Standard	6,286,788	-	-	6,286,788	58,958
	6,286,788	-	-	6,286,788	58,958

In thousand Armenian drams			31 December 2018		31 December 2017
Internal rating grade	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**Total**
Mortgage and consumer landing					
High	16,354,851	-	-	16,354,851	15,324,459
Standard	143,760	-	-	143,760	100,819
Low	-	206,061	-	206,061	79,327
Non-performing	-	-	223,316	223,316	125,781
Gross carrying amount	16,498,611	206,061	223,316	16,927,988	15,630,386
Loss allowance	(286,884)	(36,508)	(85,693)	(409,085)	(295,851)
Net carrying amount	16,211,727	169,553	137,623	16,518,903	15,334,535
Loans to commercial customers					
High	18,020,836	-	-	18,020,836	11,961,018
Standard	50,259,226	-	-	50,259,226	44,621,965
Low	-	19,840	-	19,840	30,043
Non-performing	-	-	2,483	2,483	24,156
Gross carrying amount	68,280,062	19,840	2,483	68,302,385	56,637,182
Loss allowance	(1,527,472)	(3,705)	(165)	(1,531,342)	(809,336)
Net carrying amount	66,752,590	16,135	2,318	66,771,043	55,827,846
Other financial assets					
Standard	203,960	-	-	203,960	362,476
Gross carrying amount	203,960	-	-	203,960	362,476
Loss allowance	(8,817)	-	-	(8,817)	(10,777)
Net carrying amount	195,143	-	-	195,143	351,699
Loan commitments and financial guarantee					
High grade	2,821,100	-	-	2,821,100	1,264,712
	2,821,100	-	-	2,821,100	1,264,712
Loss allowance	(35,892)	-	-	(35,892)	-

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

Credit exposures arising from derivative transactions see note 16.

34.1.2 Impairment assessment

Policy applicable from 1 January 2018

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

Significant increase in credit risk

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

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

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

Criteria for Loans and advances to customers

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

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

Criteria for Amounts due to financial institutions

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

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days’ pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from BB (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

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

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

Exit criteria from significant deterioration stage

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

Credit risk grades

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

Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on an individual basis include:

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

The bank groups those assets for which ECL does not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

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

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

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

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

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

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

Forborne and modified loan

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

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

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

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

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

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

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

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

In thousand Armenian drams	2018
Amortised costs of financial assets modified during the period	36,804
Net modification loss	(625)

Probability of Default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Forward looking information

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

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

- Trade growth
- Industry growth
- Real estate prices (average price in Yerevan)

Impairment assessment policy applicable before 1 January 2018

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	2017
Industry	6.3%
Construction	0.5%
Trading	2.5%
Services	2.9%
Consumer	0.2%
Mortgage	2.4%
Other	0.4%

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

Past due but not impaired loans

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

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

In thousand Armenian drams	As of 31 December 2017		
	Less than 90 days	More than 91 days	Total
Loans and advances to customers			
Industry	7,884	-	7,884
Agriculture	2,222	12,314	14,536
Trading	12,706	4,701	17,407
Services	-	7,142	7,142
Consumer	64,419	39,396	103,815
Mortgage	115,727	86,385	202,112
Other	10,474	-	10,474
Total	213,432	149,938	363,370

34.1.3 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	13,804,136	-	-	13,804,136
Amounts due from financial institutions	15,751,343	208,549	219,645	16,179,537
Loans to customers	83,289,881	-	65	83,289,946
Investment securities				
- Investment securities at fair value through other comprehensive income	6,286,788	-	-	6,286,788
- Investment securities at amortised cost	28,162,730	-	-	28,162,730
Other assets	195,140	3	-	195,143
As of 31 December 2018	147,490,018	208,552	219,710	147,918,280
As of 31 December 2017	129,100,969	750,115	414,283	130,265,367

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

34.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

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

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

Allowance for ECL on loans at the total amount of 9,039,068 thousand has not been recognized because of collaterals.

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

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

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

In thousand Armenian drams	31 December 2018	31 December 2017
Loans collateralized by real estate	20,422,327	15,859,005
Loans collateralized by gold	1,951,572	2,327,576
Loans collateralized by plane	1,381,698	-
Loans collateralized by vehicles	199,770	193,277
Loans collateralized by cash	4,598,212	4,579,661
Loans collateralized by inventories	710,491	600,509
Loans collateralized by equipment	104,015	45,555
Loans collateralized by cash or Armenian Government guarantees	49,983,778	45,138,264
Unsecured loans	1,250,613	1,092,358
Other collaterals	4,627,897	2,431,363
Total loans and advances to customers (gross)	85,230,373	72,267,568

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

34.2 Market risk

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

34.2.1 Market risk – Non-trading

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies. The currency rates are monitored daily, based on which at the end of each month the currency rates are forecasted. The Board of Directors has set limits on positions by currency.

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

In thousand Armenian drams	31 December 2018			31 December 2017		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	5	(95,985)	(95,985)	5	(3,580)	(3,580)
USD	(5)	95,985	95,985	(5)	3,580	3,580
EUR	8	196,476	196,476	8	(317)	(317)
EUR	(8)	(196,476)	(196,476)	(8)	317	317

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	11,565,927	2,154,052	84,157	13,804,136
Amounts due from financial institutions	16,089,387	85,238	4,912	16,179,537
Loans to customers	45,731,855	37,558,091	-	83,289,946
Investment securities				
- Investment securities at fair value through other comprehensive income	5,760,863	525,925	-	6,286,788
- Investments securities at amortised cost	26,433,761	1,728,969	-	28,162,730
Other assets	195,143	-	-	195,143
	105,776,936	42,052,275	89,069	147,918,280

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Liabilities				
Amounts due to financial institutions	5,072,754	5,852,247	-	10,925,001
Amounts due to customers	66,319,151	31,791,003	-	98,110,154
Subordinated debt	3,858,120	3,872,583	-	7,730,703
Other liabilities	540,303	183	21	540,507
Total	75,790,328	41,516,016	21	117,306,365
Total effect of derivative financial instruments	-	(8,508)	-	(8,508)
Net position as of 31 December 2018	29,986,608	527,751	89,048	30,603,407
Commitments and contingent liabilities as of 31 December 2018	1,887,298	933,802	-	2,821,100
Total financial assets	91,232,296	38,881,155	151,916	130,265,367
Total financial liabilities	67,692,225	38,961,004	23,956	106,677,185
Net position as of 31 December 2017	23,540,071	(79,849)	127,960	23,588,182
Commitments and contingent liabilities As of 31 December 2017	1,201,832	62,880	-	1,264,712

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

34.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency (refer to note 15). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

	Unaudited	
	2018, %	**2017, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	35.05	37.00
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	165.65	156.32

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See note 33 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						**2018**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Financial liabilities						
Amounts due to financial institutions	2,438,375	1,359,507	4,756,408	1,449,404	2,053,023	12,056,717
Amounts due to customers	32,537,723	10,469,240	46,295,291	7,000,017	9,415,332	105,717,603
Subordinated debt	68,695	137,391	618,258	3,297,375	10,002,465	14,124,184
Other liabilities	540,507	-	-	-	-	540,507
Total undiscounted financial liabilities	35,585,300	11,966,138	51,669,957	11,746,796	21,470,820	132,439,011
Foreign exchange swap contracts						
Inflow	2,383,260	-	-	-	-	2,383,260
Outflow	2,391,768	-	-	-	-	2,391,768
Commitments and contingent liabilities	1,216,468	143,023	1,431,524	30,085	-	2,821,100

In thousand Armenian drams	2017					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial institutions	2,075,093	1,124,168	2,358,784	1,228,205	2,959,942	9,746,192
Amounts due to customers	32,595,616	4,342,207	30,517,443	20,552,001	8,562,460	96,569,727
Subordinated debt	68,714	137,427	618,422	3,298,250	11,468,327	15,591,140
Other liabilities	243,173	-	-	-	-	243,173
Total undiscounted financial liabilities	34,982,596	5,603,802	33,494,649	25,078,456	22,990,729	122,150,232
Commitments and contingent liabilities	723,403	-	292,437	248,872	-	1,264,712

34.4 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Bank. Operational risk is the risk of incompatibility of the Banks' operations and procedures to the legislation in force or their breach, the lack of information of the Bank's staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Bank. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Bank are prepared by the Bank's Legal Department by cooperating with the Bank's appropriate departments and are approved by the Bank's Executive Board. In the Bank's day-to-day operations non-standard contracts between the Bank and third parties are allowed only in case of appropriate conclusion from the Banks Legal Department.

The IT risks are managed in accordance with internal legal acts.

The risk mitigation mechanisms for the process are:

- regulation of all business processes by internal legal acts,
- physical protection of the Bank's assets and critical documents (including loans contracts)
- establishing and maintaining limits,
- common preservation of property and records,
- implementation and archiving of data journals,
- implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Banks risks and supervises the Bank's activity and operational risks.

The Bank's correspondence with the standards is accompanied by the internal auditor's periodic observations. The results of those observations are discussed by the Bank's management's appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

35 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	31 December 2018		
	Long-term liabilities	Subordinated debt	Total
As of 1 January 2018 (note 25,26)	195,237	7,731,064	7,926,301
Cash-flows	(11,485)	-	(11,485)
Repayments	(29,030)	-	(29,030)
Proceeds	17,545	-	17,545
Non-cash	1,277	(361)	916
Foreign exchange gain	-	(3,040)	(3,040)
Accrued interests	1,277	2,679	3,956
As of 31 December 2018	185,029	7,730,703	7,915,732

In thousand Armenian drams	31 December 2017		
	Long-term liabilities	Subordinated debt	Total
As of 1 January 2017 (note 25,26)	68,900	7,729,539	7,798,439
Cash-flows	126,337	-	126,337
Repayments	(62,126)	-	(62,126)
Proceeds	188,463	-	188,463
Non-cash	-	1,525	1,525
Foreign exchange gain/loss	-	(964)	(964)
Accrued interests	-	2,489	2,489
As of 31 December 2017	195,237	7,731,064	7,926,301

36 Capital adequacy

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

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, general reserve, retained earnings. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

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

	Unaudited	
In thousand Armenian drams	**As of 31 December 2018**	**As of 31 December 2017**
Tier 1 capital	31,979,704	24,851,399
Tier 2 capital	9,328,439	9,259,644
Total regulatory capital	41,308,143	34,111,043
Risk-weighted assets	50,616,521	34,699,527
Capital adequacy ratio	81.61%	98.30%

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

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

The Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2017 and after that period.