

ConverseBank

“Converse Bank” closed Joint Stock Company

Consolidated Financial Statements

For the period ended 31 December 2018

Contents

Consolidated statement of financial position	3
Consolidated statement of comprehensive income.....	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows.....	6

Notes to the financial statements

3. Armenian business environment	7
Basis of preparation	8
4. Critical accounting estimates and judgements	21
5. Impact of adoption of IFRS 9.....	21
7. Interest income and expense	22
8. Fee and commission income and expense.....	23
9. Net trading income	23
10. Other income.....	23
11. Impairment losses.....	24
12. Staff costs.....	24
13. Other expenses	24
14. Income tax expense.....	24
15. Cash and cash equivalents.....	26
16. Investments at fair value through profit or loss.....	26
17. Amounts due from banks	27
18. Loans and advances to customers.....	27
19. Investments at fair value through other comprehensive income	31
20. Securities pledged under repurchase agreements	31
21. Investments at amortized cost.....	32
22. Property, plant and equipment	33
23. Intangible assets	34
24. Repossessed assets	34
26. Amounts due to banks	35
27. Derivative financial liabilities.....	36
28. Amounts due to customers.....	36
29. Bonds issued by the Bank.....	36
30. Other borrowed funds	37
31. Other liabilities.....	37
32. Contingent liabilities and commitments	38
33. Subordinated debts.....	39
34. Equity	40
35. Transactions with Related parties	40
36. Fair value measurement	42
37. Transferred financial assets and assets held or pledged as collateral	46
38. Offsetting of financial instruments	47
39. Maturity analysis of assets and liabilities	48
40. Risk management	51
41. Segment information	62
42. Capital adequacy	63

Consolidated Statement of financial position
As at 31 December 2018
(In thousand Armenian drams)

	<i>Notes</i>	<i>31/12/2018</i>	<i>31/12/2017</i>
Assets			
Cash and cash equivalents	15	40,470,858	39,842,049
Investments at fair value through profit or loss	16	519,791	787,330
Amounts due from banks	17	5,222,033	10,546,355
Loans and advances to customers	18	196,278,331	165,167,500
Investments at fair value through other comprehensive income	19	18,412,950	22,812,218
Securities pledged under repurchase agreements	20	8,101,555	3,056,113
Investments at amortized cost	21	584,058	346,140
Property, plant and equipment	22	6,739,038	6,115,287
Intangible assets	23	296,331	226,538
Repossessed assets	24	1,977,614	1,832,119
Other assets	25	2,522,517	2,004,204
Total assets		281,125,076	252,735,853
Liabilities			
Amounts due to banks	26	15,739,521	15,173,467
Derivative financial liabilities	27	26,583	68,857
Amounts due to customers	28	185,437,965	173,914,157
Bonds issued by the Bank	29	16,653,444	5,931,969
Current income tax liabilities		196,180	609,855
Deferred income tax liabilities	14	882,452	1,210,763
Other borrowed funds	30	15,684,413	12,659,350
Other liabilities	31	1,482,664	1,336,873
Provisions on contingent liabilities	32	70,277	0
Subordinated debt	33	5,852,819	5,854,396
Total liabilities		242,026,318	216,759,687
Share capital	34	16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,898,319	1,243,064
Other reserves		4,911,615	5,352,857
Retained earnings		15,808,958	12,900,379
Total equity		39,098,758	35,976,166
Total liabilities and equity		281,125,076	252,735,853

The financial statements from pages were approved and signed by the Bank's Executive Director and Chief Accountant on January 14 2019.

Arthur Hakobyan
Chief Executive Officer- Chairman of Executive Management

Davit Azatyan
Chief Accountant

Consolidated Statement of comprehensive income
for the period ended 31 December 2018
(In thousand Armenian drams)

In thousand Armenian drams	Notes	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Interest income	7	5,722,146	21,123,309	4,899,527	17,624,253
Interest expense	7	(2,601,396)	(9,635,307)	(2,178,811)	(8,284,069)
Net interest income		3,120,750	11,488,002	2,720,716	9,340,184
Fee and commission income	8	808,984	2,713,169	683,421	2,433,145
Fee and commission expense	8	(227,338)	(871,738)	(224,363)	(752,304)
Net fee and commission income		581,646	1,841,431	459,058	1,680,841
Net trading income	9	307,293	1,539,144	424,794	1,279,654
Net (losses)/gains from foreign currency translation		(4,180)	(341,709)	1,221	(1,128)
Gains less losses on investments at fair value through other comprehensive income		599,173	884,645	182,959	304,220
Other income	10	262,349	720,766	185,653	910,112
Changes in allowance for expected credit losses	11	284,702	(932,083)	(300,321)	(1,212,874)
Staff costs	12	(1,345,659)	(4,906,867)	(1,369,896)	(4,298,789)
Depreciation of property and equipment	22	(162,692)	(601,398)	(168,683)	(731,100)
Amortization of intangible assets	23	(17,755)	(61,779)	(12,830)	(41,719)
Other expenses	13	(1,075,355)	(3,428,406)	(790,460)	(2,873,517)
Profit before income tax		2,550,272	6,201,746	1,332,211	4,355,884
Income tax expense	14	(572,892)	(1,306,529)	(257,301)	(799,838)
Profit for the period		1,977,380	4,895,217	1,074,910	3,556,046
Other comprehensive income:					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Revaluation of property and equipment				(61,078)	
Income tax effect				12,010	
Net other comprehensive income not be reclassified subsequently to profit or loss				(49,068)	
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Unrealized gains/(losses) on investments at fair value through other comprehensive income		(223,434)	131,772	555,710	1,312,450
Realized (gains)/losses on investments at fair value through other comprehensive income reclassified to the statement of profit or loss		(599,173)	(884,645)	(182,959)	(304,220)
Income tax effect		149,872	150,608	(74,550)	(201,646)
Net other comprehensive income to be reclassified subsequently to profit or loss		(672,735)	(602,265)	298,201	806,584
Other comprehensive income for the period, net of tax		(672,735)	(602,265)	347,269	806,584
Total comprehensive income for the period		1,304,645	4,292,952	1,422,179	4,362,630

**Consolidated Statement of cash flows for the period ended
31 December 2018**

In thousand Armenian drams	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Cash flows from operating activities		
Interest received	21,173,777	16,627,930
Interest paid	(8,664,875)	(7,984,091)
Fees and commissions received	2,713,169	2,433,145
Fees and commissions paid	(871,738)	(752,304)
Net income from securities at fair value through profit or loss	1,539,144	1,233,793
Other income received	682,326	910,112
Administrative expenses paid	(4,781,439)	(3,892,063)
Other operating expenses paid	(3,489,554)	(2,813,989)
Cash flows from operating activities before changes in operating assets and liabilities	8,300,810	5,762,533
<i>Net (increase)/decrease in operating assets</i>		
Securities at fair value through profit or loss	267,539	(556,636)
Amounts due from banks	5,840,931	(8,296,629)
Loans to customers	(27,780,154)	(48,262,440)
Repossessed assets	(145,495)	584,633
Other assets	(258,608)	(1,182,528)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to banks	50,999	15,513,185
Amounts due to customers	9,429,338	35,343,011
Derivative financial liabilities	(43,252)	37,678
Other liabilities	(132,366)	89,140
Net cash flows from operating activities before income tax	(4,470,258)	(968,053)
Income tax paid	(413,675)	(469,751)
Net cash from / (used in) operating activities	(4,883,933)	(1,437,804)
Net cash flow from investing activities		
Purchase of Investments at fair value through other comprehensive income	(21,226,211)	(10,955,217)
Proceeds from sale of Investments at fair value through other comprehensive income	21,786,734	1,633,685
Purchase of investments before maturity	(237,890)	(346,349)
Purchase of intangible assets	(114,181)	(128,455)
Purchase of property and equipment	(1,186,991)	(738,006)
Proceeds from sale of property and equipment	6,379	274,936
Net cash from / (used in) investing activities	(972,160)	(10,259,406)
Net cash flow from financing activities		
Proceeds from issue of share capital	-	-
Proceeds from issued bonds	10,721,475	5,848,861
Proceeds from other borrowed funds	6,520,883	6,240,921
Repayment from other borrowed funds	(9,522,991)	(2,703,308)
Repayment of subordinated loans	(5,487)	(1,453,077)
Dividends paid to shareholders	(570,350)	(564,467)
Net cash from / (used in) financing activities	7,143,530	7,368,930
Net increase/(decrease) in cash and cash equivalents	1,287,437	(4,328,280)
Effect of exchange rates changes on cash and cash equivalents	(658,628)	(581,610)
Cash and cash equivalents, beginning	39,842,049	44,751,939
Cash and cash equivalents, ending of period	40,470,858	39,842,049

Consolidated Statement of changes in equity

In thousand Armenian drams

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2017 (audited)	16,416,633	63,233	1,005,996	1,365,201	3,353,126	9,973,814	32,178,003
Issue of share capital							-
Distribution to general reserve			237,068			(237,068)	-
Dividends to shareholders						(564,467)	(564,467)
Total Transactions with owners	-	-	237,068	-	-	(801,535)	(564,467)
Profit for the period						3,556,046	3,556,046
Other comprehensive income for the period				806,584	-		806,584
Total comprehensive income for the period	-	-	-	806,584	-	3,556,046	4,362,630
Depreciation of revaluation reserve	-	-	-	-	(172,054)	172,054	-
Balance as of December 31, 2017(audited)	16,416,633	63,233	1,243,064	2,171,785	3,181,072	12,900,379	35,976,166
Balance as of January 1, 2018 (audited)	16,416,633	63,233	1,243,064	2,171,785	3,181,072	12,900,379	35,976,166
Impact of IFRS 9				284,213		(884,223)	(600,010)
Restated balance as of January 1, 2018	16,416,633	63,233	1,243,064	2,455,998	3,181,072	12,016,156	35,376,156
Issue of share capital							-
Distribution to general reserve			655,255			(655,255)	-
Dividends to shareholders						(570,350)	(570,350)
Total Transactions with owners	-	-	655,255	-	-	(1,225,605)	(570,350)
Profit for the period						4,895,217	4,895,217
Other comprehensive income for the period				(602,265)			(602,265)
Total comprehensive income for the period	-	-	-	(602,265)	-	4,895,217	4,292,952
Depreciation of revaluation reserve	-	-	-	-	(123,190)	123,190	-
Balance as of December 31, 2018	16,416,633	63,233	1,898,319	1,853,733	3,057,882	15,808,958	39,098,758

3. Principal activities

“Converse Bank” CJSC (the “Bank”) is the parent company of the Group, which is comprised of the Bank and its subsidiary (the “Group”).

“Converse Bank” CJSC is a closed joint-stock bank, which was incorporated in the Republic of Armenia in 1994. The Bank is regulated by the legislation of RA and conducts its business under license number 57, granted on November 28, 1994 by the Central Bank of Armenia (the “CBA”).

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

The Bank’s main office is in Yerevan and its 34 branches are located in Yerevan and in different regions, and 1 branch is located in NKR. The registered office of the Bank is located at 26/1 Vazgen Sargsyan Str., Yerevan, RA. Advanced Global Investments LLC is the largest shareholder of the Group (80.94%-of shares). The second largest shareholder is the HAYPOST TRUST MANAGEMENT BV (14.06%-of shares). And another shareholder is the MOTHER SEE OF HOLY ETCHMIADZIN (5%-of shares). The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian. As of 31.12.18 765 employees were hired by the parent company and 26 by its subsidiary.

The consolidated financial statements include the following subsidiary:

<i>Subsidiary</i>	<i>Ownership %</i>			<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>
	<i>2016</i>	<i>2017</i>	<i>2018</i>			
“Converse Collection” LLC	100 %	100 %	100 %	Armenia	April 20, 2000	Transportation of cash, cash equivalents and other assets

3. Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Deterioration of economic situation of countries collaborating with the RA led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Group. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

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

Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of land and buildings, which are stated at revaluated amount.

Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Group’s functional currency and the Group’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Group. The Group prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These consolidated financial statements are based on the Group’s books and records as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

Amendments to Accounting Policy

In these consolidated financial statements the Group has applied the revised version of IFRS 9 and IFRS 7 standards, which entered into force on January 1 2018 and is applied to reporting periods beginning on or after January 1 2018.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 from January 1 2018 and is applied to annual reporting periods beginning on or after January 1 2018. The Group will continue hedge accounting in compliance with IAS 39.

The Group will not redisclose the comparative information about the financial instruments for the year 2017. The differences arisen as a result of implementation of IFRS 9 were recorded in the direct retained profits and other provisions as at 01.01.2018 and were disclosed in Note 34.

Classification and Measurement Changes

IFRS 9 requires assessment of all the financial assets, except for investments in equity instruments and derivative instruments, based on a consolidated approach in terms of the business model used to manage the company’s assets and the cash flow characteristics.

The measurement categories of IAS 39 will be replaced by the following categories:

- Fair value measured through profit or loss
- Fair value measured through other comprehensive income
- Measured at amortized cost

The requirements of IAS 39 for financial liabilities accounting have not changed significantly.

Impairment Assessment Changes

IFRS 9 establishes a quite new approach to impairment of losses. This standard replaces IAS39 approach of incurred credit losses with the approach of expected credit losses (ECL). The Group has recognized the reserve of expected credit losses for all financial instruments measuring loans and receivables, which are not measured at fair value through profit or loss, as well as for credit liability agreements and financial guarantee contracts. The impairment to loss calculation was made by three stages, which reflect the credit quality decrease of the financial instrument. The expected credit losses classified in the first stage have been estimated based on the possibility of default within the next twelve months. The expected credit losses for the instruments classified in the second stage have been estimated based on the probability of default during the period of expected repayment of the instrument. 100% default probability is defined for the instruments classified in the third stage.

Amendments to IAS 12, Income Tax

In January 2016, the IASB published the amendments to IAS 12 and clarified the accounting standards for the deferred tax assets in terms of debt instruments, which are measured at fair value for financial accounting purposes, and measured at original cost for tax accounting purposes. These amendments entered into force in January 1 2017 and are applied to reporting periods beginning on or after that date. The early application is permitted. The Group has calculated that the amendments will not have any impact on the consolidated financial statements.

Standards and Comments that are not yet applied by the Group

Hereunder are the standards and interpretations, which though have been issued, but have not yet entered into force as of the date of publishing the Group's consolidated financial statements. The Group intends to apply these standards as soon as they enter into force.

IFRS 16 Leases

The IASB has issued the new IFRS 16 "Leases" in January 2016. The new standard does not considerably change the lease accounting for the tenants. However, it requires the lessees to recognize the majority of leases as part of their lease obligations in the accounting balance, together with the right to use the relevant asset. Tenants should apply a uniform model for all recognized leases. At the same time they will have the opportunity of unrecognizing short-term leases and lease of low-cost assets. In general, recognition of profit or loss is similar to the present-day financial accounting as a separate statement of interest income and depreciation recognition in terms of profit or loss.

IFRS 16 will enter into force in January 1 2019 and will be effective for annual periods beginning on or after that date. Early application is permitted provided that the new revenue standard IFRS 15 is applied on the same date.

The Group does not plan early adoption of IFRS 16 and currently assesses its impact.

4.Summary of accounting policies (continued)

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

Basis of consolidation

Subsidiary, which is entity where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiary is consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group. Subsidiary has a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

4. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within “interest income” and “interest expense” in the consolidated statement of comprehensive income using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

Dividend income

Revenue is recognized when the Group’s right to receive the payment is established.

Net trading income

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

Operating rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases and is recorded in the consolidated statement of comprehensive income as “Other income”.

Foreign currency translation

The consolidated financial statements are presented in Armenian drams, which is the Group’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as gains less losses from foreign currencies– translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official exchange rates of the CBA at 31 December 2017 and 31 December 2018 were AMD 484.1 and AMD 483.75 to USD 1, respectively.

4.Summary of accounting policies (continued)

Taxation

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

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Group’s activities. These taxes are included as a component of other expenses in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

Precious metals

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

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

Amounts due from banks

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

Financial Instruments:

The Group recognizes financial assets and liabilities on its balance sheet when it becomes the contracting party of the instrument. All regular purchases and sales of financial assets and liabilities are recognized at the transaction date. Regular purchases of financial instruments that are measured at fair value in the future are accounted for by the same principle in the period between the contract date and the transaction date as are accounted the acquired instruments.

The financial asset or liability is measured at fair value at initial recognition plus the directly attributable transaction costs, in the case where it is not a financial asset or a financial liability measured at fair value through profit or loss. After initial recognition, all financial liabilities, except for financial liabilities measured at fair value through profit or loss (including those held for trading purposes), are accounted at amortized cost using the effective interest method. The financial liabilities are accounted at fair value after being initially recognized at fair value through profit or loss.

After January 1, 2018, the Group classifies its financial assets based on the business model of financial assets management and the contract provisions related to cash flows of the financial asset, as follows:

- Financial assets recognized at amortized cost
- Financial assets measured through other comprehensive income;
- Financial assets measured at fair value through profit or loss;

Until January 1 2018, the Group has classified its financial assets into the following groups: loans and receivables, financial assets measured at fair value through profit or loss, financial assets available-for-sale and investments held-to-maturity.

Financial assets recognized at amortized cost

After January 1, 2018, the Group measures Cash and cash equivalents, Claims to banks, loans to Customers, receivables, securities held-to-maturity and other financial assets at amortized cost, if the following two conditions are provided:

- The asset is held within a business model, the purpose of which is to hold the assets for collecting contractual cash flows;
- the contractual terms of the financial asset give rise to cash flows on specified dates, that are solely payments of interests accrued on principal and outstanding principal amounts.

Details of the terms are mentioned below.

Business Model Assessment:

The Group classifies the financial assets as assets to be measured at amortized value or at fair value based on the Group's business model for managing financial assets. The Group evaluates whether its financial assets meet that requirement taking as a basis the purpose of the business model as determined by the Group's core management.

The group's business model does not depend on management's intentions with regard to a particular instrument. Consequently, this condition is not an instrument-to-instrument classification approach and should be determined at a higher grouping level. However, the Group may have more than one business model for managing its financial instruments.

Although the purpose of the Group's business model may be holding of the financial assets to collect contractual cash flows, the Group does not need to hold till maturity all those instruments. Thus, the Group may apply the business model of holding the financial assets to collect contractual cash flows even in case of selling the financial assets.

However, if the sales from portfolio are regular, the Group assesses whether and how such sales meet the objectives of collecting contractual cash flows.

Contractual cash flows that are solely the payments of principal and interest on the principal amount outstanding

The group classifies the financial asset as an asset to be measured at amortized cost in the future, if it meets the SPPI test (Solely Payments of Principal and Interest on the principal amount outstanding).

In the scope of this test the "Principal amount" is defined as fair value of the financial asset at its initial recognition and may be changed during the financial asset validity period.

The most important element for calculating the interests is the consideration of time value of money and credit risk.

When applying the SPPI test, the Group uses its judgments and takes into account such factors as the currency and the time period of the financial instrument for which the interest rate is set.

Loans and Accounts Receivable

Loans and accounts receivable are financial assets with fixed or determinable payments, which are created when the Group provides cash directly to the borrower without the intention to sell the debt.

The loans at fixed maturity are initially recognized at fair value, plus the costs relating to the deal. Where the fair value of the disbursed sums differ from the fair value of the loan, for instance if the loan is issued at lower-than-market interest rate, the difference between the fair values of the disbursed sum and the loan is recorded at the date of initial recognition of the loan as an expense from allocation of assets at lower-than-market rates in the P&L statement or other consolidated comprehensive financial statement. Thereafter, the loans are measured at depreciated cost by applying effective rate method. The loans issued to customers without fixed maturity are accounted at depreciated cost depending on the assumed maturity.

Cash and equivalent, claims to banks, loans issued to customers, accounts receivable, securities held to maturity, and other financial assets are deducted to the amount of expected loss from impairment.

Financial assets measured at fair value through profit or loss

Financial assets held for commercial purpose and financial assets measured at fair value – through profit or loss, are accounted in this group.

The Group classifies financial assets as those held for commercial purpose, if irrespective of the reason for their acquisition, they constitute a part of such portfolio for which an evidence exists about actual ways for earning profit in short term.

Asset and liabilities held for commercial purpose are measured at fair value based on the current market prices. All respective profit and loss are recorded in the net commercial income item of financial statements.

In the course of its regular business, and at Forex and capital markets, the Group acts as a counterparty to derivative contracts, such as futures, forwards, swaps and options. Such derivatives are classified as instruments held for commercial purpose and are initially recognized in compliance with the policies for initial recognition of financial instruments, and are further measured at fair value. The fair value is determined through market quoted prices or by applying models grounded on assessments of current market situation and contractual prices of basic instruments and other factors. Derivatives with positive value are recorded as asset and with negative value – as liability.

Derivatives contained in other financial instruments are viewed as separate derivatives, if the related risks and features are not closely connected with the risks and features of the main contracts, and if the main contracts are not recorded at fair value – through profit or loss. The contained derivative is a component of a hybrid financial instrument, which includes both the main contract and the derivative component, due to which certain cash flows from the hybrid instrument change in the same way like separate derivatives.

According to IAS 39, financial assets and liabilities containing derivatives are viewed as separate derivatives and are measured at fair value – through profit or loss. Due to application of IFRS 9 from January 1, 2018, the Group accounts for financial liabilities containing derivatives in a similar manner, and classifies financial assets based on the business model for management of financial assets and the contractual feature of cash flows of the financial asset.

Financial assets measured at fair value and recorded in other comprehensive income

The Group classifies the debt instruments as measured at fair value and recorded in other comprehensive income in cases when they are held within the business model of the Group, the purpose of which is holding of assets for collection of contractual cash flows and/or sale of such assets.

The particular group includes assets available for sale as previously categorized under IAS 39.

The unfairized profit and loss generated from the change of the fair value are recognized directly in the equity until the point, when the particular debt instrument is sold or is determined as impaired. The profit or loss accumulated at that point, which has previously been recognized in the equity, should be recognized in the financial statements for the reporting period.

The estimation of expected loss from debt instruments measured at fair value and recorded in other comprehensive income is not deducted from their book value, and their fair value is reflected in the financial statement. Instead, the amount of impairment is recognized in other comprehensive income as accumulated impairment by corresponding it to income/expenditure. In other comprehensive income the accumulated loss is reclassified to financial results at the point of de-recognition of the asset.

The interests estimated by effective rate method are recognized in the consolidated comprehensive financial statements. The dividends from capital instruments available for sale are recorded in the consolidated comprehensive financial statements only when the Group is authorized to receive those dividends. The fair value of the financial asset intensively traded in regulated financial markets is determined through the prices quoted for

the particular asset at closing of the stock exchange as of the reporting date. The fair value of assets that do not have active market is determined by means of valuation models. Such models involve the recent independent market deals, references to market prices of assets not having essential difference, and the discounted cash flows analysis.

The estimation of the expected loss is described in the *Impairment of Financial Instruments* section.

The Group has classified capital instruments as measured at fair value and recorded in other comprehensive income, and all fairized and unfairized profit and loss related thereto, except the dividends, are recorded directly in the equity and are deemed financial results not to be reclassified later.

Impairment is not calculated for capital instruments.

4. **Summary of accounting policies (continued) financial instruments**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

The Group continuously monitors all assets subject to impairment. In order to classify an instrument or a portfolio of instruments the Group assesses whether there has been a significant increase in credit risk since initial recognition.

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group assesses whether there has been a significant increase in credit risk if asset is more than 30 days overdue. In addition as an assessment of significant increase of risk Group considers additional quantitative and qualitative parameters such as monitoring results, restructuring of the loans, deterioration in macroeconomic factors affecting borrower.

Main consideration when classifying assets into Stage 2 is if payment of principal and interests are overdue by 30 days.

Main consideration when classifying assets into Stage 3 is if payment of principal and interests are overdue by 90 days.

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

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

- Internal rating of the borrower indicating default or near-default
- The borrower having past due liabilities to other financial organizations
- The borrower requesting emergency funding from the Group
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's financial state
- Deterioration in macroeconomic factors affecting borrower
- The borrower is deceased

Expected Credit Loss (ECL)

In order to calculate ECL Group considered historical data of five years. Afterwards for Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The exposure at default (EAD)

EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

Loss given default (LGD)

LGD rates take into account the expected EAD in comparison to the amount expected to be recovered realised from any collateral held. LGD is calculated based on historical data of five years.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

As a summary Group classified its loan portfolio into the following categories: business loans, gold collateral loans, mortgage loans and other retails loans.

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

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

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

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

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

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

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

Reclassification of financial assets and liabilities

After 1 January 2018 The Group does not reclassify financial assets after initial recognition except for rare situations when the Group purchases, sells or prorogue business activity.

The Group never reclassifies the financial liabilities.

No reclassification of financial assets and liabilities took place during 2018.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Repurchase and reverse repurchase agreements

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

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

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is

recorded as a trading liability and measured at fair value.

Leases

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating - Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Property, plant and equipment

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

Property, plant and equipment (continued)

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

	<i>Useful life</i> <i>(years)</i>	<i>Rate</i> <i>(%)</i>
Buildings	20	5
Computers	1	100
Vehicles	8	12.5
Equipment	8	12.5
Other fixed assets	8	12.5

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

Repairs and maintenance are charged to the consolidated statement of other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset

when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

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

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

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

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

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

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

Intangible assets

Intangible assets include computer software, licences and other.

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

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

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 cost and fair value less costs to sell.

Grants

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

Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are

recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Financial guarantees

Financial guarantee contracts are contracts that require 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. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the consolidated financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Equity (continued)

Property revaluation surplus

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

Revaluation reserve for available-for-sale securities

This reserve records fair value changes in available-for-sale-investments.

Offsetting

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

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

4. Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 34).

Classification of investment securities

Securities owned by the Group comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Group designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

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

5. Impact of adoption of IFRS 9

In the table below is presented detailed impact of transition from IAS 39 to IFRS 9 as at 01 January 2018 which has been reflected in the Statement of changes in equity.

In thousand Armenian drams

IAS 39			IFRS 9			
<i>Item</i>	<i>Category</i>	<i>Amount</i>	<i>Provision</i>	<i>Item</i>	<i>Category</i>	<i>Amount</i>
Cash and cash equivalents	Loans and other receivables	39,842,049	(6,004)	Cash and cash equivalents	Amortized cost	39,836,045
Trading securities	Financial instruments at fair value through profit or loss	787,330	-	Financial instruments at fair value through profit or loss	Financial instruments at fair value through profit or loss	787,330
Loans and advances to banks	Loans and other receivables	10,546,355	(5,979)	Loans and advances to banks	Amortized cost	10,540,376
Loans and advances to customers	Loans and other receivables	165,167,500	(739,286)	Loans and advances to customers at amortized cost	Amortized cost	164,428,214
Investments available for sale	Financial instruments at fair value through other comprehensive income	22,812,218	(256,887)	Financial instruments at fair value through other comprehensive income	Financial instruments at fair value through other comprehensive income	22,555,331
Securities pledged under repurchase agreements	Financial instruments at fair value through other comprehensive income	3,056,113	(27,326)	Securities pledged under repurchase agreements	Financial instruments at fair value through other comprehensive income	3,028,787
Held to maturity investments	Financial instruments at amortized cost	346,140	(2,064)	Financial instruments at amortized cost	Amortized cost	344,076
Contingent liabilities	X		(67,733)	Provision on contingent liabilities	X	(67,733)
Deffered tax	X		221,056			X
Total			(884,223)			

As at 01 January 2018 bank had no re-measurement of assets and the main impact of transition from IAS 39 to IFRS 9 was due to implementation of new impairment approach.

7. Interest income and expense

In thousand Armenian drams

	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Loans and advances to customers	5,104,930	18,538,586	4,283,465	15,613,398
Debt securities available-for-sale	562,643	2,260,478	540,441	1,867,749
Amounts due from banks	15,692	119,261	43,949	104,165
Held to maturity investments	36,917	98,424	21,458	21,458
Other interest income	1,964	106,560	10,214	17,483
Total interest income	5,722,146	21,123,309	4,899,527	17,624,253
Amounts due to customers	1,559,807	6,018,632	1,735,537	6,855,003
Other borrowed funds	589,348	2,194,578	236,853	819,192
Subordinated loans	104,968	411,790	104,444	404,862
Amounts due to banks	90,656	192,375	12,439	31,174
Bonds issued by the Bank	256,617	817,932	89,538	173,838
Total interest expense	2,601,396	9,635,307	2,178,811	8,284,069

Interest income accrued on loans, for Stage 3, for the period ended 31 December 2018, comprised 188,538 thousand AMD.

8. Fee and commission income and expense

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Plastic cards operations	309,659	1,073,999	264,142	947,367
Wire transfer fees	203,122	729,434	241,022	722,044
Settlement operation	76,170	257,650	77,819	312,131
Fees and commission income from loans	62,943	255,448	28,224	174,983
Guarantees and letters of credit	15,509	49,562	17,077	43,690
Other	141,581	347,076	55,137	232,930
Total fee and commission income	808,984	2,713,169	683,421	2,433,145
Plastic cards operations	134,116	570,510	163,065	524,870
Settlement operations	30,901	103,146	23,649	91,569
Wire transfer fees	46,195	140,100	29,775	100,136
Guarantees and letters of credit	3,339	9,841	797	5,015
Other expenses	12,788	48,141	7,077	30,714
Total fee and commission expense	227,339	871,738	224,363	752,304

9. Net trading income

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Net gains from foreign currency transactions	369,935	1,365,239	375,492	1,387,360
Net gain/(loss) from trading securities	(8,818)	14,623	24,073	45,861
Net gain/(loss) on financial instruments at fair value through profit or loss	(53,824)	159,282	25,229	(153,567)
Total net trading income	307,293	1,539,144	424,794	1,279,654

10. Other income

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Fines and penalties received	130,538	499,585	134,013	589,407
Net income from operations with precious metals	64,659	8,174	27,180	110,193
Dividend income	1,762	6,488	1,374	4,127
Income from sale of fixed assets	3,557	21,379	(9,985)	(17,165)
Income from grants	606	2,424	606	2,424
Income from cash collection services	10,288	38,440	9,286	31,812
Other income	50,939	144,276	23,179	189,314
Total other income	262,349	720,766	185,653	910,112

11. Impairment losses

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Loans and advances to customers (Note 18)	(300,168)	902,733	297,403	1,146,313
Other assets (Note 25)	26,615	31,619	2,918	66,561
Credit related commitments (Note 32)	(5,594)	2,544	-	-
Other provisions (Note 15,17,21)	(5,555)	(4,813)	-	-
Total impairment charge	(284,702)	932,083	300,321	1,212,874

12. Staff costs

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Salaries	1,316,634	4,810,802	1,349,753	4,250,933
Other expenses	29,025	96,065	20,143	47,856
Total staff costs	1,345,659	4,906,867	1,369,896	4,298,789

13. Other expenses

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Fixed assets maintenance	42,439	129,086	41,287	125,906
Consulting and other service	43,137	112,527	21,601	72,333
Operating lease	158,427	575,703	128,734	507,801
Taxes, other than income tax, duties	24,520	51,957	11,633	35,006
Advertising costs	229,873	634,793	89,167	315,430
Insurance expenses	30,904	111,323	29,648	100,583
Impairment losses of repossessed assets	35,871	35,871	58,078	58,078
Communications	34,118	124,743	35,034	133,030
Security	48,706	198,725	55,993	205,518
Insurance of deposits	51,957	202,174	55,850	231,003
Office supplies	9,501	31,515	3,699	40,746
Business trip expenses	15,751	47,298	8,823	24,021
Armenian Software expenses	50,659	195,762	47,749	182,661
Expenses related to ARCA	56,831	199,541	48,717	174,557
Penalties paid	1,061	2,009	207	3,891
Other expenses	241,600	775,379	154,240	662,953
Total other expenses	1,075,355	3,428,406	790,460	2,873,517

14. Income tax expense

<i>In thousand Armenian drams</i>	01/10/18- 31/12/18	01/01/18- 31/12/18	01/10/17- 31/12/17	01/01/17- 31/12/17
Current tax expense	414,940	1,263,175	446,382	990,049
Adjustment of current income tax of previous years	-	-	(86,187)	(86,187)
Deferred tax expense/ (benefit)	157,952	43,354	(102,894)	(104,024)
Total income tax expense	572,892	1,306,529	257,301	799,838

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

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

<i>In thousand Armenian drams</i>	<i>31/12/18</i>	<i>31/12/17</i>
Profit before tax	6,201,747	4,355,884
Income tax (benefit)/expenses at the rate of 20%	1,240,349	871,177
Non-taxable income	244,553	-
Non-deductible expenses	(221,852)	14,848
Foreign exchange losses	43,479	-
Adjustment of current income tax of previous years	-	(86,187)
Income tax expense	1,306,529	799,838

Deferred tax calculation in respect of temporary differences:

<i>In thousand Armenian drams</i>	<i>As of December 31, 2017</i>	<i>Impact of IFRS9</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehens ive income</i>	<i>As of December 31, 2018</i>
Repossessed assets	50,825	-	7,174	-	57,999
Held to maturity securities	-	413	(357)	-	56
Other liabilities	111,835	-	24,042	-	135,875
Total deferred tax assets	162,660	413	30,859	-	193,930
Securities available for sale	(539,122)	56,843	33	150,608	(331,638)
Loans and advances to customers	(604,119)	147,858	(110,464)	-	(566,725)
Property, plant and equipment	(223,303)	-	41,989	-	(181,314)
Other assets	(4,083)	15,943	(3,846)	-	8,014
Amounts to customers	(2,796)	-	(1,925)	-	(4,721)
Total deferred tax liability	(1,373,423)	220,643	(74,213)	150,608	(1,076,384)
Net deferred tax liability	(1,210,763)	221,057	(43,354)	150,608	(882,452)

<i>In thousand Armenian drams</i>	<i>As of December 31, 2016</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehensive income</i>	<i>As of December 31, 2017</i>
Repossessed assets	39,209	11,616	-	50,825
Other liabilities	41,163	70,672	-	111,835
Total deferred tax assets	80,372	82,288	-	162,660
Securities available for sale	(337,476)	-	(201,646)	(539,122)
Loans and advances to customers	(626,276)	22,157	-	(604,119)
Property, plant and equipment	(255,144)	31,841	-	(223,303)
Other assets	27,190	(31,273)	-	(4,083)
Liabilities to customers	(1,807)	(989)	-	(2,796)

<i>In thousand Armenian drams</i>	<i>As of December 31, 2016</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehensive income</i>	<i>As of December 31, 2017</i>
Total deferred tax liability	(1,193,513)	21,736	(201,646)	(1,373,423)
Net deferred tax liability	(1,113,141)	104,024	(201,646)	(1,210,763)

15. Cash and cash equivalents

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Cash on hand	8,731,933	8,802,423
Correspondent accounts with the CBA	29,218,035	29,005,963
Placements with other banks	2,526,734	2,033,663
Impairment allowance	(5,844)	-
Total cash and cash equivalents	40,470,858	39,842,049

Correspondent accounts with the CBA and other banks are in Stage 1. ECL for these accounts is presented below.

In thousand Armenian drams

As of 1 January 2018

-

As of 1 January 2018 restated

6,004

Charge for the period/Note 11

(160)

Amounts written off

-

As of 31 December 2018

5,844

As of 31 December 2018 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 23,685,491 thousand (2017: AMD 22,573,220 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2018 placements with other banks in the amount of AMD 2,128,984 thousand (84.3%) were due from three banks (2017: AMD 1,716,360 thousand (84.4%) were due from three banks).

16. Investments at fair value through profit or loss

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Debt securities issued by the RA government	383,618	787,330
Non-government securities	136,173	-
Total Investments at fair value through profit or loss	519,791	787,330

Nominal interest rates and maturities of these securities are as follows:

	<i>31/12/2018</i>		<i>31/12/2017</i>	
	%	Maturity	%	Maturity
Debt securities issued by the RA government	8.00-13.00	2023-2036	8.00-13.00	2020-2036
Non-government securities	5.25	2020	-	-

As of 31 December 2018 there were no Trading securities pledged to third parties in sale and repurchase agreements (2017: 0 AMD). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

17. Amounts due from banks

In thousand Armenian drams	31/12/2018	31/12/2017
Deposits and deposited funds with CBA	1,142,500	920,000
Loans and deposits to banks	1,937,868	753,858
Reverse repurchase agreements	-	7,025,413
Receivables from payment and settlement operations	1,286,688	1,194,907
Other	858,086	652,177
Impairment allowance	(3,109)	-
Total amounts due from banks	5,222,033	10,546,355

Amounts due from banks are in Stage 1.
ECL for these accounts is presented below.

In thousand Armenian drams

As of 1 January 2018

As of 1 January 2018 restated

Charge for the period/Note 11

Amounts written off

As of 31 December 2018

-
5,979
(2,870)
-
3,109

18. Loans and advances to customers

In thousand Armenian drams	31/12/2018	31/12/2017
Loans to customers	160,837,404	139,239,113
Overdrafts	35,459,908	25,558,298
Repo agreements	4,022,198	4,820,511
Factoring	17,406	95,247
Letter of credit	3,634	1,525
Financial lease receivables	300,884	316,157
Less allowance for loan impairment	(4,363,103)	(4,863,351)
Total loans and advances to customers	196,278,331	165,167,500

As of 31 December 2018 the Bank had a concentration of loans totalling to AMD 40,496,470 thousand due from the ten largest groups of borrowers (20.86% of gross loan portfolio) (2017: AMD 48,686,742 thousand or 28.63% of gross loan portfolio). An allowance for impairment in the amount of AMD 1,355,805 thousand (2017: AMD 1,250,634 thousand) was created against these loans.

Loans and advances to customers by industries of economy may be specified as follows:

<i>In thousand Armenian drams</i>	31/12/2018 p.	31/12/2017 p.
Consumer loans to individuals	54,668,622	43,137,483
Mortgage	35,021,223	28,612,812
Trading	29,595,522	23,146,111
Energy	8,403,730	7,699,388
Other	23,967,712	15,660,561
Construction	19,051,665	6,100,247
Transport and communication	1,780,181	17,701,045
Agriculture (including loans to individuals)	10,120,786	7,012,168
Manufacturing	7,318,002	6,364,056
Services	10,713,992	14,596,980
	200,641,435	170,030,851
<i>Less allowance for loan impairment</i>	(4,363,103)	(4,863,351)
Total loans and advances to customers	196,278,331	165,167,500

Loans and advances to customers due to impairment stages are specified as follows:

As of 31 December 2018

In thousand Armenian drams	Stage 1				Stage 2				Stage 3				Total			
	Collectively impaired		Individually impaired		Collectively impaired		Individually impaired		Collectively impaired		Individually impaired		Collectively impaired		Individually impaired	
	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision
Business loans	105,816,654	921,283	-	-	87,647	26,862	-	-	164,940	146,935	4,882,346	1,887,471	06,069,242	1,095,080	4,882,346	1,887,471
Mortgage loans	33,219,974	102,325	68,452	369	142,082	10,322	-	-	385,047	70,567	1,205,669	560,139	33,747,103	183,213	1,274,120	560,507
Consumer loans	33,807,344	127,229	-	-	467,455	30,942	40,458	4,784	805,146	248,121	392,243	18,773	35,079,945	406,291	432,701	23,557
Gold loans	18,664,112	34,198	-	-	259,473	28,961	-	-	183,156	136,018	49,235	7,806	19,106,741	199,177	49,235	7,806
Total	191,508,084	1,185,034	68,452	369	956,657	97,087	40,458	4,784	1,538,289	601,641	6,529,493	2,474,189	194,003,031	1,883,762	6,638,403	2,479,341

As of 31 December 2017 / restated according to IFRS 9/

In thousand Armenian drams	Stage 1				Stage 2				Stage 3				Total			
	Collectively impaired		Individually impaired		Collectively impaired		Individually impaired		Collectively impaired		Individually impaired		Collectively impaired		Individually impaired	
	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision	Gross amount	Provision
Business loans	92,998,469	743,620	147,075	1,780	39,659	13,924	534,862	6,630	132,510	96,354	4,503,994	2,637,142	93,170,637	853,898	5,185,931	2,645,552
Mortgage loans	26,199,050	321,234	-	-	219,528	50,448	44,297	448	403,939	177,033	1,745,848	918,959	26,822,516	548,715	1,790,144	919,407
Consumer loans	26,049,412	303,123	16,166	205	283,655	48,007	6,121	127	550,949	220,948	251,023	36,796	26,884,016	572,078	273,311	37,128
Gold loans	15,792,726	9,502	-	-	87,567	5,161	-	-	20,835	9,401	3,167	1,795	15,901,128	24,064	3,167	1,795
Total	161,039,656	1,377,479	163,241	1,985	630,409	117,539	585,279	7,205	1,108,234	503,736	6,504,032	3,594,693	162,778,298	1,998,755	7,252,552	3,603,883

Loans and advances to customers by impairment stages may be specified as follows:

<i>In thousand Armenian drams</i>	Business loans	Gold loans	Mortgage loans	Consumer loans	Total
Balance as of 01 January 2018	3,202,474	29,456	1,176,291	455,132	4,863,353
Balance as of 01 January 2018 restated	3,499,450	25,859	1,468,122	609,206	5,602,637
Charge for the period	316,050	291,770	(132,785)	427,697	902,733
Amounts written off	(1,149,996)	(143,074)	(817,117)	(1,123,834)	(3,234,022)
Recoveries	317,047	32,428	225,500	516,780	1,091,755
Balance as of 31 December 2018	2,982,551	206,983	743,720	429,849	4,363,103

<i>In thousand Armenian drams</i>	Business loans	Gold loans	Mortgage loans	Consumer loans	Total
Balance as of 01 January 2017	2,832,082	19,079	1,045,123	657,912	4,554,196
Charge for the period	753,171	24,700	174,485	193,958	1,146,313
Amounts written off	(601,485)	(53,583)	(436,710)	(1,137,303)	(2,229,081)
Recoveries	218,677	39,260	393,393	740,594	1,391,924
Balance as of 31 December 2017	3,202,474	29,456	1,176,291	455,132	4,863,353

The finance lease receivables represent:

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Gross investment in finance lease, receivable:		
Not later than 1 year	265,912	254,216
1-5 years	47,777	80,438
5 years and more		5,580
	313,689	340,234
Unearned future finance income on finance lease	(12,805)	(24,077)
Net investment in financial lease, before impairment allowance	300,884	316,157
Impairment allowance	(231,624)	(237,461)
Net investment in finance lease	69,260	78,696

The estimated fair value of loans and advances to customers as of 31 December 2018 and 31 December 2017 are disclosed in Note 36.

Maturity analysis of loans and advances to customers are disclosed in Note 39.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 40. The information on related party balances is disclosed in Note 35.

19. Investments at fair value through other comprehensive income

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Government bonds	10,862,103	18,518,365
RA corporate equity shares	57,794	57,794
Investments in funds	640,554	579,582
Equity shares of OECD countries	1,026,549	888,409
Corporate bonds of OECD countries	-	123,062
RA corporate bonds	5,825,950	2,645,006
Total investment securities available for sale	18,412,950	22,812,218

All debt securities have fixed coupons.

RA corporate equity shares are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

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

Available for sale debt securities by effective interest rates and maturity date comprise:

<i>In thousand Armenian drams</i>	31/12/2018		31/12/2017	
	%	Maturity	%	Maturity
Government bonds	7.22-18.34	2019-2047	4.76-18.35	2018-2047
RA corporate bonds	4.93-12.63	2018-2024	3.83-12.63	2018-2022
Corporate bonds of OECD countries			8.62-8.63	2020

As at 31 December 2018 there were no investments available for sale included RA government bonds pledged under repurchase agreements with CB of RA, with the right to sell or re-pledge by the counterparty 8,101,555AMD (2017: AMD 3,056,113). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

ECL for these accounts is as follows:

<i>In thousand Armenian drams</i>	
As of 1 January 2018	-
As of 1 January 2018 restated	256,887
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	(54,254)
As of 31 December 2018	202,633

20. Securities pledged under repurchase agreements

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Investments at fair value through other comprehensive income (Note 19)	8,101,555	3,056,113
Total	8,101,555	3,056,113

The pledged securities are those financial assets pledged under repurchase agreements with CB of RA, with the right to sell or re-pledge by the counterparty. All contracts have 1 month maturity.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

ECL for these accounts is as follows:

<i>In thousand Armenian drams</i>	
As of 1 January 2018	-
As of 1 January 2018 restated	27,326
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	54,421
As of 31 December 2018	81,747

21. Investments at amortized cost

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Government bonds	584,339	346,140
Impairment allowance	(281)	-
Total Investments at amortized cost	584,058	346,140

ECL for these instruments is as follows.

<i>In thousand Armenian drams</i>	
As of 1 January 2018	-
As of 1 January 2018 restated	2,064
Charge for the period/Note 11	(1,783)
As of 31 December 2018	281

Investments at amortized cost by nominal interest rates and maturity date comprise:

	31/12/2018		31/12/2017	
	%	Maturity	%	Maturity
Government bonds	0.00	2018-2019	0.00	2018

22. Property, plant and equipment

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Other fixed assets</i>	<i>Leasehold improvements</i>	<i>Total</i>
Revalued amount or cost							
As of January 1, 2017	5,134,018	753,258	208,627	2,936,691	741,403	965,437	10,739,434
Additions	103	31,317	6,025	414,507	108,028	178,026	738,006
Disposals	(217,103)	(33,375)	(4,000)	(34,391)	(35,940)	(71,191)	(396,000)
As of December 31, 2017	4,917,018	751,200	210,652	3,316,807	813,491	1,072,272	11,081,440
Additions	83,003	85,601	310	688,049	158,657	209,722	1,225,342
Disposals	-	(66,617)	(347)	(329,883)	(54,592)	(764)	(452,203)
As of December 31, 2018	5,000,021	770,184	210,615	3,674,973	917,556	1,281,230	11,854,579
Accumulated depreciation							
As of January 1, 2017	-	634,109	193,354	2,370,101	601,374	555,729	4,354,667
Depreciation charge	197,005	58,625	12,935	285,869	67,782	108,884	731,100
Disposals	(4217)	(33371)	(222)	(32,150)	(21,136)	(28518)	(119,614)
As of December 31, 2017	192,788	659,363	206,067	2,623,820	648,020	636,095	4,966,153
Depreciation charge	193,204	36,331	318	241,867	35,191	94,487	601,398
Disposals	-	(66,606)	-	(329,731)	(54,909)	(764)	(452,010)
As of December 31, 2018	385,992	629,088	206,385	2,535,956	628,302	729,818	5,115,541
Carrying value							
As of January 1, 2017	5,134,018	119,149	15,273	566,590	140,029	409,708	6,384,767
As of December 31, 2017	4,724,230	91,837	4,585	692,987	165,471	436,177	6,115,287
As of December 31, 2018	4,614,029	141,096	4,230	1,139,017	289,254	551,412	6,739,038

Revaluation of assets

The buildings and land owned by the Group were revalued by an independent appraiser in 2016. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 780,998 thousand as of 31 December 2018 (2017: AMD. ` 737,210 thousand).

Fully depreciated items

As of 31 December 2018 property, plant and equipment included fully depreciated assets in amount of AMD 2,088,194 thousand (2017: 2,778,877 thousand).

Property, plant and equipment in the phase of installation

As of 31 December 2018 property, plant and equipment included assets in the phase of installation in amount of AMD 155,545 thousand (2017: AMD 139,069 thousand).

Restrictions on title of property, plant and equipment

As of 31 December 2018 and 31 December 2017, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

23. Intangible assets

<i>In thousand Armenian drams</i>	Licenses	Computer software	Other	Total
Initial value				
As of January 1, 2017	685,286	61,566	79,234	826,086
Additions	29,605	5,250.00	93,600	128,455
As of December 31, 2017	714,891	66,816	172,834	954,541
Additions	53,023	-	78,549	131,572
Written-offs	-	-	(126)	(126)
As of December 31, 2018	767,914	66,816	251,257	1,085,987
Accumulated amortisation				
As of January 1, 2017	601,610	41,470	43,204	686,284
Amortisation charge	31,426	2,998	7,295	41,719
As of December 31, 2017	633,036	44,468	50,499	728,003
Amortisation charge	38,932	3,190	19,657	61,779
Written-offs	-	-	(126)	(126)
As of December 31, 2018	671,968	47,658	70,030	789,656
Balance value				
As of January 1, 2017	83,676	20,096	36,030	139,802
As of December 31, 2017	81,855	22,348	122,335	226,538
As of December 31, 2018	95,946	19,158	181,227	296,331

Fully amortized items

As of 31 December 2018, intangible assets included fully amortized assets in amount of AMD 569,700 thousand (2017: AMD . 454,122 thousand).

As of 31 December 2018 and 31 December 2017, the Group does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

24. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as of December 31 are shown below:

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Property	1,947,843	1,807,659
Vehicles	-	11,000
Other	29,771	13,460
Total	1,977,614	1,832,119

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

25. Other assets

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Receivables	280,236	416,024
Receivables from unfinished transactions	227,772	355,454
Receivables on cash transfers	51,892	7,004
Total other financial assets	559,900	778,482
Less allowance for impairment of financial assets	(35,114)	(43,421)
Total net other financial assets	524,786	735,061
Precious metals	945,824	444,766
Materials	213,224	239,255
Prepayments to suppliers	404,411	195,129
Unamortized insurance premium	56,743	44,994
Other prepaid taxes	367,742	342,867
Settlements with employees	7,922	267
Other	1,865	1,865
Total non-financial assets	1,997,731	1,269,143
Total other assets	2,522,517	2,004,204

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

<i>In thousand Armenian drams</i>	Total
As of January 1, 2017	59,174
Charge for the period	66,561
Amounts written off	(82,314)
As of December 31, 2017	43,421
As of January 1, 2018	43,421
Charge for the period	31,619
Amounts written off	(39,926)
As of December 31, 2018	35,114

26. Amounts due to banks

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Repurchase agreements with CBA	4,002,716	-
Repurchase agreements with banks	3,876,869	2,900,619
Correspondent accounts of other banks	114,833	143,170
Loans from banks	5,862,785	12,004,512
Other liabilities	1,882,318	125,166
Total amounts due to banks	15,739,521	15,173,467

As of 31 December 2018 the group has received loans from 4 banks (2017: also from 4 banks). The bank has repurchase agreement liabilities to 3 banks as of 31 December 2018 (2017: to 1 bank)

As of 31 December 2018 84 % of correspondent accounts of other banks are concentrated within 1 counterparties (2017: 85.89% within 2 counterparties).

27. Derivative financial liabilities

<i>In thousand Armenian drams</i>	31/12/2018			31/12/2017		
	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>
Derivatives held for trading						
Swaps – foreign currency	9,430,627	-	26,583	7,628,876	-	68,857
Total derivative financial instruments	9,430,627	-	26,583	7,628,876	-	68,857

28. Amounts due to customers

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Corporate customers	101,598,211	97,151,069
Current/Settlement accounts	42,974,649	42,525,666
Time deposits	58,623,562	54,625,403
Retail customers	83,839,754	76,763,088
Current/Settlement accounts	25,917,437	24,815,673
Time deposits	57,922,317	51,947,415
Total amounts due to customers	185,437,965	173,914,157

As of 31 December 2018 included in amounts due to customers are deposits amounting to AMD 30,280,617 thousand (2017: AMD 33,078,968 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates their carrying amount.

As of 31 December 2018 the aggregate balance of top ten customers of the Group amounts to AMD 73,244,218 thousand (2017: AMD 78,683,050 thousand) or 39.5 % of total customer accounts (2017: 45.24%).

29. Bonds issued by the Bank

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Bonds issued by the Bank	16,653,444	5,931,969
Total issued bonds	16,653,444	5,931,969

During the second quarter of 2017 the Bank issued USD denominated 60,000 bonds with nominal amount of 6,000,000 USD in Armenia with maturity in the 2nd quarter 2019. During the third quarter of 2017 the Bank allocated 100,000 AMD bonds with nominal amount of AMD 1,000,000,000 in Armenia with maturity in 3rd quarter 2019. In the 4th quarter of 2017 the Bank allocated 40,000 USD bonds with nominal amount of USD 4,000,000, with maturity in 4th quarter 2019.

During the second quarter of 2018 the Bank issued AMD denominated 30,000 bonds with nominal amount of AMD 3,000,000,000 , USD denominated 100,000 bonds with nominal amount of USD 10,000,000, EUR denominated 50,000 bonds with nominal amount of EUR 5,000,000 in Armenia with maturity in the 2nd quarter 2021.

As at 31 December 2018 carrying value of the bonds is AMD 16,653,444 thousand. Bonds issued by the Bank are listed in Nasdaq OMX Armenia stock exchange.

30. Other borrowed funds

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Loans from CBA	5,956,021	5,117,959
Loans from other financial institution	9,380,933	6,216,391
Loans from international financial institution	297,376	1,271,923
Loans from Government of the RA	50,083	53,077
Total other borrowed funds	15,684,413	12,659,350

As of 31 December 2018 Loan from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

Loans from international financial organizations include loans from European Bank for Reconstruction and Development.

Loans from other financial organizations include loans from First Mortgage Company and Home for Youth.

31. Other liabilities

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Accounts payables	276,769	343,221
Due to personnel	727,522	600,445
Total other financial liabilities	1,004,291	943,666
Tax payable, other than income tax	442,064	360,502
Grants related to assets	23,584	26,008
Other	12,725	6,697
Total other non-financial liabilities	478,373	393,207
Total other liabilities	1,482,664	1,336,873

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
At January 1	26,008	28,432
Recognition of income (Note 10)	(2,424)	(2,424)
As of December 31	23,584	26,008

32. Contingent liabilities and commitments

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Group 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 consolidated statement of financial position.

As of 31 December 2018 the nominal or contract amounts were:

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Undrawn loan commitments	12,491,499	10,248,879
Letters of credit	1,484,715	58,010
Guarantees	3,677,373	3,232,716
Reserves against credit related commitments	(70,277)	-
Total commitments and contingent liabilities	17,583,310	13,539,605

ECL for these instruments is as follows.

In thousand Armenian drams

As of 1 January 2018

As of 1 January 2018 restated

Charge for the period/Note 11

As of 31 December 2018

-
67,733
2,544
70,277

The maximum exposure to credit risk of loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

Operating lease commitments – Group as a lessee

In the normal course of business the Group enters into other lease agreements for buildings and premises. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams

Not later than 1 year

1 - 5 years

Later than 5 years

Total operating lease commitments

31/12/2018	31/12/2017
642,068	579,847
1,594,628	1,952,989
1,236,165	2,398,534
3,472,861	4,931,370

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 December 2018 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

33. Subordinated debts

In thousand Armenian drams

Subordinated debt provided by related party

31/12/2018	31/12/2017
5,852,819	5,854,396
5,852,819	5,854,396

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

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity from January 2023 (2017: 7.12%% and with contractual maturity to January 2023) (See note 35).

34. Equity

As of 31 December 2018 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2017: AMD 16,416,633 thousand).

In accordance with the Bank's statutes, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each.

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

<i>In thousand Armenian drams</i>	31/12/2018		31/12/2017	
	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	-	33	-
Haypost Trust Management CJSC	2,307,900	14.06	2,307,900	14.06
Saint Apostolic Church of Armenia	820,800	5	820,800	5
	16,416,633	100	16,416,633	100

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

The preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

According to decision of Meeting of Shareholders dated on 18 July 2018 dividends declared and paid by the Bank amounted to AMD 570,343 thousand (2017 declared and paid AMD 564,460 thousand) for ordinary shares and 6.6 thousand (2017 AMD 6.6 thousand) to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 10,423 (2017 AMD 10,315), and dividends per preference share amounted to AMD 19.8 (2017 AMD 19.8).

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 20% of the Bank's share capital reported in statutory books.

35. 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 these consolidated financial statements, related parties include shareholders, members of Group's Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

<i>In thousand Armenian Drams</i>	<i>31/12/18</i>			<i>31/12/17</i>		
	<i>Parent Company</i>	<i>Shareholders and parties related with them</i>	<i>Key management personnel and parties related with them</i>	<i>Parent Company</i>	<i>Shareholders and parties related with them</i>	<i>Key management personnel and parties related with them</i>
<i>Consolidated Statement of financial position</i>						
<i>Loans and advances to customers</i>						
Loans outstanding at January 1, gross	19,037	27,463,688	395,002	4,811	28,951,581	177,661
Loans issued during the period	130,714	23,900,464	818,322	92,282	26,081,083	823,174
Loan repayments during the period	(142,415)	(29,547,027)	(639,626)	(78,056)	(27,568,976)	(605,833)
Loans outstanding at the end of period, gross	7,336	21,817,125	573,698	19,037	27,463,688	395,002
Less: allowance for loan impairment	(73)	(218,171)	(5,737)	(190)	(274,637)	(3,950)
Loans outstanding at the end of period	7,263	21,598,954	567,961	18,847	27,189,051	391,052
<i>Amounts due to customers</i>						
Deposits at January 1	367,619	43,296,298	414,195	348,105	38,802,129	167,545
Deposits received during the period	1,137,797	609,429,184	3,050,173	1,022,935	622,429,078	3,968,001
Deposits repaid during the period	(1,291,577)	(606,872,661)	(3,205,637)	(1,003,421)	(623,789,304)	(3,726,476)
Deposits at the end of period	213,839	45,852,821	258,731	367,619	37,441,903	409,070
<i>Amounts due to customers -Subordinated debt</i>						
Subordinated debt at January 1	-	5,854,396	-	-	7,598,818	-
Subordinated debt received during the period	-	-	-	-	-	-
Subordinated debt repaid during the period	-	(5,498)	-	-	(1,748,435)	-
Net result from FX revaluation	-	3,920	-	-	4,013	-
Subordinated debt at the end of period	-	5,852,818	-	-	5,854,396	-
<i>Consolidated statement of comprehensive income</i>						
Interest income	0	1,479,467	29,562	-	2,227,176	13,510
Fee and commission income	770	25,811	639	702	24,965	660
Other income	1,384	47,248	1,167	1,300	61,251	910
Interest expense	(4,207)	(1,977,169)	(6,344)	(3,771)	(2,285,300)	(15,985)
Impairment charge	117	56,466	(1,787)	(142)	14,879	(2,173)
Other operating expenses	0	(45,561)	(29,857)	-	(43,109)	(28,601)

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 year to 20 years (2017: from 1 year to 20 years) and have interest rates of 3-24% (2017: 3-24%,1-20 year). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

Compensation of key management personnel was comprised of the following:

<i>In thousand Armenian drams</i>	31/12/2018	31/12/2017
Salaries and other short-term benefits	608,794	494,746
Total key management compensation	608,794	494,746

36. Fair value measurement

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

External valuers are involved in valuation of significant assets, such as properties and repossessed assets. The involvement of external valuers are decided upon annually by the Board.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value

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

As of 31 December 2018

<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
Financial assets					
Loans and advances to customers	-		177,923,173	177,923,173	196,278,331
Cash and cash equivalents	40,470,858		-	40,470,858	40,470,858
Amounts due from banks	-		5,222,033	5,222,033	5,222,033
Investments at amortized cost			584,064	584,064	584,058
Other financial assets	-		524,786	524,786	524,786
Financial liabilities					
Liabilities to customers	-		185,437,965	185,437,965	185,437,965
Other borrowed funds	-		15,684,413	15,684,413	15,684,413
Amounts due to banks	-		15,739,521	15,739,521	15,739,521
Bonds issued by Banks		16,607,629	-	16,607,629	16,653,444
Subordinated debt	-		5,852,819	5,852,819	5,852,819
Other financial liabilities	-		1,004,291	1,004,291	1,004,291

As of 31 December 2017

<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
Financial assets					
Loans and advances to customers	-		151,021,736	151,021,736	165,167,500
Cash and cash equivalents	39,842,049	-	-	39,842,049	39,842,049
Amounts due from banks	-		10,546,355	10,546,355	10,546,355
Held to maturity investments			346,127	346,127	346,140
Other financial assets	-		735,061	735,061	735,061
Financial liabilities					
Amounts due to customers	-		173,914,157	173,914,157	173,914,157
Other borrowed funds	-		12,659,350	12,659,350	12,659,350
Amounts due to banks	-		15,173,467	15,173,467	15,173,467
Bonds issued by Banks		5,952,200	-	5,952,200	5,931,969
Subordinated debt	-		5,854,396	5,854,396	5,854,396
Other financial liabilities	-		943,666	943,666	943,666

Financial instruments that are not measured at fair value

Amounts due from and to banks

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 3 % to 24% per annum (2017: 3% to 24% per annum).

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

Amounts due to customers

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

In thousand Armenian drams

	<i>As of December 31, 2018</i>		
	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Financial assets			
Securities pledged under repurchase agreements	-	8,101,555	8,101,555
Investments at fair value through other comprehensive income	1,021,216	17,333,940	18,355,156
Investments at fair value through profit or loss	-	519,791	519,791
Total	1,021,216	25,955,286	26,976,502
Financial liabilities			
Derivative financial liabilities	-	26,583	26,583
Total	-	26,583	26,583
Net Fair Value	1,021,216	25,928,703	26,949,919

In thousand Armenian drams

	<i>As of December 31, 2017</i>		
	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Financial assets			
Securities pledged under repurchase agreements	-	3,056,113	3,056,113
Investments at fair value through other comprehensive income	883,076	21,871,348	22,754,424
Investments at fair value through profit or loss	-	787,330	787,330
Total	883,076	25,714,791	26,597,867
Financial liabilities			
Derivative financial liabilities	-	68,857	68,857
Total	-	68,857	68,857
Net Fair Value	883,076	25,645,934	26,529,010

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

Unquoted RA equity securities

The fair value of Bank's investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 19 for further information about this equity investment.

Fair value measurement of non-financial assets and liabilities

<i>In thousand Armenian drams</i>	<i>As of December 31, 2018</i>	
	<i>Level 3</i>	<i>Total</i>
Non-financial assets		
Land and Buildings	4,614,029	4,614,029
Total	4,614,029	4,614,029

<i>In thousand Armenian drams</i>	<i>As of December 31, 2017</i>	
	<i>Level 3</i>	<i>Total</i>
Non-financial assets		
Land and Buildings	4,724,230	4,724,230
Total	4,724,230	4,724,230

Fair value measurement of non-financial assets and liabilities (continued)

Fair value measurements in Level 3

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

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Total</i>
Non-financial assets		
Balance as at 1 January 2018	4,724,230	4,724,230
Purchases	83,003	83,003
Gains/Loss recognised in other comprehensive income	-	-
Disposals	-	-
Accumulated depreciation	(193,204)	(193,204)
Net fair value at 31 December 2018	4,614,029	4,614,029

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Total</i>
Non-financial assets		
Balance as at 1 January 2017	5,134,018	5,134,018
Purchases	103	103
Disposals	(212,886)	(212,886)
Accumulated depreciation	(197,005)	(197,005)
Net fair value at 31 December 2017	4,724,230	4,724,230

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

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

The land and buildings were revaluated in 2017. The buildings were previously revaluated in 2016.

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

37. Transferred financial assets and assets held or pledged as collateral

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

		<i>31/12/2018</i>		
	<i>Transferred financial asset</i>	<i>Trading securities</i>	<i>Investment securities available for sale</i>	<i>Total</i>
Carrying amount of assets	Repurchase agreements	-	8,101,555	8,101,555
Total		-	8,101,555	8,101,555
Carrying amount of associated liabilities	Repurchase agreements	-	7,879,585	7,879,585
Total		-	7,879,585	7,879,585
Net position		-	121,970	121,970

		<i>31/12/2017</i>		
	<i>Transferred financial asset</i>	<i>Trading securities</i>	<i>Investment securities available for sale</i>	<i>Total</i>
Carrying amount of assets	Repurchase agreements	-	3,056,113	3,056,113
Total		-	3,056,113	3,056,113
Carrying amount of associated liabilities	Repurchase agreements	-	2,900,619	2,900,619
Total		-	2,900,619	2,900,619
Net position		-	155,494	155,494

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Group may sell or re-pledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities. In this case, the counterparty retains substantially all the risks

and rewards of ownership. Accordingly, the Group does not recognize such securities and records a separate asset for any possible collateral provided as cash.

38. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements which do not result in an offset in the statement of financial position:

<i>31/12/2018</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets recognized in the consolidated statement of financial position</i>	<i>Related amounts not offset in the consolidated statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
Financial assets						
Loans to banks-reverse repurchase agreements	-	-	-	-	-	-
Loans to customers-reverse repurchase agreements	4,022,198	-	4,022,198	-	(4,022,198)	-
Total	4,022,198	-	4,022,198	-	(4,022,198)	-
Financial liabilities						
Liabilities to banks	7,879,585	-	7,879,585	(7,879,585)	-	-
Total	7,879,585	-	7,879,585	(7,879,585)	-	-
<i>31/12/2017</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets recognized in the consolidated statement of financial position</i>	<i>Related amounts not offset in the consolidated statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
Financial assets						
Loans to banks-reverse repurchase agreements	7,025,413	-	7,025,413	-	(7,025,413)	-
Loans to customers-reverse repurchase agreements	4,820,511	-	4,820,511	-	(4,820,511)	-
Total	11,845,924	-	11,845,924	-	(11,845,924)	-
Financial liabilities						
Liabilities to banks	2,900,619	-	2,900,619	(2,900,619)	-	-
Total	2,900,619	-	2,900,619	(2,900,619)	-	-

39. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 40 for the Group's contractual undiscounted repayment obligations.

The maturity analysis does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period "Within one year" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor.

Cash and cash equivalents represent highly liquid assets and are classified as On Demand and less than 1 month.

Highly liquid portion of investments at fair value through profit or loss and investments at fair value through other comprehensive income other than equity instruments are included in amounts due in the period "Demand and less than 1 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.

Securities pledged under repurchase agreements are classified on the basis maturities of contractual maturities of repurchase agreements.

Assets and liabilities other than those discussed above are generally classified on the basis of their remaining contractual maturities.

31 December 2018

<i>In thousand AMD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal less over 12 months</i>	<i>No maturity</i>	<i>Total</i>
Cash and cash equivalents	40,470,858	-	-	40,470,858	-	-	-	-	40,470,858
Investments at fair value through profit or loss	383,618	603	-	384,221	135,570	-	135,570	-	519,791
Amounts due from banks	3,151,262	970,185	-	4,121,447	38,746	-	38,746	1,061,840	5,222,033
Loans and advances to customers	6,542,582	10,081,740	42,687,427	59,311,748	83,775,096	53,191,487	136,966,583	-	196,278,331
Investments at fair value through other comprehensive income	12,856,884	651,768	832,007	14,340,659	2,199,340	788,809	2988149	1,084,142	18,412,950
Securities pledged under repurchase agreements	8,101,555	-	-	8,101,555	-	-	-	-	8,101,555
Investments at amortized cost	584,058	-	-	584,058	-	-	-	-	584,058
Property, plant and equipment	-	-	-	-	-	-	-	6,739,038	6,739,038
Intangible assets	-	-	-	-	-	-	-	296,331	296,331
Repossessed assets	-	-	1,977,614	1,977,614	-	-	-	-	1,977,614
Other assets	2,304,918	100,554	89,403	2,494,875	144	25,633	25777	1,865	2,522,517
Total assets	74,395,735	11,804,850	45,586,451	131,787,035	86,148,896	54,005,929	140,154,825	9,183,216	281,125,076
Liabilities									
Amounts due to banks	14,265,532	1,278,285	123,141	15,666,958	-	-	-	72,563	15,739,521
Derivative financial liabilities	26,583	-	-	26,583	-	-	-	-	26,583
Amounts due to customers	75,369,498	15,486,147	72,170,640	163,026,285	21,901,888	509,792	22,411,680	-	185,437,965
Other borrowed funds	123,917	285,292	995,623	1,404,832	8,798,188	5,481,393	14,279,581	-	15,684,413
Bonds issued by the Bank	-	43,438	6,004,255	6,047,694	10,605,750	-	10,605,750	-	16,653,444
Income tax liabilities	-	-	196,180	196,180	-	-	-	-	196,180
Deferred tax liabilities	-	-	-	-	882,452	-	882,452	-	882,452
Other liabilities	850,211	175,480	433,385	1,459,076	-	23,588	23,588	-	1,482,664
Other provisions	70,277	-	-	70,277	-	-	-	-	70,277
Subordinated debt	-	-	(556)	(556)	5,853,375	-	5,853,375	-	5,852,819
Net position	(16,310,283)	(5,463,793)	(34,336,218)	(56,110,294)	38,107,243	47,991,156	95,209,052	9,110,653	39,098,758
Accumulated gap	(16,310,283)	(21,774,076)	(39,800,010)		3,771,025	95,209,052			

31 December 2017

<i>In thousand AMD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal less over 12 months</i>	<i>No maturity</i>	<i>Total</i>
Cash and cash equivalents	39,842,049	-	-	39,842,049	-	-	-	-	39,842,049
Trading securities	-	3,567	11,146	14,713	537,175	235,442	772617	-	787,330
Amounts due from banks	8,222,566	-	791,619	9,014,185	-	-	-	1,532,170	10,546,355
Loans and advances to customers	8,406,097	18,151,523	37,760,576	64,318,196	53,178,724	47,670,580	100849304	-	165,167,500
Investments available for sale	16,495	202,236	1,784,066	2,002,797	15,116,792	4,746,426	19863218	946,203	22,812,218
Securities pledged under repurchase agreements	3,056,113	-	-	3,056,113	-	-	-	-	3,056,113
Investments held up to maturity	-	-	346,140	346,140	-	-	-	-	346,140
Property, plant and equipment	-	-	-	-	-	-	-	6,115,287	6,115,287
Intangible assets	-	-	-	-	-	-	-	226,538	226,538
Repossessed assets	-	-	1,832,119	1,832,119	-	-	-	-	1,832,119
Other assets	1,632,331	23,630	326,598	1,982,559	575	21,070	21645	-	2,004,204
	61,175,651	18,380,956	42,852,265	122,408,872	68,833,266	52,673,518	121,506,784	8,820,198	252,735,854
Liabilities									
Amounts due to banks	13,456,203	-	1,644,649	15,100,852	-	-	-	72,615	15,173,467
Derivative liabilities	68,857	-	-	68,857	-	-	-	-	68,857
Amounts due to customers	73,332,379	11,139,342	63,824,245	148,295,966	25,203,657	220,881	25,424,538	193,653	173,914,157
Other borrowed funds	132,456	225,435	1,606,581	1,964,472	8,091,692	2,603,186	10,694,878	-	12,659,350
Bonds issued by the Bank	-	43,438	47,531	90,969	5,841,000	-	5,841,000	-	5,931,969
Income tax liabilities	-	-	609,855	609,855	-	-	-	-	609,855
Deferred tax liabilities	-	-	-	-	1,210,763	-	1,210,763	-	1,210,763
Other liabilities	384,506	40,774	885,582	1,310,862	-	26,010	26,010	-	1,336,872
Subordinated debt	-	-	(3,214)	(3,214)	-	5,857,610	5,857,610	-	5,854,396
	87,374,401	11,448,989	68,615,229	167,438,619	40,347,112	8,707,687	49,054,799	266,268	216,759,686
Net position	(26,198,750)	6,931,967	(25,762,964)	(45,029,747)	28,486,154	43,965,831	81,005,915	8,553,930	35,976,168
Accumulated gap	(26,198,750)	(19,266,783)	(18,830,997)		2,723,190	81,005,915			

40. Risk management

The Group'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.

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Group and is designed to improve the financial position and the reputation of the Group.

The aim of the risk management process is the assistance to the management of the Group in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Group and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Group's authorized body. The identification, measurement, supervision and monitoring of the Group's risks are ongoing and regular processes. The risk analysis is an integral part of the Group's strategic planning, as well as the evaluation of investment programs. The Group's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Group's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Group, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Board

The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- ▶ Approval of complex measures, in agreement with the Board, based on the Group's risk management, associated with the Group's profitability in the critical situations, as well as operating, strategic, reputational and legal risks.
- ▶ Determining prohibitions for several transactions,
- ▶ Determining limits for transactions without collateral in inter-bank markets,
- ▶ Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Group's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Group's liquidity financial risks. The Executive Board is designed to fulfill the functions of the Group's Assets and Liabilities Management Committee.

Risk management division

The main functions of the risk management division are:

- ▶ Elaboration and implementation of active mechanisms and processes for risk management in the Group, as well as monitoring over their implementation,
- ▶ Analysis of the risk level of loans issued by the Group and the monitoring over the lending process in the framework of program loans,
- ▶ Monitoring of issued loans, identification of issues related to them and reporting,
- ▶ Supervision over the evaluation of pledged property and periodical revaluations of the pledged property.
- ▶ Organization of the insurance process of the Group's property,
- ▶ Management of the doubtful loans portfolio.

Internal audit

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

Risk measurement and reporting systems

Depending upon various factors, the Group divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors and price and competition risks.

Internal risks of the Group are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Bank using the rating of international rating agencies (Moody's, S&P and Fitch), granted to international banks and organizations. The risk management division monitors the rating of internal bank counterparties of the Group and quarterly presents to the Bank's Executive Board approval, the limits for each bank.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Group and its competitors.

The interest rate risk is managed by the Risk Management Division of the Group by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Group's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis.

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Group's Risk management division presents monthly analysis of the Group's expected repayments, amounts to be lent and the positions to the Group's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Group, limits of amounts attracted by the Group, their types or gross interest expenses, limits on concentrations of the financial sources used by the Group for fulfilling the liquidity

requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Group's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Group's assets and liabilities, the ways of coordinating the Group's other divisions activities, who can influence the Group's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.) The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti-money laundering legislation and Bank's internal legal acts.

Excessive risk concentrations

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 Group's performance to developments affecting a particular industry or geographical location.

For avoiding the excessive risk concentrations, the Group's policy and processes includes special principles aimed at maintaining diversified assets types, loan and securities portfolios.

40. Risk management

Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk is managed in accordance with the Group's credit policy and the internal legal acts regulating the sphere. The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Group are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

As of December 31 2018 and December 31 2017 the carrying amounts of the Group'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.

Risk concentrations

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2018 and 31 December 2017.

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non- OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	37,944,682	2,327,575	198,601	40,470,858
Investments at fair value through profit or loss	519,791	-	-	519,791
Amounts due from banks	3,368,678	1,006,353	847,003	5,222,033
Derivative financial assets	-	-	-	-
Loans and advances to customers	182,420,201	13,844,200	13,930	196,278,331
Investments at fair value through other comprehensive income	17,386,401	-	1,026,549	18,412,950
Securities pledged under repurchase agreements	8,101,555	-	-	8,101,555
Held to maturity investments	584,058	-	-	584,058
Other financial assets	293,116	4,923	226,747	524,786
As of 31 December 2018	250,618,482	17,183,050	2,312,830	270,114,362

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non- OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	37,825,148	1,460,198	556,703	39,842,049
Trading securities	787,330	-	-	787,330
Amounts due from banks	9,502,670	285,730	757,955	10,546,355
Loans and advances to customers	142,405,903	6,205,348	16,556,249	165,167,500
Investments available for sale	21,800,747	-	1,011,471	22,812,218
Securities pledged under repurchase agreements	3,056,113	-	-	3,056,113
Held to maturity investments	346,140	-	-	346,140
Other financial assets	509,445	265	225,351	735,061
As of 31 December 2017	216,233,496	7,951,541	19,107,729	243,292,766

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

40. Risk management (continued)

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups 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 quarterly by the Credit

Committee.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures.

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 other specific control and mitigation measures are outlined below.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for loans to customers, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- ▶ Mortgages over residential properties;
- ▶ Charges over business assets such as premises, equipment, inventory and vehicles.
- ▶ Gold and cash

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally no collaterals are required for provision of loans and advances to banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	31/12/2018	31/12/2017
Loans collateralized by real estate	110,783,544	82,040,110
Loans collateralized by gold	19,181,908	15,950,465
Loans collateralized by guarantees of enterprises	16,175,469	6,383,684
Loans collateralized by vehicles	3,244,706	2,320,430
Loans collateralized by cash	19,562,679	35,148,213
Loans collateralized by inventories	3,467,548	676,734
Loans collateralized by equipment	1,447,721	3,300,657
Other securities	4,643,581	5,541,894
Other collateral	9,818,602	7,230,345
Unsecured loans	12,315,676	11,438,319
Total loans and advances to customers (gross)	200,641,434	170,030,851

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.

The fair value of collateral that the Group holds relating to the loans with individual signs of impairment at 31 December 2018 amounts to AMD 6,998,840 thousand (2017: AMD 7,808,184 thousand).

40. Risk management (continued)

Risk limit control and mitigation policies (continued)

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised 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 authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group 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 Group 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

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 Group estimates impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified approaching conservatively. The Group addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, market loss experience, 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 table below shows the credit quality by class of asset for loans and advances to customers:

<i>31 December 2018</i>	<i>Neither past due nor impaired</i>			<i>Past due but not individually impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>			
Loans and advances to customers	19,562,679	171,945,406	1,328,632	1,166,314	6,638,403	200,641,434

<i>31 December 2017 /restated according IFRS 9/</i>	<i>Neither past due nor impaired</i>			<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard</i>			
Loans and advances to customers	34,978,334	126,061,322	593,469	1,145,174	7,252,552	170,030,851

Past due but not individually impaired loans

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

	<i>31/12/18</i>				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
<i>In thousand Armenian drams</i>					
Loans and advances to customers					
Manufacture	-	-	-	-	-
Agriculture	-	-	-	19,865	19,865
Construction	-	-	-	37,832	37,832
Trade	-	1,937	-	24,954	26,891
Transport and communication	-	-	-	-	-
Consumer loans to individuals	165,681	114,044	78,818	452,409	810,952
Mortgage	42,049	6,454	19,591	173,019	241,113
Services	0	19,597	-	-	19,597
Other sectors	3,296	-	-	6,768	10,064
Total	211,026	142,032	98,409	714,847	1,166,314

	<i>31/12/2017</i>				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
<i>In thousand Armenian drams</i>					
Loans and advances to customers					
Manufacture	-	10,016	5,296	14,672	29,984
Agriculture	186	2,637	4,788	26,842	34,454
Construction	909	-	-	-	909

	<i>31/12/2017</i>				<i>Total</i>
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	
<i>In thousand Armenian drams</i>					
Trade	-	-	14,196	14,923	29,119
Transport and communication	-	-	-	12,014	12,014
Consumer loans to individuals	191,801	131,696	72,872	311,735	708,105
Mortgage	28,088	66,224	17,632	214,450	326,394
Services	-	-	-	-	-
Other sectors	-	-	-	4,195	4,195
Total	220,984	210,573	114,784	598,831	1,145,174

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2018. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets at 31 December 2018 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousand Armenian drams</i>	<i>Increasing basis points 31/12/18</i>	<i>Sensitivity of net interest income 31/12/18</i>	<i>Sensitivity of equity 31/12/18</i>
AMD	1.6%	(38,504)	(665,329)
USD	1.3%	(3,174)	(164,289)
<i>In thousand Armenian drams</i>	<i>Decrease in basis points 31/12/18</i>	<i>Sensitivity of net interest income 31/12/18</i>	<i>Sensitivity of equity 31/12/18</i>
AMD	3.5%	84,227	1,455,407
USD	0.5%	1,221	63,188
<i>In thousand Armenian drams</i>	<i>Increase in basis points 2017</i>	<i>Sensitivity of net interest income 2017</i>	<i>Sensitivity of equity 2017</i>
AMD	1.6%	(48,646)	(701,721)

USD	1.3%	–	(230,585)
	<i>Decrease in basis points 2017</i>	<i>Sensitivity of net interest income 2017</i>	<i>Sensitivity of equity 2017</i>
<i>In thousand Armenian drams</i>			
AMD	3.5%	106,414	1,535,014
USD	0.5%	–	88,686

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VAR methodologies. The Board of Directors has set limits on positions by currency.

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

Currency risk (continued)

<i>In thousand Armenian drams</i>	<i>As of December 31, 2018</i>		<i>As of December 31, 2017</i>	
Currency	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>
USD	3.5%	(643)	3.5%	(23,270)
USD	(3.5%)	643	(3.5%)	23,270
EUR	13.7%	(14,286)	13.7%	1,535
EUR	(6.3%)	6,570	(6.3%)	(706)

40. Risk management (continued)

Liquidity risk

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

The liquidity management of the Group requires considering the level of liquid assets necessary to settle

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

These ratios were as follows:

	<i>31/12/2018,</i>	<i>31/12/2017,</i>
	<i>%</i>	<i>%</i>
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	23.69%	35.26%
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	81.83%	102.49%

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See note 39 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousand Armenian drams

31/12/2018

	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Financial liabilities						
Amounts due to banks	14,269,543	1,287,043	127,441	-	72,563	15,756,590
Derivative liabilities	26,583	-	-	-	-	26,583
Amounts due to customers	75,884,799	15,514,234	75,169,000	26,549,871	1,869,061	194,986,964
Other borrowed funds	141,098	377,393	1,825,741	11,756,654	6,361,485	20,462,370
Bonds issued by the Bank	-	52,500	6,724,733	11,580,313	-	18,357,546
Subordinated debt	-	-	395,709	7,105,035	-	7,500,745
Total undiscounted financial liabilities	90,322,023	17,231,169	84,242,624	56,991,873	8,303,109	257,090,797
Commitments and contingent liabilities	12,986,059	434,279	2,375,484	1,787,488	-	17,583,310

31/12/2017

*In thousand Armenian
drams*

	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Financial liabilities						
Amounts due to banks	13,463,293	-	1,674,272	-	72,615	15,210,180
Derivative liabilities	68,857	-	-	-	-	68,857
Amounts due to customers	73,352,141	11,248,146	65,922,615	28,109,918	564,589	179,197,409
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	16,242,520
Bonds issued by the Bank	-	52,500	321,087	6,129,507	-	6,503,094
Subordinated debt	-	-	-	-	7,904,560	7,904,560
Total undiscounted financial liabilities	87,016,841	11,527,981	69,607,966	44,451,940	12,521,890	225,126,620
Commitments and	10,352,506	360,101	1,791,053	1,035,959	-	13,539,605

31/12/2017

<i>In thousand Armenian drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
contingent liabilities						

40. Risk management (continued)

Liquidity risk (continued)

The Group has received significant funds from its shareholder and its related parties. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

Operational risk

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

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

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

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

The risk mitigation mechanisms for the process are:

- ▶ Regulation of all business processes by internal legal acts,
- ▶ Physical protection of the Bank's assets and critical documents (including loan contracts)
- ▶ Establishing and maintaining limits,
- ▶ Common preservation of property and records,
- ▶ Implementation and archiving of data journals,

Implementation of double control mechanism in recording transactions.

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

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

concerns. The summaries of the observations are submitted to the Board.

4.1. Segment information

For management purposes, the Group is organised into three operating segments based on products and services.

Retail banking- Handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.

Corporate banking- Handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

Trading and investment banking-Treasury and finance, investment banking, leasing and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

In banks operating segments are included operating assets and liabilities, which are the most part of the Group's assets and liabilities.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 and 2017.

The following table present information regarding the Group's operating segments as of 31.12.18

<i>In thousand Armenian drams</i>	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	6,919,155	3,251,909	1,316,938	11,488,002
Net non-interest income	2,368,991	1,202,528	1,072,924	4,644,442
Operating profit	9,288,146	4,454,437	2,389,862	16,132,445
Impairment losses	(382,462)	(549,621)	(167)	(932,250)
Depreciation and amortization	(263,657)	(337,454)	(62,066)	(663,178)
Staff expenses	(2,511,873)	(1,621,566)	(773,429)	(4,906,868)
Other admin. expenses	(1,145,375)	(1,764,572)	(518,457)	(3,428,404)
Segment profit	4,984,778	181,224	1,035,743	6,201,745
Income tax expense	(1,050,149)	(38,179)	(218,201)	(1,306,529)
Profit for the period	3,934,630	143,046	817,542	4,895,217

<i>In thousand Armenian drams</i>	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Interest bearing fin. assets	88,787,710	107,490,621	32,840,387	229,118,718
Interest bearing fin. liabilities	83,839,754	107,451,030	48,103,961	239,394,745

Interest bearing assets include financial assets through profit and loss, investments available for sale, loans to banks, loans and advances to customers, securities pledged under repurchase agreements, receivables from letters of credit, receivables from finance leases and receivables from factoring.

Interest bearing financial liabilities include deposit and balances from banks, current accounts and deposits from customers, bonds issued by the bank, subordinated and other borrowings.

The following table present information regarding the Group's operating segments as of 31.12.17

<i>In thousand Armenian drams</i>	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	5,056,917	2,662,091	1,621,176	9,340,184
Net non-interest income	2,549,251	1,353,306	271,142	4,173,699
Operating profit	7,606,168	4,015,397	1,892,318	13,513,883
Impairment losses	(435,068)	(835,884)	–	(1,270,952)
Depreciation and amortization	(327,009)	(411,214)	(34,596)	(772,819)
Staff expenses	(2,272,008)	(1,512,178)	(514,603)	(4,298,789)
Other admin. expenses	(970,814)	(1,459,170)	(385,455)	(2,815,439)
Segment profit	3,601,269	(203,049)	957,664	4,355,884
Income tax expense	(604,881)	(34,105)	(160,852)	(799,838)
Profit for the period	2,996,388	(237,154)	796,812	3,556,046

<i>In thousand Armenian drams</i>	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Interest bearing fin. assets	70,521,233	94,646,267	37,548,156	202,715,656
Interest bearing fin. liabilities	76,763,097	103,005,465	33,833,643	213,602,205

4.2. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%. Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

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

In thousand Armenian drams	31/12/2018	31/12/2017
Tier 1 capital	28,581,161	24,722,195
Tier 2 capital	9,741,938	11,307,397
Total regulatory capital	38,323,098	36,029,592
Risk-weighted assets	267,320,947	212,464,854
Capital adequacy ratio	14.34%	16.96%

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

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

Starting from 1 January 2017 minimum Total Capital requirement for Banks is over AMD 30,000,000.