ARMECONOMBANK
OPEN JOINT STOCK COMPANY

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2018

Armeconombank OJSC

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Armeconombank OJSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of Armeconombank Open Joint Stock Company (the "Bank") at December 31, 2018, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2018 were approved by management on April 30, 2019.

On behalf of the Management:

Aram Khachatryan
Executive Director

Michael Poghosyan
Chief Accountant

April 30, 2019
Yerevan, Republic of Armenia

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INDEPENDENT AUDITOR’S REPORT

To the Shareholders of Armeconombank OJSC

Opinion

We have audited the financial statements of Armeconombank OJSC (the “Bank”), which comprise the statement of financial position as at 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“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”), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment and measurement of expected credit losses of loans and advances to customers We focused on this area because assessment of significant increase in credit risk and measurement of expected credit losses (ECL) require considerable judgement and involves estimation uncertainties. Additionally, the transition to IFRS 9 is associated with complex new standard's requirements and application of new techniques, which require altering the existing and developing new models for assessment and measurement of the ECL. For collectively assessed loans the measurement of the ECL involves application of a complex risk rating system based on historical data adjusted for relevant forward looking information. For individually assessed loans the measurement of ECL is based on estimation of future cash flows, which requires analysis of the borrower's current and expected financial performance, collateral value and evaluation of possible outcome. In particular we focused on: • The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models to make those calculations; • Timely identification of significant increase in credit risk based on quantitative and qualitative factors; • The principal assumptions and significant inputs underlying the calculation of discounted cash flows for defaulted loans (stage 3). See Note 32 to the financial statements.	We assessed design and implementation of relevant controls over the management's processes for the assessment, measurement and monitoring the level of ECL for both collectively and individually assessed loans, including the controls over timely identification of significant increases in credit risk. We challenged the assumptions used in collective credit models and corresponding risk rating system, tested input data and analyzed the integrity of those models. Our work included the following procedures: • We analyzed the impairment methodology and considered the potential effects on the increase in credit risk and measurement of ECL of information, which was not captured by management's models; • We analyzed the principal assumptions made based on our knowledge of industry practices, the Bank's actual experience and available and relevant forward looking information; • We tested the integrity of the credit models used to calculate ECL, performed selective recalculations were possible and compared the results. For sample of collectively assessed loans we ascertained whether the significant increase in credit risk had been identified in a timely manner including, where relevant, how forbearance had been considered. For sample of individually assessed loans we tested the forecasts of future cash flows prepared by management for measurement of ECLs including challenging the assumptions made, testing input data and comparing estimates to external evidence in respect to the relevant counterparties. In the certain cases, we formed a different view on ECL from that of management's, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances to customers. We checked the accuracy and completeness of disclosures in the financial statements and compliance with IFRS requirements.

Other Information

Management is responsible for the other information. The other information comprises the information included in Annual report, 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.

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein.

Srbuhi Hakobyan
Executive Director

Arpine Ghevondyan
Engagement partner

Deloitte Armenia cjsc
April 30, 2019
Yerevan, Republic of Armenia

Armeconombank OJSC

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended December 31, 2018
In thousands of Armenian Drams, unless otherwise stated

	Notes	2018	2017
Interest income	5	17,664,310	14,362,831
Interest expense	5	(8,922,279)	(7,281,637)
Net interest income before impairment losses on interest bearing assets		**8,742,031**	**7,081,194**
Impairment losses on interest bearing assets	6	(435,226)	(161,436)
Net interest income		**8,306,805**	**6,919,758**
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss		169,791	(231,661)
Fees and commission income	7	2,125,762	1,799,812
Fees and commission expenses	7	(489,913)	(461,819)
Net gain from foreign currency trading and translation	8	851,058	1,046,286
Net gain from derecognition of financial assets measured at FVTOCI		741,354	533,283
Recovery of provision for other assets/liabilities and contingencies	9	18,969	-
Other income	10	268,002	478,068
Net non-interest income		**3,685,023**	**3,163,969**
Operating income		**11,991,828**	**10,083,727**
Staff costs		(4,144,498)	(3,815,344)
Depreciation of property and equipment	19	(665,863)	(575,634)
Amortization of intangible assets	20	(50,283)	(38,902)
Other expenses	11	(4,478,468)	(3,618,191)
Operating expenses		**(9,339,112)**	**(8,048,071)**
Profit before income tax		**2,652,716**	**2,035,656**
Income tax expense	12	(574,690)	(485,259)
Profit for the year		**2,078,026**	**1,550,397**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property and equipment			
Income tax related to revaluation		4,306	-
Items that may be reclassified subsequently to profit or loss:			
Net gain for the year on revaluation of financial assets measured at FVTOCI	28	368,625	912,045
Reclassification adjustment relating to derecognition of financial assets measured at FVTOCI		(633,682)	(563,536)
Net change for the year on impairment of financial assets measured at FVTOCI		18,811	-
Income tax related to financial assets measured at FVTOCI		49,249	(69,209)
Total other comprehensive income for the year, net of income tax		**(192,691)**	**279,300**
Total comprehensive income for the year		**1,885,335**	**1,829,697**
Earnings per share			
Basic		0.97	0.84
Diluted		0.97	0.84

The financial statements were approved on April 30, 2019 by management.

Aram Khachatryan
Executive Director

Michael Poghosyan
Chief Accountant

April 30, 2019
Yerevan, Republic of Armenia

The notes on pages 10 - 75 form an integral part of these financial statements.

Statement of Financial Position
as at December 31, 2018
In thousands of Armenian Drams, unless otherwise stated

	Notes	December 31, 2018	December 31, 2017
Assets:			
Cash and cash equivalents	13	38,158,045	35,824,831
Financial assets at fair value through profit or loss	14	17,468	-
Due from financial institutions	15	13,175,950	13,030,610
Reverse repurchase agreements	16	3,882,703	4,296,862
Loans and advances to customers	17	133,629,775	104,216,558
Investment securities	16, 18	19,752,226	21,704,806
Property and equipment	19	10,330,854	9,304,697
Intangible assets	20	506,593	321,118
Other assets	21	2,243,783	2,103,317
Total assets		**221,697,397**	**190,802,799**
Liabilities and equity			
Liabilities:			
Financial liabilities at fair value through profit or loss	14	-	7,706
Repurchase agreements	16	20,519,048	20,511,989
Other borrowed funds	23	64,200,798	39,531,118
Amounts due to customers	24	95,828,768	91,703,898
Debt securities issued	22	2,060,960	1,068,764
Income tax payable		273,836	373,239
Deferred tax liabilities	12	849,982	1,096,006
Other liabilities	26	1,568,539	1,071,870
Subordinated loans	25	3,382,149	6,409,601
Total liabilities		**188,684,080**	**161,774,191**
Equity:			
Share capital	27	22,266,343	13,708,745
Share premium		-	33,438
Revaluation surplus		3,055,334	3,157,777
General reserve		3,000,000	6,000,000
Investment revaluation reserve	28	1,501,220	1,531,277
Retained earnings		3,190,420	4,597,371
Total equity		**33,013,317**	**29,028,608**
Total liabilities and equity		**221,697,397**	**190,802,799**

The notes on pages 10 - 75 form an integral part of these financial statements

Armeconombank OJSC

Statement of Changes in Equity
for the Year Ended December 31, 2018
In thousands of Armenian Drams, unless otherwise stated

	Notes	Share capital	Share premium	General reserve	Property revaluation reserve	Investment revaluation reserve	Retained earnings	Total equity
Balance at January 1, 2017		**4,631,333**	**9,110,850**	**6,000,000**	**3,264,437**	**1,251,977**	**3,310,821**	**27,569,418**
Profit for the year		-	-	-	-	-	1,550,397	**1,550,397**
Other comprehensive income for the year, net of income tax		-	-	-	-	279,300	-	**279,300**
Transfer of revaluation reserve depreciation, net of income tax		-	-	-	(106,660)	-	106,660	-
Dividends declared		-	-	-	-	-	(370,507)	**(370,507)**
Transfer from share premium to share capital		9,077,412	(9,077,412)	-	-	-	-	-
Balance at December 31, 2017 (as previously reported)		**13,708,745**	**33,438**	**6,000,000**	**3,157,777**	**1,531,277**	**4,597,371**	**29,028,608**
Effect of transition to IFRS 9	2	-	-	-	-	166,940	(557,248)	**(390,308)**
As restated		**13,708,745**	**33,438**	**6,000,000**	**3,157,777**	**1,698,217**	**4,040,123**	**28,638,300**
Profit for the year		-	-	-	-	-	2,078,026	**2,078,026**
Other comprehensive income for the year, net of income tax		-	-	-	4,306	(196,997)	-	**(192,691)**
Transfer of revaluation reserve depreciation, net of income tax		-	-	-	(106,749)	-	106,749	-
Issue of preference shares	27	3,000,000	-	-	-	-	-	**3,000,000**
Dividends declared	27	-	-	-	-	-	(510,318)	**(510,318)**
Capitalization of Retained earnings and other reserves	27	5,557,598	(33,438)	(3,000,000)	-	-	(2,524,160)	-
Balance at December 31, 2018		**22,266,343**	-	**3,000,000**	**3,055,334**	**1,501,220**	**3,190,420**	**33,013,317**

The notes on pages 10 - 75 form an integral part of these financial statements.

Armeconombank OJSC

Statement of Cash Flows
for the Year Ended December 31, 2018
In thousands of Armenian Drams, unless otherwise stated

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		2,078,026	1,550,397
Adjusted for:			
Income tax expense		574,690	485,259
Impairment losses on interest bearing assets		435,226	161,436
Recovery of provision for other assets/liabilities and contingencies		(18,969)	-
Depreciation and amortization		716,146	614,535
Loss from disposal of property and equipment		19,421	17,969
Income from grants		-	(240)
Net foreign currency translation loss/(gain)		38,625	(276,643)
Net gain on financial assets measured at FVTOCI		(741,354)	(533,283)
Other income		(8,536)	-
Cash inflows from operating activities before changes in operating assets and liabilities		**3,093,275**	**2,019,430**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from financial institutions		(341,402)	(5,319,747)
Reverse repurchase agreements		414,196	255,565
Loans to customers		(30,617,959)	(28,720,245)
Financial assets at fair value through profit and loss		(1,651)	-
Other assets		(141,364)	(602,704)
Increase/(decrease) in operating liabilities:			
Amounts due to financial institutions		-	816,675
Repurchase agreements		7,324	7,287,234
Amounts due to customers		4,683,868	25,071,374
Financial liabilities at fair value through profit or loss		(7,696)	-
Other liabilities		333,498	(44,802)
Cash (used in)/from operating activities before taxation		**(22,577,911)**	**762,780**
Income tax paid		(768,985)	(71,619)
Net cash (used)/from in operating activities		**(23,346,896)**	**691,161**
Cash flows from investing activities			
Purchase of investment securities		(5,471,920)	(10,783,114)
Purchase of held to maturity financial assets		-	(50,169)
Proceeds from sale of investment securities		7,902,154	6,192,862
Purchase of property and equipment		(2,091,328)	(1,533,327)
Proceeds from sale of property and equipment		379,887	72,089
Purchase of intangible assets		(235,758)	(128,757)
Net cash from/(used in) investing activities		**483,035**	**(6,230,416)**
Cash flows from financing activities			
(Repayment)/proceeds from subordinated debt		(3,026,027)	1,009,429
Proceeds from debt securities issued		991,753	-
Proceeds from other borrowed funds		36,820,997	22,431,803
Repayment of other borrowed funds		(11,966,830)	(13,786,400)
Preference share issued		3,000,000	-
Dividends paid		(379,731)	(338,365)
Net cash from financing activities		**25,440,162**	**9,316,467**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(206,725)	(12,210)
Net increase in cash and cash equivalents		**2,369,576**	**3,765,002**
Cash and cash equivalents, beginning of year	13	**35,824,831**	**32,059,829**
Cash and cash equivalents, end of year	13	**38,194,407**	**35,824,831**

The notes on pages 10 - 75 form an integral part of these financial statements.

In thousands of Armenian Drams

1. The Bank

"ARMECONOMBANK" OJSC (the "Bank") was incorporated in the Republic of Armenia in 1991, on the basis of USSR Armenian Republican Bank "State Social Bank" (1991-1993 "Armstatecombank" CJSC) and in 1995 restructured to an open joint stock company. The Bank is regulated by the legislation of RA and conducts its business under license number 1, granted by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits and extends credit as well as provides other banking services to its corporate and retail customers.

The head office and 26 branches of the Bank are located in Yerevan, 22 branches in different regions of Armenia and 1 branch in the Republic of Nagorno Karabakh. The registered office of the Bank is located at Amiryan str. 23/1, Yerevan.

As at December 31, 2018 and 2017 the following shareholders owned issued shares of the Bank.

	December 31,2018 %	December 31, 2017 %
Suqiasyan Saribek	24.51	28.32
Suqiasyan Khachatur	20.84	16.29
Suqiasyan Eduard	14.60	10.66
Suqiasyan Robert	13.75	14.28
Other minor shareholders	26.30	30.45
Total	**100.00**	**100.00**

These financial statements were authorised for issue on April 30, 2019.

2. Significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Going concern. Management prepared these financial statements on a going concern basis, which contemplates the realization of the Bank's assets and the settlement of the Bank's liabilities in the normal course of business. At the same time the following events and conditions existed which may cast doubt on the Bank's ability to continue as going concern:

- As at 31 December 2018, the Bank breached certain financial covenants required by some of its borrowing agreements with international financial institutions. The borrowed amounts as at reporting date, in respect of which the defaults had taken place, amounted to AMD 6,741,426 thousand. The total balance of borrowings including those with cross default clauses in relation to covenants amount to AMD 24,059,690 thousand as at reporting date. See note 23.
- As at 31 December 2018 the Bank's current liabilities exceed current assets by AMD 35,367,320 thousand as presented in note 32(c) (2017: AMD 27,869,735 thousand).

Management of the Bank believes that preparation of the financial statements on the going concern basis is appropriate due to the followings:

1. Maintaining funding contingency plans and monitoring balance sheet liquidity ratios to comply with regulatory requirements.
2. As at 31 December 2018 and subsequent to the reporting date, the Bank did not receive any notices on termination of further funding or notifications with claims of immediate repayment of any loans from the lenders.
3. Subsequent to the reporting date, the Bank received waivers from two out of three banks for breach of covenants. From the third bank, the management received an e-mail confirmation that this party will not request a repayment earlier.
4. Subsequent to the reporting date the Bank issued new bonds in the amount of USD 2,100 thousand with maturity of 29 January 2022 and fixed coupon rate of 5.25%. As at April 30, 2019 the Bank has placed the whole amount of issued bonds (Note 34).

5. In 2019, the Bank continue to receive financing from international financing institutions (Note 34). There were new deposit placements received from the banks after the breach of the covenant with amount of USD 10,000 thousand from EBRD, USD 8,000 thousand and EUR 3,000 thousand from BlueOrchard Microfinance Fund LLC.
6. Subsequent to the reporting date, the Bank has paid loans in accordance with schedules agreed in agreements without delays (Note 34).

These financial statements are presented in thousands of *Armenian drams ("AMD thousand")*, unless otherwise indicated.

Basis of preparation. These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments.

Exchange rates for the currencies in which the Bank transacts were as follows:

	December 31, 2018	December 31, 2017
Closing exchange rates – [AMD]		
1 U.S. Dollar ("USD")	483.75	484.10
1 Euro	553.65	580.10

The same accounting policies, presentation and methods of computation have been followed the year ended December 31, 2018 as were applied in the preparation of the Bank's financial statements for the year ended December 31, 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

2. Significant accounting policies (continued)

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Bank has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow Bank not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the Bank adopted consequential amendments to *IFRS 7* ***Financial Instruments****: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Bank's financial statements are described below.

Net interest income. Interest income and expense for all financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Bank's statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities. Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Net gain/(loss) on other financial instruments at FVTPL. Net gain/(loss) on other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL except those that are held for trading.

2. Significant accounting policies (continued)

Dividend income. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- For equity instruments which are held for trading, dividend income is presented as trading income;
- For equity instruments designated at FVTOCI dividend income is presented in other income; and
- For equity instruments not designated at FVTOCI and not held for trading, dividend income is presented as net income from other instruments at FVTPL.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option);

<u>*Debt instruments at amortized cost or at FVTOCI.*</u> The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Reclassifications. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy on *Modification and derecognition of financial assets* described below.

Impairment. The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Due from financial institutions;
- Loans and advances to customers;

- Investment securities;
- Reverse repurchase agreements;
- Other financial assets – trade receivables;
- Other financial liabilities - off balance contingencies and commitments;
- Financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

For more details about staging refer to Note 32.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflcts the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is 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. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision; and
- 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.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Derivative financial instruments. The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

Commitments to provide a loan at a below-market interest rate. Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the statement of financial position and the remeasurement is presented in other revenue. The Bank has not designated any commitments to provide a loan below market rate designated at FVTPL.

Effect of transition. The following table shows the transition from IAS 39 and corresponding IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for loans, securities and off-balance sheet exposures as at 1 January 2018 as a result of IFRS 9 adoption. There were no changes to the measurement basis of other financial asset categories and liabilities.

In thousands of Armenian Drams

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Financial assets						
Investment securities	Available-for-sale	Fair value through other comprehensive income	21,655,188	-	-	21,655,188
Investment securities	Held-to-maturity	Fair value through other comprehensive income	49,618	-	-	49,618
Total trading and investments securities			**21,704,806**	**-**	**-**	**21,704,806**
Allowance on credit losses			-	-	(166,940)	(166,940)
Due from banks	Amortized cost	Amortized cost	13,036,368	-	(148,819)	12,887,549
Cash and corresponding accounts	Amortized cost	Amortized cost	35,824,831	-	(7,479)	35,817,352
Loans to customers	Amortized cost	Amortized cost	104,216,558	-	(228,176)	103,988,382
Reverse repurchase agreements	Amortized cost	Amortized cost	-	-	-	-
Other financial assets (trade receivables)	Amortized cost	Amortized cost	-	-	-	-
Financial liabilities						
Provisions for credit losses on off-balance sheet exposures			-	-	(103,411)	(103,411)
Total pre-tax impact of IFRS 9 adoption					**(487,885)**	**(487,885)**
Total after-tax impact of IFRS 9 adoption					**(390,308)**	**(390,308)**

The following table illustrates the impact of IFRS 9 adoption on the Bank's equity, in particular on investment revaluation reserve and retained earnings as at 1 January 2018:

	Investment revaluation reserve	Retained earnings
31 December 2017	**1,531,277**	**4,597,371**
Remeasurement of financial assets due to adoption of the impairment loss provisions of IFRS 9, net of tax	166,940	(557,248)
1 January 2018	**1,698,217**	**4,040,123**

IFRS 15 Revenue from Contracts with Customers. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS 15 on current economic and financial volumes.

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

*IFRIC 22 Foreign Currency Transactions and Advance Consideration***.** IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The accounting policies, presentation and methods of computation that were applied only in the preparation of the Bank's financial statements for the year ended December 31, 2017

Financial instruments. The Bank recognises financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

<u>Effective interest method.</u> The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

<u>Financial assets at FVTPL.</u> Financial assets are classified as at FVTPL when is (i) contingent consideration that may be paid by an acquirer as part of a business combination, to which IFRS 3 applies (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or

- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss. Fair value is determined in the manner described (see Note 30.

<u>Held to maturity investments.</u> Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

<u>Available-for-sale financial assets.</u> Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Bank management considers that fair value can be reliably measured). Fair value is determined in the manner described (see Note 30). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

<u>Loans and receivables.</u> Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Armenia, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilised by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralised deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralised by securities and other assets and are classified within due from banks and/or loans to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Armenia, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss in the period of recovery.

Reclassification of financial assets. The Bank has reclassified certain non-derivative financial assets out of held for trading (part of the FVTPL category) to AFS financial assets. Effective from July 1, 2009, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the ‘Held for trading’ category and into the ‘Available-for-sale’, ‘Loans and receivables’, or ’Held to maturity’ categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the ‘Available-for-sale’ category and into the ‘Loans and receivables’ category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Derecognition of financial assets. The Bank derecognised a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound instruments

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination, to which IFRS 3 applies (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss. Fair value is determined in the manner described (see Note 30).

Other financial liabilities. Other financial liabilities (including depository instruments with the Central Bank of Armenia, deposits by banks and customers, repurchase agreements, debt securities issued, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ; and
- The amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Bank derecognised financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

The accounting policies, presentation and methods of computation that have been followed in the current year as were applied in the preparation of the Bank's financial statements for the year ended December 31, 2017

Functional currency. Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Armenian dram ("AMD"). The presentational currency of the financial statements of the Bank is the AMD. All values are rounded to the nearest thousand drams, except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Options. Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

*Leases***.** Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee. Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of Armenia with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Repossessed assets

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

Property and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated over the following estimated useful lives:

	Years
Buildings	50
Computers	3-5
Vehicles	8
Leasehold improvements	20
Other	8

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the AMD/USD exchange rate effective at the date. Changes in the bid prices are recorded in net *gain/(loss)* on operations with precious metals operations.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax.</u> The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

<u>Deferred tax.</u> Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

<u>Current and deferred tax for the year.</u> Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*Onerous contracts***.** Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

*Restructurings***.** A restructuring provision is recognised when the Bank has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

In thousands of Armenian Drams

*Contingencies***.** Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

*Fiduciary activities***.** The Bank provides trustee services to its customers. The Bank also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognised as services are provided.

Securitization transactions

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include:

- 'Investments revaluation' reserve which comprises changes in fair value of financial assets measured at fair value through other comprehensive income;
- 'Property revaluation reserve' which comprises revaluation reserve of land and building;

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

The impact of the application of the new and revised IFRS Standards below is for illustrative purposes only. Entities should analyse the impact of these new or revised IFRS Standards on their financial statements based on their specific facts and circumstances and make appropriate disclosures.

IFRS 16	*Leases*
Annual Improvements to IFRS Standards 2015-2017 Cycle	*Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
Amendments to IAS 1 and IAS 8	*Definition to Material*
IFRIC 23	*Uncertainty over Income Tax Treatments*

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases and the related Interpretations* when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Bank will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease. The Bank will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Bank will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases: IFRS 16 will change how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Bank will:

(a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Bank will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Bank has non-cancellable operating lease commitments of AMD 2,873,951.

The Bank plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Management of the Bank is in the process of determination of the effect from adoption of IFRS 16 but it did not anticipate that the adoption of IFRS 16 will have a material impact on the financial statements of the Bank in future periods.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes. The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements. The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted. The management of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in Note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 32 for more details.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 32 for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 32 for more details on ECL and Note 30 for more details on fair value measurement.

Useful lives of property, plant and equipment. As described above, the Bank's management reviews the estimated useful lives of property, plant and equipment, and intangible assets at the end of each annual reporting period. The estimation of the useful life of an item of property, plant and equipment and intangible assets is a matter of management judgment based upon experience with similar assets. In determining useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustment to future depreciation and amortization rates.

Property and equipment carried at revalued amounts. Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was December 31, 2018. The carrying value of revalued property amounted to AMD 7,593,431 thousand and AMD 7,233,589 thousand as at December 31, 2018 and 2017, respectively. Details of the valuation techniques used are set out in Note 19.

Key sources of estimation uncertainty

The below are listed key estimations that the management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario. When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 32 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 32 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss Given Default. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 32 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 30 for more details on fair value measurement.

In thousands of Armenian Drams

4. Reclassifications

Certain reclassifications have been made to the financial statements as at December 31, 2017 and for the year then ended to conform to the presentation as at December 31, 2018 and for the year then ended with the objective to achieve presentation and classification enhancements.

	As previously reported December 31, 2017	Reclassification amount December 31, 2017	As reclassified December 31, 2017
Due from financial institutions	13,036,368	(5,758)	13,030,610
Other assets	2,097,559	5,758	2,103,317
Loans from CBA and Government of Republic of Armenia	(4,411,627)	4,411,627	-
Amounts due to financial institutions	(14,822,737)	14,822,737	-
Loans and deposits from international financial institutions	(20,296,754)	20,296,754	-
Other borrowed funds	-	(39,531,118)	(39,531,118)
Interest income	14,121,975	240,856	14,362,831
Fees and commission income	2,040,668	(240,856)	1,799,812
Impairment losses on interest bearing assets	(155,678)	(5,758)	(161,436)
Other expenses	(3,693,782)	75,591	(3,618,191)
Fees and commission expenses	(391,986)	(69,833)	(461,819)

In addition, comparative information presented in note 32 has been restated to correct presentation errors.

5. Net interest income before impairment losses on interest bearing assets

	2018	2017
Interest income:		
Financial assets recorded at amortized cost:		
- Loans and advances to customers	14,754,755	11,551,118
- Due from financial institutions	423,490	354,394
- Reverse repurchase agreements	311,902	307,528
- Other interest income	24,825	31,608
Total interest income on financial assets recorded at amortized cost	**15,514,972**	**12,244,648**
Financial assets recorded at fair value		
- Measured at FVTOCI	2,149,338	-
- Held to maturity financial assets	-	8,593
- Available-for-sale financial assets	-	2,109,590
Total interest income on financial assets recorded at fair value	**2,149,338**	**2,118,183**
Total interest income	**17,664,310**	**14,362,831**
Interest expense:		
Interest expense on financial liabilities recorded at amortized cost		
- Amounts due to customers	3,859,255	3,252,389
- Deposits and balances from banks	2,843,048	2,095,587
- Repurchase agreements	982,988	853,694
- Subordinated debt	547,408	734,976
-Loans from CBA and Government of the Republic of Armenia	423,174	286,481
-Loans from international financial institutions	151,417	17,219
-Bond issued	92,503	15,962
-Other interest expense	22,486	25,329
Total interest expense	**8,922,279**	**7,281,637**
Net interest income before impairment losses on interest bearing assets	**8,742,031**	**7,081,194**

In thousands of Armenian Drams

6. Impairment losses on interest bearing assets

	2018	2017
Loans and advances to customers (Note 17)	(413,212)	(155,678)
Investment securities	(18,811)	-
Due from financial institutions	(3,203)	(5,758)
Total impairment loss on assets	**(435,226)**	**(161,436)**

7. Fee and commission income and expenses

	2018	2017
Wire transfer fees	1,679,159	1,372,036
Cash collection	211,079	210,939
Plastic cards operations	125,087	115,224
Guarantees and letters of credit	109,818	98,957
Foreign currency transaction and operations with securities	497	2,656
Other fees and commissions	122	-
Total fee and commission income	**2,125,762**	**1,799,812**
Plastic cards operations	190,098	157,504
Wire transfer fees	149,002	141,362
Guarantees and letters of credit	65,009	69,833
Foreign currency transaction and operations with securities	49,874	40,450
Service fees for correspondent accounts	4,076	5,373
Other fees and commissions	31,854	47,297
Total fee and commission expenses	**489,913**	**461,819**

8. Net gain from foreign currency trading and translation

	2018	2017
Net gain from trading in foreign currencies	889,683	769,643
Foreign exchange translation (loss)/gain	(38,625)	276,643
Total net foreign exchange gain	**851,058**	**1,046,286**

9. Recovery of provision for other assets/liabilities and contingencies

	2018	2017
Off balance contingencies and commitments	41,520	-
Other financial assets	6,332	-
Cash and corresponding accounts	(28,883)	-
Total recovery of provision	**18,969**	**-**

10. Other income

	2018	2017
Fines and penalties received	193,009	365,300
Gain from trading of precious metals	6,281	17,711
Income from grants	-	240
Other income	68,712	94,817
Total other income	**268,002**	**478,068**

The largest part of other income is income from reimbursement of tax overpayment.

In thousands of Armenian Drams

11. Other expenses

	2018	2017
Repair and maintenance of property and equipment	1,042,348	585,536
Advertising and representation	729,333	700,914
Operating lease expenses	638,391	584,034
Expenses for cash collection services	345,000	345,000
Security	323,474	138,742
Taxes, other than income tax	283,249	264,505
Plastic cards	210,888	82,936
Guarantee payments to deposit guarantee fund	203,872	172,232
Insurance costs	132,896	112,136
Office supply	122,919	77,498
Communication	98,112	98,972
Business trip	69,146	77,241
Consulting and professional services	45,714	79,246
Loss from disposal of property, plant and equipment	19,421	17,969
Other operating expenses	213,705	281,230
Total other expense	**4,478,468**	**3,618,191**

12. Income tax expense

	2018	2017
Current tax expense in respect of current year	689,992	483,684
Current tax benefit in respect of prior years	(20,410)	-
Deferred tax (benefit)/expense	(94,892)	1,575
Total income tax expense	**574,690**	**485,259**

The corporate income tax in 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:

	2018	Effective rate(%)	2017	Effective rate(%)
Profit before tax	**2,652,716**		**2,035,656**	
Income tax at the rate of 20%	530,543	20	407,131	20
Non-taxable income from financial assets at FVTOCI	(3,002)	-	(69,209)	(3)
Non-deductible expenses	72,368	3	362,724	-
Foreign exchange (gains) / losses	7,725	-	(209,287)	10
Other non-taxable income and privileges	(12,534)	-	-	-
Adjustments recognized in the current year in relation to the current tax of prior years	(20,410)	(1)	(6,100)	-
Income tax expense	**574,690**	**22**	**485,259**	**24**

In thousands of Armenian Drams

Deferred tax calculation in respect of temporary differences:

	December 31,2017	Adjustment on initial application of IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	December 31,2018
Accrued expenses and other liabilities	127,876	-	18,184	-	146,060
Loans to customers	103,503	45,635	(17,232)	-	131,906
Cash and cash equivalents	-	1,496	5,794	-	7,290
Total deferred tax asset	**231,379**	**47,131**	**6,746**	**-**	**285,256**
Investment securities	(410,127)	-	31,069	49,249	(329,809)
Contingent liabilities	(10,987)	20,682	(40,316)	-	(30,621)
Amounts due from financial institutions	(16,976)	29,764	(30,186)	-	(17,398)
Property and equipment	(889,295)	-	127,579	4,306	(757,410)
Total deferred tax liability	**(1,327,385)**	**50,446**	**88,146**	**53,555**	**(1,135,238)**
Net deferred tax liability	**(1,096,006)**	**97,577**	**94,892**	**53,555**	**(849,982)**

	December 31, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017
Accrued expenses and other liabilities	104,967	22,909	-	127,876
Loans to customers	77,825	25,678	-	103,503
Total deferred tax asset	**182,792**	**48,587**	**-**	**231,379**
Investments securities	(340,918)	-	(69,209)	(410,127)
Amounts due from financial institutions	(16,976)	-	-	(16,976)
Contingent liabilities	(13,805)	2,818	-	(10,987)
Property and equipment	(836,315)	(52,980)	-	(889,295)
Total deferred tax liability	**(1,208,014)**	**(50,162)**	**(69,209)**	**(1,327,385)**
Net deferred tax liability	**(1,025,222)**	**(1,575)**	**(69,209)**	**(1,096,006)**

13. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Correspondent accounts with banks	2,709,811	1,369,519
Correspondent account with the CBA	24,178,654	25,017,857
Short term deposits with the CBA	2,000,986	-
Cash on hand	9,304,956	9,437,455
Less: allowance for expected credit losses	(36,362)	-
Total cash and cash equivalents	**38,158,045**	**35,824,831**

In thousands of Armenian Drams

	Total
Loss allowance as at 31 December 2017	-
Loss allowance as at 1 January 2018 after application of IFRS 9	**7,479**
Impairment charge/(recovery) during the period	**28,883**
Loss allowance as at 31 December 2018	**36,362**

At December 31, 2018 and 2017 correspondent account with CBA includes the obligatory minimum reserve deposits with the CBA, which is computed at relevant rate in accordance with regulations by the CBA for obligations of the Bank denominated in Armenian drams and foreign currencies. 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, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

The allowance for expected credit losses as at December 31, 2018 was estimated based on counterparty ratings determined by international rating agencies.

14. Financial assets and liabilities at fair value through profit or loss

The Bank enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with the receivable and payable amounts. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	December 31, 2018				December 31, 2017			
	Notional amount		Fair value		Notional amount		Fair value	
	Receivables	Payables	Asset	Liability	Receivables	Payables	Asset	Liability
Derivative financial instruments held for trading:								
Foreign currency swaps	11,614,959	11,598,900	16,059	-	1,732,594	1,740,300	-	7,706
Foreign currency CFD	124,089	122,680	1,409	-	-	-	-	-
Total	**11,739,048**	**11,721,580**	**17,468**	-	**1,732,594**	**1,740,300**	**-**	**7,706**

15. Due from financial institutions

	December 31, 2018	December 31, 2017
Loans and deposits	10,052,146	10,210,590
Credit card settlement deposit with the CBA	1,786,500	1,520,000
Payment system receivables	977,947	557,158
Security deposits of cash in other organizations	132,470	124,640
Security deposits of cash in banks	75,992	64,060
Other amounts receivable from financial institutions	308,675	559,920
	13,333,730	**13,036,368**
Less allowance for impairment	(157,780)	(5,758)
Total due from financial institutions	**13,175,950**	**13,030,610**

At December 31, 2018 and December 31, 2017 included in amounts due from financial institutions are guarantee deposits placed by the Bank for its operations via VISA payment system in the amount of AMD 54,522 thousand, and via Armenian Card payment system in the amount of AMD 77,948 thousand (2017: AMD 53,869 thousand and AMD 70,772 thousand, respectively).

In thousands of Armenian Drams

Deposits with the CBA include a guaranteed deposit for settlements via ArCa payment system. Average interest rate for loans denominated in AMD is 12.2%, in USD 7.9%, (2017: denominated in AMD 14.65 %, in USD 6.24%).

The movement in allowance for impairment losses on amounts due from financial institutions was as follows:

	Total
January 1, 2017	**-**
Impairment charge	**5,758**
December 31, 2017	**5,758**
Effect of application of IFRS 9	**148,819**
At January 1, 2018	**154,577**
Impairment charge	**3,203**
At December 31, 2018	**157,780**

16. Reverse repurchase / repurchase agreements

The Bank has transactions under repurchase and reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Reverse repurchase agreements

At December 31, 2018 the Bank had reverse repurchase agreements signed with entities in financial services sector for the amount of AMD 3,882,703 thousand (31 December, 2017: AMD 4,296,862 thousand). At December 31, 2018 the fair value of assets received as collateral for these reverse repurchase agreements, representing government debt securities, amounted to AMD 3,946,554 thousand (2017: AMD 1,491,589 thousand). The Bank is obliged to return equivalent securities. Average interest rate is 6.36% (2017: 6.75%).

Repurchase agreements

	December 31, 2018	December 31, 2017
Fair value of own investment securities transferred and pledged under repurchase agreements	17,454,208	19,619,097
Fair value of repledged assets that were received as collateral for reverse repurchase agreements	3,946,554	1,491,589
Total financial assets transferred and pledged under repurchase agreements	**21,400,762**	**21,110,686**
Carrying amount of associated liabilities on repurchase agreements	**20,519,048**	**20,511,989**

At December 31, 2018 and December 31, 2017 included in carrying amount of associated liabilities for repurchase agreements were repurchase agreements signed with the Central Bank of Armenia and other financial institutions. Average interest rate is 5.99% (2017: 6.24%).

For the purpose of ECL measurement amounts receivable under reverse repurchase agreements balances are classified n Stage 1. The ECL for these balances represents an insignificant amount, therefore, the Bank did not recognized any credit loss allowance for amounts receivable under reverse repurchase agreements.

In thousands of Armenian Drams

17. Loans to customers

	December 31, 2018	December 31, 2017
Loans to customers at amortized cost	125,962,139	97,252,824
Overdrafts at amortized cost	9,176,064	8,568,854
	135,138,203	**105,821,678**
Less allowance for loan impairment	(1,508,428)	(1,605,120)
Total loans to customers	**133,629,775**	**104,216,558**

At December 31, 2018 the weighted average effective interest rate on loans to customers was 12.9% for loans in AMD (2017: 19.6%) and 8.8% for loans in USD, EUR and other freely convertible currencies (2017: 11.8%).
Loans by industry sectors may be specified as follows.

	December 31, 2018	December 31, 2017
Consumer	56,919,932	39,931,510
Trading	24,010,747	31,065,800
Manufacturing	19,388,879	14,183,657
Mortgage	9,175,875	5,841,516
Construction	7,738,895	6,149,163
Agriculture	1,132,017	947,885
Other sectors	16,771,858	7,702,147
	135,138,203	**105,821,678**
Less allowance for loan impairment	(1,508,428)	(1,605,120)
Total loans	**133,629,775**	**104,216,558**

Analysis by credit quality of loans to customers is below:

	At December 31, 2018			
	Gross loans	Allowance for ECL	Net loans	ECL rate
Consumer				
Not past due	56,461,435	206,700	56,254,735	0.4%
Overdue:				
- up to 30 days	184,955	631	184,324	0.3%
- 31 to 60 days	56,659	15,175	41,484	26.8%
- 61 to 90 days	46,812	10,574	36,238	22.6%
- 91 to 180 days	98,047	76,052	21,995	77.6%
-over 180 days	72,024	50,451	21,573	70.0%
Total	**56,919,932**	**359,583**	**56,560,349**	**0.6%**
Trading				
Not past due	24,007,172	708,464	23,298,708	2.9%
Overdue:				
- up to 30 days	3,319	101	3,218	3.0%
- 31 to 60 days	-	-	-	0%
- 61 to 90 days	256	131	125	51.2%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**24,010,747**	**708,696**	**23,302,051**	**3.0%**
Manufacturing				
Not past due	19,388,879	369,185	19,019,694	1.9%
Overdue:				0.0%
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**19,388,879**	**369,185**	**19,019,694**	**1.9%**
Construction				
Not past due	7,738,895	703	7,738,192	0.0%
Overdue:				
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**7,738,895**	**703**	**7,738,192**	**0.0%**

In thousands of Armenian Drams

	At December 31, 2018			
	Gross loans	**Allowance for ECL**	**Net loans**	**ECL rate**
Mortgage				
Not past due	9,167,111	39,629	9,127,482	0.4%
Overdue:				
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	6,804	1,508	5,296	22.2%
- 61 to 90 days	1,960	434	1,526	22.2%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**9,175,875**	**41,571**	**9,134,304**	**0.5%**
Agriculture				
Not past due	1,131,363	1,159	1,130,204	0.1%
Overdue:				
- up to 30 days	654	1	653	0.1%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
Total	**1,132,017**	**1,160**	**1,130,857**	**0.1%**
Other sectors				
Not past due	16,769,604	26,501	16,743,103	0.2%
Overdue:				
- up to 30 days	657	-	657	0.1%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	237	68	169	28.7%
- over 180 days	1,360	961	399	70.7%
Total	**16,771,858**	**27,530**	**16,744,328**	**0.2%**
Grand total	**135,138,203**	**1,508,428**	**133,629,775**	**1.1%**

	At December 31, 2017			
	Gross loans	**Allowance for ECL**	**Net loans**	**ECL rate**
Consumer				
Not past due	39,566,982	482,999	39,083,983	1.2%
Overdue:			-	
- up to 30 days	96,550	10,186	86,364	10.5%
- 31 to 60 days	63,057	6,306	56,751	10.0%
- 61 to 90 days	64,732	7,800	56,932	12.0%
- 91 to 180 days	85,621	21,764	63,857	25.4%
- over 180 days	54,568	28,608	25,960	52.4%
Total	**39,931,510**	**557,663**	**39,373,847**	**1.4%**
Trading				
Not past due	30,192,722	356,392	29,836,330	1.2%
Overdue:			-	
- up to 30 days	13,293	1,363	11,930	10.3%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	520	125	395	24.0%
- over 180 days	859,265	256,762	602,503	29.9%
Total	**31,065,800**	**614,642**	**30,451,158**	**2.0%**
Manufacturing				
Not past due	14,183,657	141,837	14,041,820	1.0%
Overdue:			-	
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**14,183,657**	**141,837**	**14,041,820**	**1.0%**
Construction				
Not past due	6,149,163	61,492	6,087,671	1.0%
Overdue:				-
- up to 30 days	-		-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**6,149,163**	**61,492**	**6,087,671**	**1.0%**

In thousands of Armenian Drams

	At December 31, 2017			
	Gross loans	**Allowance for ECL**	**Net loans**	**ECL rate**
Mortgage				
Not past due	5,743,500	65,914	5,677,586	1.1%
Overdue:				
- up to 30 days	3,108	373	2,735	12.0%
- 31 to 60 days	17,044	2,045	14,999	12.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	34,054	7,826	26,228	23.0%
- over 180 days	43,810	26,286	17,524	60.0%
Total	**5,841,516**	**102,444**	**5,739,072**	**1.8%**
Agriculture				-
Not past due	947,681	18,670	929,011	2.0%
Overdue:				
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	204	24	180	11.8%
- 91 to 180 days	-	-	-	0.0%
Total	**947,885**	**18,694**	**929,191**	**2.0%**
Other sectors				
Not past due	7,646,388	97,366	7,549,022	2.8%
Overdue:				0.0%
- up to 30 days	18,586	1,875	16,711	10.1%
- 31 to 60 days	2,920	292	2,628	10.0%
- 61 to 90 days	8,410	997	7,413	11.9%
- 91 to 180 days	16,873	3,374	13,499	20.0%
- over 180 days	8,970	4,444	4,526	49.5%
Total	**7,702,147**	**108,348**	**7,593,799**	**1.4%**
Grand total	**105,821,678**	**1,605,120**	**104,216,558**	**1.5%**

The analysis of changes for loan impairment in 2018 and 2017 is presented in the table below:

	Consumer	Trading	Manufacturing	Construction	Mortgage	Agriculture	Other	Total
At January 1, 2018, as previously reported	**557,663**	**614,642**	**141,837**	**61,492**	**102,444**	**18,694**	**108,348**	**1,605,120**
Effect of transition to IFRS 9	(140,746)	369,723	166,685	(60,954)	(58,861)	(17,668)	(30,003)	**228,176**
At January 1, 2018, restated	**416,917**	**984,365**	**308,522**	**538**	**43,583**	**1,026**	**78,345**	**1,833,296**
Charge for the year	10,995	419,244	58,132	165	38,447	(356)	(113,415)	**413,212**
Amounts written off	(223,536)	(713,850)	-	-	(44,084)	-	(16,948)	**(998,418)**
Recoveries	155,207	18,937	2,531	-	3,625	490	79,548	**260,338**
At December 31,2018	**359,583**	**708,696**	**369,185**	**703**	**41,571**	**1,160**	**27,530**	**1,508,428**
Individual impairment	-	-	-	-	-	-	-	**-**
Collective impairment	359,583	708,696	369,185	703	41,571	1,160	27,530	**1,508,428**

	Consumer	Trading	Manufacturing	Construction	Mortgage	Agriculture	Other	Total
At January 1, 2017	**495,168**	**401,827**	**97,897**	**48,662**	**67,091**	**27,396**	**408,442**	**1,546,483**
Charge for the year	79,800	33,709	3,800	8,500	4,900	8,900	16,069	**155,678**
Amounts written off	(293,898)	(234,399)	(23,090)	(2,388)	(1,413)	(38,900)	(360,801)	**(954,889)**
Recoveries	276,593	413,505	63,230	6,718	31,866	21,298	44,638	**857,848**
At December 31,2017	**557,663**	**614,642**	**141,837**	**61,492**	**102,444**	**18,694**	**108,348**	**1,605,120**
Individual impairment	19,987	374,737	-	-	4,976	-	-	**399,700**
Collective impairment	537,676	239,905	141,837	61,492	97,468	18,694	108,348	**1,205,420**
Loans individually determined to be impaired before individually assessed allowance for impairment	**91,187**	**547,312**	**-**	**-**	**8,621**	**-**	**-**	**647,120**
Allowance for impairment	**(19,987)**	**(374,737)**	**-**	**-**	**(4,976)**	**-**	**-**	**(399,700)**
Loans individually determined to be impaired after individually assessed allowance for impairment	**71,200**	**172,575**	**-**	**-**	**3,645**	**-**	**-**	**247,420**

Allocation of loans to customers and expected credit losses by stages as at December 31, 2018 are as following:

	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Gross loans	58,929,052	-	-	**58,929,052**
Impairment	877,748	-	-	**877,748**
Individual				
Gross loans	75,924,992	112,491	171,668	**76,209,151**
Impairment	475,326	27,822	127,532	**630,680**
Total				
Gross loans	**134,854,044**	**112,491**	**171,668**	**135,138,203**
Impairment	**1,353,074**	**27,822**	**127,532**	**1,508,428**

Movements among stages during 2018 are as follows:

	Balance as at 1 January 2018	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans issued in 2018	Balance as at 31 December 2018
Stage 1	104,719,081	-	(58,856)	(115,468)	(46,070,805)	76,380,092	134,854,044
Stage 2	140,754	58,856	-	(8,035)	(79,087)	3	112,491
Stage 3	252,225	115,468	8,035	-	(211,205)	7,145	171,668
Total	**105,112,060**	**174,324**	**(50,821)**	**(123,503)**	**(46,361,097)**	**76,387,240**	**135,138,203**

18. Investment securities

	December 31, 2018	December 31, 2017
Debt instruments		
Government securities of the Republic of Armenia	18,627,928	21,200,791
Non government securities	1,034,529	414,930
	19,662,457	**21,615,721**
Equity instruments		
Shares of companies operating in the Republic of Armenia	89,769	89,085
Total investment securities measured at fair value through other comprehensive income	**19,752,226**	**21,704,806**

	December 31, 2018	December 31, 2017
Investment securities measured at fair value through other comprehensive income classified under IFRS 9	19,752,226	**-**
Available for sale	-	21,655,188
Held to maturity	-	49,618
	19,752,226	**21,704,806**

Government debt securities represent securities issued by the Ministry of Finance of Armenia bearing fixed coupon interest rates between 8 to 13 % p.a. (2017: 9 to 14 % p.a.) and expiring between 2019-2047 (2017: 2018 to 2036). The fair value of these instruments is measured using valuation techniques applying current market rates to discounted future cash flows.
Equity instruments of shares in companies operating in the Republic of Armenia represent equity investments in unquoted companies carried at cost, adjusted for impairment losses, due to management’s inability to reliably estimate the fair value of these companies and investments therein. There is no market for these investments and the Bank intends to hold them for the long term.

See Note 16 for pledged assets.

19. Property and equipment

	Land and buildings	Vehicles	Computers	Leasehold improvements	Other	Total
Cost or revalued amount						
At January 1, 2017	**6,859,615**	**635,197**	**2,142,603**	**216,021**	**1,772,501**	**11,625,937**
Additions	650,220	178,689	384,310	65,520	254,588	**1,533,327**
Disposals	-	(99,328)	(134,836)	(6,418)	(86,755)	**(327,337)**
Transfer	14,339	-	4,721	(13,039)	(6,021)	**-**
At December 31, 2017	**7,524,174**	**714,558**	**2,396,798**	**262,084**	**1,934,313**	**12,831,927**
Additions	898,268	73,370	594,338	115,320	410,032	**2,091,328**
Disposals	(359,503)	(76,432)	(7,591)	-	-	**(443,526)**
Transfers	(1,058)	-	-	-	1,058	**-**
At December 31, 2018	**8,061,881**	**711,496**	**2,983,545**	**377,404**	**2,345,403**	**14,479,729**
Accumulated depreciation						
At January 1, 2017	**118,017**	**177,177**	**1,617,214**	**71,272**	**1,205,195**	**3,188,875**
Depreciation charge	172,568	74,881	176,559	8,286	143,340	**575,634**
Disposals	-	(33,266)	(121,348)	(6,099)	(76,566)	**(237,279)**
At December 31, 2017	**290,585**	**218,792**	**1,672,425**	**73,459**	**1,271,969**	**3,527,230**
Depreciation charge	180,736	86,645	216,985	18,295	163,202	**665,863**
Disposals	(2,872)	(33,755)	(7,591)	-	-	**(44,218)**
At December 31, 2018	**468,449**	**271,682**	**1,881,819**	**91,754**	**1,435,171**	**4,148,875**
Net book value						
At January 1, 2017	**6,741,598**	**458,020**	**525,389**	**144,749**	**567,306**	**8,437,062**
At December 31, 2017	**7,233,589**	**495,766**	**724,373**	**188,625**	**662,344**	**9,304,697**
At December 31, 2018	**7,593,432**	**439,814**	**1,101,726**	**285,650**	**910,232**	**10,330,854**

At December 31, 2018 property and equipment included fully depreciated assets with original cost of AMD 1,095,294 thousand (2017: AMD 1,655,628 thousand).

The Bank's buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurement of the Bank's buildings was determined as at December 31, 2018, which approximates fair values as at the beginning of the reporting period. The valuation was performed by an independent valuator not related to the Bank. The revalued value of the buildings was determined under the Market and Income approaches.

The Market Approach relied upon market prices for comparable properties available as at the date of valuation. The following adjustments were applied to reflect differences in characteristics between the subject property and the comparable: sale-to-list ratio (-15%), area adjustment (up to -20%), fit-out quality and bank equipment adjustment (5-10%).

Under the Income Approach the direct capitalization technique was applied. To determine the value of the buildings under the Income Approach the following assumptions were used: occupancy was accepted at 90% for all buildings, operational expenses - at 20% from the buildings' effective gross income, capitalization rate was calculated at 7.75% under market extraction method.

The fair value determinations for the purposes of revalued amounts of buildings represent Level 3 category valuations.

20. Intangible assets

	Licenses	Software	Other	Total
Cost				
At January 1, 2017	**154,163**	**122,105**	**75,637**	**351,905**
Additions	100,707	28,050	-	**128,757**
Disposals	-	-	-	**-**
At December 31, 2017	**254,870**	**150,155**	**75,637**	**480,662**
Additions	92,919	142,707	132	**235,758**
Disposals	(338)	-	-	**(338)**
Transfer	44,762	1,056	(45,818)	**-**
At December 31, 2018	**392,213**	**293,918**	**29,951**	**716,082**
Accumulated amortization				
At January 1, 2017	**83,143**	**27,350**	**10,149**	**120,642**
Amortization charge	26,648	9,234	3,020	**38,902**
At December 31, 2017	**109,791**	**36,584**	**13,169**	**159,544**
Amortization charge	31,091	16,177	3,015	**50,283**
Disposals	(338)	-	-	**(338)**
Transfer	-	1,056	(1,056)	**-**
At December 31, 2018	**140,544**	**53,817**	**15,128**	**209,489**
Net book value at January 1, 2017	**71,020**	**94,755**	**65,488**	**231,263**
Net book value at December 31, 2017	**145,079**	**113,571**	**62,468**	**321,118**
Net book value at December 31, 2018	**251,669**	**240,101**	**14,823**	**506,593**

21. Other assets

	December 31, 2018	December 31, 2017
Settlements with employees	60,378	57,782
Amounts receivable	78,470	92,271
Allowance for impairment in respect of other financial assets	(9,468)	(15,800)
Total other financial assets	**129,380**	**134,253**
Repossessed assets	802,163	358,961
Prepayments and other debtors	760,888	1,164,906
Materials	373,018	292,446
Precious metals	116,058	18,356
Other assets	62,276	134,395
Total non financial assets	**2,114,403**	**1,969,064**
Total other assets	**2,243,783**	**2,103,317**

Reconciliation of allowance account for losses on other assets is as follows:

	Total
At January 1, 2017	**376**
Charge for the year	**15,424**
At December 31, 2017	**15,800**
Recoveries	**(6,332)**
At December 31, 2018	**9,468**

Prepayments represents the prepayments for construction and repair of additional floor in the main building.

22. Debt securities issued

	Currency	Maturity	Coupon rate %	December 31, 2018	December 31, 2017
Debt securities issued	AMD	29/12/2019	12%	102,880	100,100
Debt securities issued	USD	29/12/2019	5.75%	981,561	968,664
Debt securities issued	USD	25/07/2020	5.00%	976,519	-
				2,060,960	**1,068,764**

23. Other borrowed funds

	Maturity	Nominal interest rate %	December 31, 2018	Nominal interest rate %	December 31, 2017
Loans from Central Bank of Armenia	Oct 2023	5.5%-8.1%	6,030,003	5.5%-9%	4,397,941
Advances from Government of Republic of Armenia	-	-	25,314	5.5%-9%	13,686
Total loans from CBA and Government of Republic of Armenia			**6,055,317**		**4,411,627**
Loans and deposits from financial institutions	Up to Dec 2026	3%-10.5%	32,880,745	3%-12.8%	14,110,282
Current accounts of financial institutions		0.5%	1,079,460	0.5%	590,503
Correspondent accounts of other banks			8,693		18,967
Other			116,893		102,985
Total amounts due to financial institutions			**34,085,791**		**14,822,737**
Loans from international financial institutions	April 2019-Jan 2025	2.2%-10.5%	24,059,690	6.7%-9.1%	20,296,754
Total loans from international financial institutions			**24,059,690**		**20,296,754**
Total other borrowed funds			**64,200,798**		**39,531,118**

Loans from the CBA and the Government of the Republic of Armenia represent loans received within the scope of “Small and medium business loan project” of German-Armenian fund relating to “Renewable energy” and “Housing finance”.
At December 31, 2018 and December 31, 2017 loans and deposits from financial institutions represent loans and deposits from resident and non-resident banks.
At December 31, 2018 and December 31, 2017 loans received form international financial institutions were in USD, EUR and other freely convertible currencies.

During the year ended and at December 31, 2018 the Bank has not had any defaults of principal or interest payments with respect to its liabilities to international financial institutions (2017: none).

At December 31, 2018 and 2017 loans from international financial institutions, including accrued interest, with stipulated compliance with certain capital and financial covenants as per respective loan agreements are presented below:

	Currency	Maturity	Nominal Interest rate, %	December 31, 2018	Nominal interest rate, %	December 31, 2017
MSME BSA	USD	1-3 years	6.2%	1,523,831	6.2%	4,840,471
MSME BSA	USD	1-4 years	6.2%	899,136	-	-
INCOFIN CVBA	USD	1-2 years	-	-	6.5%	1,490,474
Blue Orchard MicrofinanceFund LLC	USD	1-3 years	Libor 6m+4.8%	812,081	Libor 6m+4.8%	1,621,477
GII	USD	1-3 years	4.5%	2,406,903	4.5%	2,424,534
FNSCA	USD	1-3 years	4.5%	483,327	4.5%	481,739
EBRD	AMD	1-5 years	EBRD cost of funds+1 7.28%	962,371	-	-
GII	USD	1-4 years	5.0%	1,470,077	5.0%	1,446,438
Asian development Bank	USD	1 years	-	-	Libor6 +2.55%	67,974
Asian development Bank	USD	Less than 1 year	Libor 6 +2.25% 4.77%-5.15%	1,462,058	Libor6 +2.55%	24,298
GLS Alternative Investments - Mikrofinanzfonds	USD	1-3 years	6.0%	491,100	6.0%	489,474
Symbiotics global financial inclusion	AMD	1-4 years	10.5%	507,825	10.5%	505,999
Symbiotics SEB Microfinance Fund IV	AMD	1-4 years	10.5%	2,031,307	10.5%	2,023,997
INCOFIN CVBA	USD	1-4 years	5.0%	4,841,134	5.0%	4,879,879
EFA	USD	1-3 years	6.0%	1,201,566	-	-
DEG	USD	1-7 years	Libor6 6m+5.0% - 7.52%	4,966,974	Libor6 6m+5.0%	-
Total				**24,059,690**		**20,296,754**

The Bank is obligated to comply with financial covenants in relation to the above borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. At December 31, 2018 the Bank had not breached these covenants with the exception of the below ratios:

- Single party exposure to capital ratio in relation to loan from DEG and EBRD;
- Ration of highly liquid assets to total assets in relation to loan from BlueOrchard Microfinance Fund LLC.

For the purposes of the Bank's liquidity position analysis as at 31 December 2018, the Bank includes all the borrowings from international financial institutions as on demand as according to agreements with international institutions there are cross default clauses, see Note 32. Management is of the firm belief, however, that these loans will be repaid according to their contractual terms.

Subsequent to the reporting date, the Bank received waivers from two out of three banks for breach of covenants. From the third bank, the management received an e-mail confirmation that this party will not request a repayment earlier.

24. Amounts due to customers

	December 31, 2018	December 31, 2017
Corporate customers		
Current/settlement accounts	18,902,627	21,622,825
Time deposits	4,508,519	9,854,852
	23,411,146	**31,477,677**
Individual customers		
Current/demand accounts	20,320,693	16,984,137
Time deposits	52,096,929	43,242,084
	72,417,622	**60,226,221**
Total amounts due to customers	**95,828,768**	**91,703,898**

At December 31, 2018 included in amounts due to corporate customers are deposits amounting to AMD 286,459 thousand (2017: AMD 900,890 thousand) held as security against loans, letters of credit issued, guarantees and other related instruments. The fair value of those deposits approximates their carrying amount.

At December 31, 2018 the aggregate balance of top ten customers of the Bank amounts to AMD 21,720,218 thousand (2017: AMD 19,851,054 thousand) or 23% of total customer accounts (2017: 19%).

At December 31, 2018 the effective interest rates on amounts due to customers was 10.3 % for amounts attracted in AMD (2017: 11.0%) and 4.6% for amounts attracted in USD, EUR and other freely convertible currencies (2017: 4.9%).
During year ended and at December 31, 2018 the Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities to customers (2017: none).

25. Subordinated loans

	CCY	Maturity	Nominal rate, %	December 31, 2018	December 31, 2017
Eduard Suqiasyan	AMD	20/03/2025	14.00%	-	1,210,126
Khachatur Suqiasyan	AMD	17/04/2025	14.00%	-	1,512,658
Robert Suqiasyan	AMD	28/04/2027	14.00%	705,853	1,008,438
Saribek Suqiasyan	USD	05/04/2025	9.50%	1,702,725	1,704,052
Saribek Suqiasyan	USD	04/04/2026	10.50%	973,571	974,327
				3,382,149	**6,409,601**

The proceeds from issuance of subordinated debt were used to enhance the capital strength of the Bank and are included in regulatory capital structure of the Bank as Tier 2 capital. See also Note 31.

26. Other liabilities

	December 31, 2018	December 31, 2017
Amounts due to individuals	305,100	132,100
Dividends payable	235,498	104,911
Amounts payable	44,882	78,394
Total other financial liabilities	**585,480**	**315,405**
Due to personnel	669,236	558,840
Taxes payable, other than income tax	251,932	197,625
Provision for off-balance	61,891	-
Total non-financial liabilities	**983,059**	**756,465**
Total other liabilities	**1,568,539**	**1,071,870**

	Guarantees	Other Commitments	Total
January 1, 2017	**-**	**-**	**-**
Provisions	-	-	**-**
Recoveries of provisions	-	-	**-**
December 31, 2017	-	-	**-**
Effect of transition to IFRS 9	87,530	15,881	**103,411**
January 1, 2018, restated	**87,530**	**15,881**	**103,411**
Provisions	-	21,415	**21,415**
Recoveries of provisions	(62,935)	-	**(62,935)**
December 31, 2018	**24,595**	**37,296**	**61,891**

27. Equity

At December 31, 2018 the Bank's registered and paid-in share capital was AMD 22,266,343 thousand (2017: AMD 13,708,745 thousand). In accordance with the statute, the replenished share capital consists of 1,852,533 ordinary shares (2017: 1,852,533 ordinary shares), all of which have a par value of AMD 10,400 (2017: AMD 2,500), and 200,000 preference shares (2017: nil), all of which have a par value of AMD 15,000.

The respective shareholders at December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Paid-in share capital	**% of total paid in capital**	**Paid-in share capital**	**% of total paid in capital**
Saribek Sukiasyan	5,457,078	24.51%	3,882,317	28.32%
Khachatur Sukiasyan	4,638,533	20.83%	2,233,155	16.29%
Robert Sukiasyan	3,060,046	13.74%	1,957,409	14.28%
Eduard Sukiasyan	3,253,158	14.61%	1,461,352	10.66%
Other shareholders	5,857,528	26.31%	4,174,512	30.45%
	22,266,343	**100%**	**13,708,745**	**100%**

At December 31, 2018 and December 31, 2017, the Bank did not possess any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual general meetings of the Bank.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

Preference shares, issued in 2018 with par value of AMD 15,000, are entitled to receive a 14% preference dividend before any dividends are declared to the common shareholders. These shares have no voting rights.

In 2018 and 2017 the Bank declared dividends of AMD 277,880 thousand on ordinary shares (2017: AMD 370,507 thousand) and AMD 232,438 thousand on preference shares.

In accordance with Board decision No 3 dated as of 16 November 2018, the Bank performed internal movements (Capitalization of Retained earnings and other reserves) from Share premium with value of AMD 33,438 thousand, from General reserve with value of AMD 3,000,000 thousand and from Retained earnings AMD 2,524,160 thousand to Share Capital (Ref. Statement of Changes in Equity for the year ended December 31, 2018).

28. Investment revaluation reserve

Investment revaluation reserve for financial assets at fair value through other comprehensive income represents cumulative gains and losses arising on revaluation of financial assets at FVTOCI that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

	2018	**2017**
At the beginning of the year	**1,531,277**	**1,251,977**
IFRS 9 adoption	166,940	-
As restated	**1,698,217**	**1,251,977**
Net gain on revaluation	368,625	912,045
Reclassification adjustment relating to derecognition of financial assets measured at FVTOCI	(633,683)	(563,536)
Income tax related to financial assets measured at FVTOCI	49,249	(69,209)
Net gain for the year on recovery of financial assets measured at FVTOCI	18,811	-
At the end of the year	**1,501,220**	**1,531,277**

29. Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional 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 earlier periods. Management believes that the Bank has complied with all regulations and has adequately 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, guarantee and other financial facilities

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 balance sheet.

The nominal or contract amounts of these commitments, guarantees and other contingent liabilities at December 31, were as follows:

	December 31, 2018	December 31, 2017
Undrawn loan commitments	17,900,458	6,013,484
Guarantees	3,599,016	2,144,644
Total commitments, guarantees and other contingent liabilities	**21,499,474**	**8,158,128**

Operating lease commitments – The Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for office and facilities. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than 1 year	663,159	400,438
From 1 to 5 years	2,177,613	2,245,170
Later than 5 years	33,179	-
Total operating lease commitments	**2,873,951**	**2,645,608**

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However at December 31, 2018 the Bank had insurance for its head office building and transportation means. The Bank also had insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility. 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.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank’s liabilities to individual depositors for the amount up to AMD 10,000 thousand (up to AMD 5,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

30. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measures fair values for financial instruments recorded at fair value in the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

30.1 Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

30. Fair value of financial instruments (continued)

Financial assets/ financial liabilities	Fair value as at December 31, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Derivative financial assets/(liabilities) at fair value through profit and loss (see Note 14)	17,468	(7,706)	Level 2	Future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Investment securities measured at fair value through other comprehensive income – government bonds (see Note 18)	18,627,928	21,200,791	Level 2	Discounted cash flows. The predetermined cash flows are discounted at a rate that reflects market yield for specific time to maturity.	N/A	N/A
3) Investment securities measured at fair value through other comprehensive income – non-government bonds (see Note 18)	1,034,529	414,930	Level 2	Discounted cash flows. The predetermined cash flows are discounted at a rate that reflects market yield for specific time to maturity.	N/A	N/A
4) Investment securities measured at fair value through other comprehensive income – equity investments (see Note 18)	89,769	89,085	Level 3	There is no active market for the valuation of equity instruments and no valuation techniques can be applied due to absence of observable inputs.	Long-term revenue growth rate, weighted average cost of capital, future operating cash flows, quoted market price, market comparatives due to lack of marketability and share price of listed entities in similar industries.	The higher the revenue growth rate, the higher the fair value. The higher the weighted average cost of capital, the lower the fair value. The higher future operating cash flows, the higher the fair value.

30. Fair value of financial instruments (continued)

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities, nor the estimates presented herein are necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument. Judgment is required to interpret market data to determine the estimated fair value. Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.
There were no transfers between Level 1 and 2 in the period.

Interest rates used to discount these estimated cash flows are based on the government yield curve at the reporting date plus currency of the instrument, maturity and the credit risk of the counterparty, and were as follows:

	December 31, 2018	December 31, 2017
Investment securities	8.2%-17.0%	12.2%-26.1%

30.1 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The estimates of fair values of fixed interest rate financial assets are 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. Except as detailed below, the management considers that the fair values of financial assets approximate their carrying values.

The estimated fair values of fixed interest-bearing deposits and other borrowings not quoted in an active market are based on discounted cash flows using interest rates for new debts with similar remaining maturity. Except as detailed below, the management considers that the fair values of financial liabilities approximate their carrying values.

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans to customers	133,629,775	136,837,816	104,216,558	110,890,599
Amounts due to customers	(95,828,768)	(95,054,600)	(91,703,898)	(91,400,093)
Other borrowed funds	(64,200,798)	(63,054,857)	(39,531,118)	(40,919,190)
Subordinate debt	(3,382,149)	(3,701,500)	(6,409,601)	(7,405,773)
Debt securities issued	(2,060,960)	(2,054,185)	(1,068,764)	(1,068,764)

31 Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Bank's capital is set and monitored using the ratios established by CBA. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of debt. In addition the Bank manages its capital in order to meet covenant requirements.

The CBA sets and monitors capital requirements for the Bank. Under the current capital quantitative requirements set by the CBA, the Bank at December 31, 2018 has to maintain a minimum capital of AMD 30,000,000 thousand (December 31, 2017: AMD 30,000,000 thousand) and ratio of total capital to risk weighted assets of 12% (December 31, 2017: 12%).

The calculation of regulatory capital ratio based on requirements set by the CBA is as follows:

	December 31, 2018	December 31, 2017
	Unaudited	**Unaudited**
Tier 1 capital	26,735,335	22,419,472
Tier 2 capital	6,758,956	9,851,109
Total capital	**33,494,291**	**32,270,581**
Risk weighted assets	**217,367,488**	**183,231,749**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.41%**	**17.61%**
Compliance with the minimum share capital and total capital requirements	**No breaches during the year**	**No breaches during the year**

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

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

32 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. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank’s financial performance.

The Bank’s risk management policies are designed to diagnose, identify, evaluate and analyses these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management structure

Responsible parties for risk disclosure and monitoring are:

Board

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Executive Board

The Executive Board has the responsibility to monitor the uninterrupted risk management process within the Bank. It is responsible for elaboration and application of the risk management strategy, principles, policies and limits. The Executive Board is responsible for solving problems related with risk management and monitors the application of respective decisions made with respect to them.

Risk Management Subdivision

Risk management is carried out by Strategy Risk Management Administration under policies approved by the Board of Directors. Strategy and Risk Management Department diagnoses, identifies, analyses, evaluates and hedges financial risks in close co-operation with the Bank’s operating departments. The

Risk Management Subdivision is responsible for monitoring risk management principles, policy and the Bank's risk limits, as well as implementing and realizing procedures connected with risk management.

Internal Audit

Internal audit is responsible for the independent assessment of risk management and monitoring for the overall environment. Risk management processes throughout the Bank are audited annually by the internal audit, which 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 respective management body.

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 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.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. 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. The Executive Body receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank. A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

Risk mitigation is the undertaking of additional measures for reducing the possibility of risk origination or its impact or the mitigation of both of these factors. As part of its overall risk management, the Bank uses derivatives and other instruments. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The main risks inherent to the Bank's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

a) Credit risk

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

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Bank's Risk Management department. The Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. The Risk Management division directly participates in the credit decision-making processes and consideration of internal rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or a group of borrowers, and to industry segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programs (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of guarantees issued, the Bank obtains collateral and corporate and personal guarantee.

The credit risk on off-balance sheet financial instruments is defined as the probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Monitoring

Internal regulation for loan monitoring is applied to all loans except for loans secured with gold, consumer loans and loans secured with liquid assets. Purpose of the regulation is to manage credit risk. Monitoring is implemented by Monitoring department.
Two types of monitoring is used by the department

- Monitoring by phone;
- Actual attendance to the branches;

Periodicity and types of monitoring depends on balance of the loan or overdraft and its risk:

- For loans with balance amount 15mln AMD and less monitoring is implemented quarterly with sampling 5% of loans with balance amount 15mln and less and using both methods of monitoring;
- For loans with balance amount between 15mln AMD and 40mln AMD monitoring is implemented semiannually with actual visit of the branches. In case of necessity phone monitoring can also be performed;
- For loans with loan balance above 40mln AMD monitoring is performed by the following method:
    - Observation monitoring three times a year and preparation of monitoring report according to established form;
    - Actual attendance monitoring annually and preparation of monitoring report according to established form.

In addition to the above mentioned periodicity

- Loans with balance amount 15mln AMD and above classified according to CBA classification should be monitored not later than 15 of the next month from classification and monitoring report should be prepared based on established form;
- Loans with balance amount 40mln AMD and above should be monitored by actual attendance if there were 6 times 20-day or more overdue payments.

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

Maximum exposure of credit risk: The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For financial assets on the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	December 31, 2018	December 31, 2017 (restated)
Cash and cash equivalents	38,158,045	35,824,831
Due from financial institutions	13,175,950	13,030,610
Reverse repurchase agreements	3,882,703	4,296,862
Financial assets at fair value through profit or loss	17,468	-
Loans to customers	133,629,775	104,216,558
Investment securities	19,752,226	21,704,806
Other financial assets	129,380	134,253
	208,745,547	**179,207,920**

The effect of offset is not significant in evaluation of credit risk. The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral held against credit risk exposure are discussed further in this note.

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

Risk concentrations of the maximum exposure to credit risk

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved and reviewed by the Management Board. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantee. However, a portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan. The carrying amount of renegotiated loans to customers at December 31, 2018 and 2017 were AMD 1,907,172 thousand and AMD 3,568,988 thousand, respectively.

Geographical concentration

The geographical concentration of the Bank's financial assets at December 31, 2018 and 2017 is set out below:

	December 31, 2018			
	Republic of Armenia	Non- OECD countries	OECD countries	Total
Cash and cash equivalents	35,483,934	1,897,024	777,087	**38,158,045**
Amounts due from financial institutions	10,758,103	1,917,106	500,741	**13,175,950**
Financial assets at fair value through profit and loss	17,468	-	-	**17,468**
Reverse repurchase agreement	3,882,703	-	-	**3,882,703**
Loans to customers	133,520,756	32,141	76,878	**133,629,775**
Investment securities	19,746,428	-	5,798	**19,752,226**
Other financial assets	128,207	-	1,173	**129,380**
Total financial assets	**203,537,599**	**3,846,271**	**1,361,677**	**208,745,547**

	December 31, 2017			
	Republic of Armenia	Non- OECD countries	OECD countries	Total
Cash and cash equivalents	35,273,763	427,141	123,927	**35,824,831**
Amounts due from financial institutions	13,013,480	-	17,130	**13,030,610**
Reverse repurchase agreement	4,296,862	-	-	**4,296,862**
Loans to customers	104,216,558	-	-	**104,216,558**
Investment securities	21,704,806			**21,704,806**
Other financial assets	134,253	-	-	**134,253**
Total financial assets	**178,639,722**	**427,141**	**141,057**	**179,207,920**

The counterparties exposing the Bank to credit risk do not have external credit ratings. The Bank uses internal processes and policies for determining credit rating for counterparties and respective risk appetite.

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of the Bank.

The exposure to any one borrower including financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and other fixed assets;
- Charges over financial instruments such as debt securities and equities;
- Cash and gold.

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

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

The initial valuation of collateral takes place during the credit approval process when the Bank collects information that enables to make a sound valuation. The value of collateral is the estimated amount at which it can be sold on the valuation date, adjusted for a haircut. The haircut is a measure of the risk that the Bank will not be able to sell collateral at a price equal to the expected market value. For real estate and property and equipment type the haircut usually ranges between 20% to 40% of the market value. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

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

	December 31, 2018	December 31, 2017 (restated)
Loans collateralized by:		
Real estate	52,110,663	41,318,815
Guarantees	40,268,615	30,914,066
Gold	9,417,962	8,302,797
Cars	1,660,810	1,383,903
Cash deposit	556,889	1,097,010
Materials	1,181,078	657,784
Equipment	1,663,811	613,011
Gold bullion	7,029	3,889
Other securities	287,512	360,799
Other collateral	15,780,613	8,474,644
Unsecured loans	12,203,221	12,694,960
	135,138,203	**105,821,678**
Less: allowance for impairment losses	(1,508,428)	(1,605,120)
Total loans and advance to customers	**133,629,775**	**104,216,558**

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 individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

Credit risk assessment methodology 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 that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans 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.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The credit quality of financial assets is managed by the Bank's internal credit ratings.

A methodology to determine credit ratings of borrowers has been developed in the Bank to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria Banks: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed in the Bank to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The Bank applies internal methodologies to specific corporate loans and Banks of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

The credit quality of loans to customers based on their performance is presented in Note 17.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency, if available.

Past due but not impaired loans
Past due loans 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 in Note 16.

Credit risk measurement methodology applicable after 1 January 2018

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Bank uses a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 100%.

Due from financial institutions, interbank deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies (Moody's, Fitch, S&P).

Allowance for expected credit losses on other receivables is estimated individually using the loan loss allowance rate of the client. If the client does not have loan exposure in the bank, than the credit rating of the client and the corresponding probability of default and loss given default are used. In addition, expected period of exposure for receivable is estimated. Finally, PDs, LGDs and expected period of exposure are multiplied to calculate expected credit allowance for receivables.

Loans to customers

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS 9.

Bank measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 1% of regulatory capital. Besides, they should have the signs of significant increase in credit risk, such as increase in overdue days or significant financial difficulties.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analyzed by Risk Management department.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

Measurement of ECL on an individual basis

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the bank expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the repayments and realization of any assets held as collateral against the loan are taking into account.

The Bank generally assesses liquidation value of the collaterals considering 2 years as a time to collect period and application of valuation haircut of 25%. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

Measurement of ECL on a collective basis

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Collective assessment is performed on a borrower level rather than contract level.

Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

- Segment
- Days past due
- Restructuring
- Collateralization

Portfolio subject to collective assessment of ECL is divided into 5 segments: Consumer, Mortgage, Manufacturing, Agriculture, Other.

Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank for collective assessed loans;
- The borrower's loan was restructured more than once;

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. The information assessed depends on the materiality of exposure too. Qualitative indicators, such as external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower's exposure is above materially significant threshold.

Significant increase in credit risk

The Bank monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Bank considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower, material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.
When an asset becomes more than 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

PD model

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as six years from January 2013 to December 2018. During the observation period, the one month migration matrices were generated.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue. The borrower that has defaulted at least once during observation period is considered defaulted during the remaining observation period.

To estimate Point in Time PDs the Bank incorporates of forward looking information under different macro scenarios.

LGD model

Another component of impairment model is LGD (loss given default), that's is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of properties pledged using 2 years of time to collect period and 25% valuation haircut. LGD models for unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on a borrower level.

EAD model

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization.

Incorporation of forward-looking information

The Bank uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Four macro-economic variables were sued for determining the probability of default: Consumer Price Index (CPI), inflows from money transfers, exchange rate of USD/AMD and volume of export. They will lead to a different probability of default. Weighting of these different variables forms the basis of a weighted average probability of default that is used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with twelve month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses with different scenarios and their weights are published by Armenian Statistical Agency Armstat.

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 5 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2018 and the last one was done in December 2018 based on last available information.

b) Market risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Bank is exposed to. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk

Interest rate risk is the negative effect of changes in market interest rates on the net interest income or economic value of equity of the Bank. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables shows the financial instrument of the Bank with variable interest rates as at 31 December 2018 and 2017:

AMD'000	Average floating rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2018							
LIABILITIES							
Other borrowed funds	Libor6+ 2.25% - 7.52%	10,101,728	4,231,924	101,104	-	-	14,434,756
		10,101,728	**4,231,924**	**101,104**	**-**	**-**	**14,434,756**

AMD'000	Average floating rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2017							
LIABILITIES							
Other borrowed funds	Libor6+ 2.55% - 5.55%	357,824	2,791,308	-	-	-	3,149,132
		357,824	**2,791,308**	**-**	**-**	**-**	**3,149,132**

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which is evaluated for each individual foreign currency and for the whole portfolio of foreign currency assets and liabilities. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.
The Bank's exposure to foreign currency exchange rate risk at December 31, 2018 is presented in the table below:

	AMD	USD	EUR	RUB	Other currencies	Total
Non-derivative financial assets						
Cash and cash equivalents	19,409,916	7,288,803	10,096,619	1,295,801	66,906	**38,158,045**
Due from financial institutions	2,142,576	9,176,666	1,404,248	452,424	36	**13,175,950**
Reverse repurchase agreements	3,681,119	201,584	-	-	-	**3,882,703**
Loans and advances to customers	71,471,900	56,944,494	5,196,546	16,835		**133,629,775**
Investment securities	19,131,502	620,724	-	-	-	**19,752,226**
Other financial assets	122,879	3,108	3,373	20		**129,380**
Total non-derivative financial assets	**115,959,892**	**74,235,379**	**16,700,786**	**1,765,080**	**66,942**	**208,728,079**
Non-derivative financial liabilities						
Repurchase agreements	20,204,342	314,706	-	-	-	**20,519,048**
Debt securities issues	102,880	1,958,080	-	-	-	**2,060,960**
Other borrowed funds	23,198,499	37,174,770	3,677,240	149,094	1,195	**64,200,798**
Amounts due to customers	46,307,832	42,176,826	5,826,961	1,488,309	28,840	**95,828,768**
Other financial liabilities	322,484	181,064	26,605	55,327	-	**585,480**
Subordinated debt	705,853	2,676,296	-	-	-	**3,382,149**
Total non-derivative financial liabilities	**90,841,890**	**84,481,742**	**9,530,806**	**1,692,730**	**30,035**	**186,577,203**
Open balance sheet position	**25,118,002**	**(10,246,363)**	**7,169,980**	**72,350**	**36,907**	**22,150,876**
Financial instruments at fair value through profit or loss						
Gross settled currency swaps	(2,040,328)	9,400,298	(7,364,942)	145,120	(122,680)	**17,468**
Open position	**23,077,674**	**(846,065)**	**(194,962)**	**217,470**	**(85,773)**	**22,168,344**

The Bank's exposure to foreign currency exchange rate risk at December 31, 2017 is presented in the table below (restated):

	AMD	USD	EUR	RUB	Other currencies	Total
Non-derivative financial assets						
Cash and cash equivalents	15,449,040	11,979,780	7,001,095	1,301,879	93,037	**35,824,831**
Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
Due from financial institutions	1,888,805	10,835,888	63,077	242,840	-	**13,030,610**
Reverse repurchase agreements	4,087,212	209,650	-	-	-	**4,296,862**
Loans and advances to customers	54,195,056	44,841,367	5,178,658	1,477	-	**104,216,558**
Investment securities	21,556,627	148,179	-	-	-	**21,704,806**
Other financial assets	41,108	80,337	8,687	4,121	-	**134,253**
Total non-derivative financial assets	**97,217,848**	**68,095,201**	**12,251,517**	**1,550,317**	**93,037**	**179,207,920**
Non-derivative financial liabilities						
Repurchase agreements	20,511,989	-	-	-	-	**20,511,989**
Debt securities issues	100,100	968,664	-	-	-	**1,068,764**
Other borrowed funds	15,320,395	20,106,980	3,801,415	302,328	-	**39,531,118**
Amounts due to customers	38,338,377	46,653,034	5,376,060	1,307,139	29,288	**91,703,898**
Other financial liabilities	215,095	56,589	13,892	29,828	-	**315,404**
Subordinated debt	3,731,222	2,678,379	-	-	-	**6,409,601**
Total non-derivative financial liabilities	**78,217,178**	**70,463,646**	**9,191,367**	**1,639,295**	**29,288**	**159,540,774**
Open balance sheet position	**19,000,670**	**(2,368,445)**	**3,060,150**	**(88,978)**	**63,749**	**19,667,146**
Financial instruments at fair value through profit or loss						
Gross settled currency swaps	-	1,732,594	(1,740,300)	-	-	**(7,706)**
Open position	**19,000,670**	**(635,851)**	**1,319,850**	**(88,978)**	**63,749**	**19,659,440**

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the AMD against the USD, EUR and RUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 10% against USD, EUR or RUR.

	2018			2017		
	Change in currency rate	Effect on profit before tax		Change in currency rate	Effect on profit before tax	
		Strengthening	Weakening		Strengthening	Weakening
USD	10%	(84,607)	84,607	10%	(63,585)	63,585
EUR	10%	(19,496)	19,496	10%	131,985	(131,985)
RUB	10%	21,747	(21,747)	10%	(8,898)	8,898

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in Bank's equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

c) *Liquidity risk*

Liquidity is the ability of the Bank to carry out its assumed liabilities entirely and within reasonable terms.

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the CBA, see Note 13. 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 CBA.

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at December 31, 2018 and December 31, 2017 based on expected maturity dates. 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. Investment securities other than equity instruments are represented as on demand or less than one month as the Bank's management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities. Further, due to the Bank's covenant breaches with regards to its borrowed funds (note 23), the Bank has classified in the table below the respective borrowed funds as well as the rest of borrowed funds (due to cross default clauses) for a total amount of AMD 24,059,690 thousand as on demand. Management is of the firm belief, due to subsequent to the year end receipt of respective waivers and events presented in note 34, that the cash flows from these borrowings will take place in accordance with their contractual terms. Had the respective waivers for reported covenant breaches been received by December 31, 2018 vs after the reporting date, and accordingly these borrowings been classified as per expected maturities, the net position as at December 31, 2018 for *Total less 12 months* in the table below would amount to negative AMD 19,301,851 thousand (2017: negative AMD 27,869,735 thousand).

	December 31, 2018							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total less than 12 months	From 1 to 5 years	More than 5 years	Total over 12 months	Total
Assets								
Cash and cash equivalents	38,158,045	-	-	**38,158,045**	-	-	**-**	**38,158,045**
Financial assets at fair value through profit or loss	17,468	-	-	**17,468**	-	-	**-**	**17,468**
Amounts due from financial institutions	6,834,632	-	1,649,555	**8,484,187**	2,721,169	1,970,594	**4,691,763**	**13,175,950**
Reverse repurchase agreements	3,882,703	-	-	**3,882,703**	-	-	**-**	**3,882,703**
Loans to customers	4,108,005	11,369,837	32,589,252	**48,067,094**	61,368,037	24,194,644	**85,562,681**	**133,629,775**
Investment securities	17,454,208	100,250	393,688	**17,948,146**	1,173,278	630,802	**1,804,080**	**19,752,226**
Other financial assets	121,308	4,077	3,295	**128,680**	217	483	**700**	**129,380**
	70,576,369	**11,474,164**	**34,635,790**	**116,686,323**	**65,262,701**	**26,796,523**	**92,059,224**	**208,745,547**
Liabilities								
Repurchase agreements	20,519,048	-	-	**20,519,048**	-	-	-	**20,519,048**
Other borrowed funds	27,374,010	3,765,124	16,824,799	**47,963,933**	14,128,118	2,108,747	**16,236,865**	**64,200,798**
Amounts due to customers	43,321,959	8,235,965	30,312,153	**81,870,077**	11,830,458	2,128,233	**13,958,691**	**95,828,768**
Debt securities issued	-	26,421	1,066,959	**1,093,380**	967,580	-	**967,580**	**2,060,960**
Other financial liabilities	344,409	234,813	6,258	**585,480**	-	-	**-**	**585,480**
Subordinated debt	21,725	-	-	**21,725**	3,360,424	-	**3,360,424**	**3,382,149**
	91,581,151	**12,262,323**	**48,210,169**	**152,053,643**	**30,286,580**	**4,236,980**	**34,523,560**	**186,577,203**
Net position	(21,004,782)	(788,159)	(13,574,379)	**(35,367,320)**	34,976,121	22,559,543	**57,535,664**	**22,168,344**
Accumulated gap	**(21,004,782)**	**(21,792,941)**	**(35,367,320)**		**(391,199)**	**22,168,344**		

	December 31, 2017 (restated)							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total less than 12 months	From 1 to 5 years	More than 5 years	Total over 12 months	Total
Assets								
Cash and cash equivalents	35,824,831	-	-	**35,824,831**	-	-	**-**	**35,824,831**
Amounts due from financial institutions	7,057,125	437,162	1,650,374	**9,144,661**	3,567,805	318,144	**3,885,949**	**13,030,610**
Reverse repurchase agreements	4,296,862	-	-	**4,296,862**	-	-	**-**	**4,296,862**
Loans to customers	2,436,360	3,563,385	15,301,124	**21,300,869**	42,590,654	40,325,035	**82,915,689**	**104,216,558**
Investment securities	-	364,623	50,813	**415,436**	11,349,722	9,939,648	**21,289,370**	**21,704,806**
Other financial assets	-	134,253	-	**134,253**	-	-	**-**	**134,253**
	49,615,178	**4,499,423**	**17,002,311**	**71,116,912**	**57,508,181**	**50,582,827**	**108,091,008**	**179,207,920**
Liabilities								
Financial liabilities at fair value through profit or loss								
Debt securities issued	-	564		**564**	1,068,200	-	**1,068,200**	**1,068,764**
Repurchase agreements	20,511,989	-		**20,511,989**	-	-	-	**20,511,989**
Other borrowed funds	198,342	1,944,036	5,096,009	**7,238,387**	31,033,960	1,258,771	**32,292,731**	**39,531,118**
Amounts due to customers	57,571,597	2,043,162	11,305,543	**70,920,302**	15,025,023	5,758,573	**20,783,596**	**91,703,898**
Other financial liabilities	-	104,912	210,493	**315,405**	-	-	**-**	**315,405**
Subordinated debt	-	-	-	**-**	-	6,409,601	**6,409,601**	**6,409,601**
	78,281,928	**4,092,674**	**16,612,045**	**98,986,647**	**47,127,183**	**13,426,945**	**60,554,128**	**159,540,775**
Net position	**(28,666,750)**	**406,749**	**390,266**	**(27,869,735)**	**10,380,998**	**37,155,882**	**47,536,880**	**19,667,145**
Accumulated gap	**(28,666,750)**	**(28,260,001)**	**(27,869,735)**		**(17,488,737)**	**19,667,145**		

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2018 based on contractual undiscounted repayment obligations.

	Demand and less than 1 month	From 1 month to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities						
Repurchase agreements	20,209,441	15,250	526	-	-	**20,225,217**
Debt securities issued	18,473	36,552	87,031	2,061,973		**2,204,029**
Other borrowed funds	28,259,502	4,157,143	18,252,651	17,616,430	2,880,990	**71,166,716**
Amounts due to customers	45,892,659	8,764,690	31,574,393	13,535,828	2,433,801	**102,201,371**
Other financial liabilities	585,480	-	-	-	-	**585,480**
Subordinated debt	51,349	59,250	271,560	1,441,737	4,120,129	**5,944,025**
Total undiscounted non-derivative financial liabilities	**95,016,904**	**13,032,885**	**50,186,161**	**34,655,968**	**9,434,920**	**202,326,838**
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	11,739,048					**11,739,048**
Outflow	(11,721,580)					**(11,721,580)**

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2017 based on contractual undiscounted repayment obligations (restated).

	Demand and less than 1 month	From 1 month to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities						
Repurchase agreements	20,511,989	-		-	-	**20,511,989**
Debt securities issued	5,562	11,688	50,985	1,135,500		**1,203,735**
Other borrowed funds	198,342	1,944,036	5,096,009	33,671,452	1,709,380	**42,619,219**
Amounts due to customers	57,571,597	2,043,161	11,305,543	16,500,498	6,200,446	**93,621,245**
Other financial liabilities	-	104,912	210,493	-	-	**315,405**
Subordinated debt	-	-	-	-	6,800,590	**6,800,590**
Total undiscounted non-derivative financial liabilities	**78,287,490**	**4,103,797**	**16,663,030**	**51,307,450**	**14,710,416**	**165,072,183**
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	1,732,594	-	-	-	-	**1,732,594**
Outflow	(1,740,300)	-	-	-	-	**(1,740,300)**

d) *Operational risk*

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.
The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

33 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 subsidiaries, shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.
At December 31, 2018 and December 31, 2017 the ultimate controlling party of the Bank are the Sukiasyans, who control 73.71% (2017: 69.55%) or 16,408,815 (AMD 9,534,432 thousand) of the share capital of the Bank. The European Bank of Reconstruction and Development possesses 2.20% of the Bank's shares plus one share (2017: 2.52%).

Related party transactions for 2018 and 2017, outstanding balances at respective year ends, and related expense and income for the periods are as follows. 2017 information has been restated to correct presentation errors.

	2018		
	Shareholders	**Key management personnel**	**Associates and investees**
Loans to customers			
Loans outstanding at January 1, gross	1,031,923	153,058	-
Loans outstanding at December 31, gross	**2,664,389**	**138,134**	-
Less: allowance for loan impairment	(85,521)	(2,666)	-
Loans outstanding at December 31	**2,578,868**	**135,468**	-
Interest income on loans	273,803	17,799	
Impairment losses/(recovery) for credit losses			
Loans to financial institutions			
Loans outstanding at January 1, gross	100,000	-	-
Loans to financial institutions outstanding at December 31, gross	**67,482**	-	-
Less: allowance for loan impairment	(7)	-	-
Loans to financial institutions outstanding at December 31	**67,475**	-	-
Interest income on loans to financial institutions	6,875	-	-
Amounts due to customers			
Deposits at January 1	845,554	369,357	-
Deposits at December 31	**677,395**	**446,312**	-
Interest expense on deposits	1,567	25,006	-
Amounts due to financial institutions			
Amounts due to financial institutions at January 1	186,479	-	-
Amounts due to financial institutions at December 31	**177,455**	-	-
Interest expense	23,587	-	-
Subordinated debt			
Subordinated debt at January 1	6,409,601	-	-
Subordinated debt at December 31	**3,382,149**	-	-
Interest expense	547,408	-	-
Proceeds for preference shares issued			
At January 1	-	-	-
Increase	3,000,000	-	-
At December 31	**3,000,000**	-	-
Purchase of property and equipment	**36,627**	-	-
Guarantees issued	**83,791**	-	-
Other expenses			
Fee and commission income	478	-	-
Advertising expenses	41,593	-	-
Insurance expenses	132,896	-	-
Cash collection expenses	-	-	-
Operating lease expenses	413,568	-	-
Business trip expenses	40,465	-	-
Other expenses	-	-	-

	2017		
	Shareholders	**Key management personnel**	**Associates and investees**
Loans to customers			
Loans outstanding at January 1, gross	751,877	97,458	-
Loans outstanding at December 31, gross	**1,031,923**	**153,058**	-
Less: allowance for loan impairment	(51,879)	(1,625)	-
Loans outstanding at December 31	**980,044**	**151,433**	-
Interest income on loans	133,964	12,825	-
Loans to financial institutions			
Loans outstanding at January 1, gross	-	-	-
Loans to financial institutions outstanding at December 31, gross	**100,656**	-	-
Less: allowance for loan impairment	(1,007)	-	-
Loans to financial institutions outstanding at December 31	**99,649**	-	-
Interest income on loans to financial institutions	5,101	-	-
Amounts due to customers			
Deposits at January 1	1,286,621	30,711	-
Deposits at December 31	**845,554**	**369,357**	-
Interest expense on deposits	23,923	59,366	-
Amounts due to financial institutions			
Amounts due to financial institutions at January 1	458,716	-	-
Amounts due to financial institutions at December 31	**177,455**	-	-
Interest expense	19,663	-	-
Subordinated debt			
Subordinated debt at January 1	5,399,302	-	-
Subordinated debt at December 31	**6,409,601**	-	-
Interest expense	547,408	-	-
Purchase of property and equipment	**41,933**	--	-
Guarantees issued	**69,439**	-	-
Other expenses			
Fee and commission income	4,993	1,310	-
Advertising expenses	46,978	-	-
Insurance expenses	-	-	-
Cash collection expenses	-	-	165,848
Operating lease expenses	426,568	-	-
Business trip expenses	23,475	-	-
Other expenses	48,000	-	-

For the year ended December 31, 2018, the total remuneration of the directors and key management personnel of the Bank amounted to AMD 548,354 thousand (2017: AMD 400,509 thousand). Key management personnel include Management Board and members of the Board of Directors.

34 Subsequent events

The Bank issued new bonds in the amount of USD 2,100,000 with maturity of 29 January 2022 and fixed coupon rate of 5.25%. As at April 30, 2019 the Bank has placed the whole amount of issued bonds.

One of the international financial institution partners has provided new tranche of financing to the Bank in February 2019 in the amount of USD 10,000,000.

As at 31 December 2018 and to 25 April all loans from international financial institutions with covenant breaches were paid in accordance with schedules agreed in agreements without delays in the amount of AMD 252,010,616.

Subsequent to the reporting date, the Bank received waivers from two out of three banks for breach of covenants. From the third bank, the management received an e-mail confirmation that this party will not request a repayment earlier.